

The Best in British Food

Premier Foods plc

Annual report and accounts for the year ended 31 December 2011

Stock code: PFD



The Best in British Food

Premier Foods is home to some of the nation's favourite food brands. Every year over 99% of British households buy a Premier Foods' product, so you're likely to find us in every British kitchen and on every British table.

Delivering on our promises

In October 2011 we announced our **five** priorities to help stabilise the business:

- › Investment behind eight Power Brands — seven Power Brands back on TV in the first half of 2012;
- › Strengthen capabilities, particularly sales and marketing — new leadership team is now in place;
- › Divest selected businesses to sharpen focus — the Brookes Avana and Irish brands disposals completed;
- › Right-size and reduce the Group's cost base — overhead cost reduction target doubled to more than £40m by 2013;
- › Agree a re-financing package with the banks — consent to an extended re-financing package obtained.

To read more about Premier Foods visit
www.premierfoods.co.uk/



"You're likely to find us in every British kitchen and on every British table"

Cautionary Statement

The purpose of this annual report is to provide information to shareholders of Premier Foods plc ("the Company"). The Company, its directors, employees and advisers do not accept or assume responsibility to any other person to whom this document is shown or into whose hands it may come and any such responsibility or liability is expressly disclaimed. It contains certain forward-looking statements with respect to the financial condition, results, operations and businesses of the Company. These statements and forecasts involve risk and uncertainty because they relate to events and depend upon circumstances that will occur in the future. There are a number of factors that could cause actual results or developments to differ materially from those expressed or implied by these forward-looking statements and forecasts. Nothing in this annual report should be construed as a profit forecast.

Cover Images:

Our eight Power Brands —
Hovis, Mr. Kipling, Ambrosia, Sharwood's, Loyd Grossman, OXO, Bisto and Batchelors

Trademarks

The Group's trademarks are shown in italics. The Group has an exclusive worldwide licence to use the *Loyd Grossman* name on certain products. *Erin* is a trademark of Erin Foods Ltd and was used under licence during the year.

In this annual report we make references to market size, share and growth, retail sales data and household penetration which are sourced from independent market research and consumer data providers including Kantar and IRI.

Headlines

2011

Consent obtained for re-financing package

On 12 March 2012 we announced we had obtained unanimous consent from our banking syndicate, swap counterparties and pension schemes to the terms of a re-financing package that will allow the Group to execute its new growth strategies.

- › Banking facilities of £1.4bn extended to June 2016
- › Banking covenants reset to reflect strategic plan
- › Interest rate swaps converted to additional bank term loan
- › Pension schemes to defer deficit contributions until January 2014

2011 full year results

Sales for Ongoing business² declined by 3.4% to £1,811.0m reflecting the challenging consumer environment and the effect of previous customer disputes.

- › Trading profit³ for Ongoing business £173.7m
- › Impairment in Bread division⁴ of £282.0m resulted in a loss after tax from continuing operations of £230.0m for the year
- › Disposals of non-core businesses realised total net proceeds of £394.0m
- › Net debt⁵ of £995.1m at 31 December 2011

Growth strategies

Growth strategies aligned around “Best in British Food” vision.

- › Marketing investment behind eight Power Brands will double in 2012 with sustainable increases planned in subsequent years
- › Focus on building collaborative relationships with key customers to drive mutual growth
- › Targeting gross 4% year-on-year supply chain savings and doubling of overhead savings to more than £40m by 2013
- › Long-term approach to deliver sustainable shareholder value

Notes:

- ¹ All results referred to relate to continuing operations unless otherwise stated.
- ² The results of the Group excluding the Meat-free business, East Anglian canned grocery operations, Brookes Avana and Irish brands businesses are shown as Ongoing business to illustrate business performance following recent divestment activity. In the financial statements the results of the Meat-free and Brookes Avana businesses are shown as discontinued operations. The results of the East Anglian canned grocery operations are included within continuing operations as a separate operating segment, and titled 'Disposed of Canning Operations'. The results of the Irish brands business are included within continuing operations within the Grocery segment.
- ³ Trading profit is defined as operating profit before refinancing costs, restructuring costs and losses associated with disposals, amortisation and impairment of intangible assets, the revaluation of foreign exchange and other derivative contracts under IAS 39 and pension credits or charges in relation to the difference between expected return on pension assets, administration costs and interest costs on pension liabilities.
- ⁴ The previously named 'Hovis' division has been renamed 'Bread' division.
- ⁵ Net debt is defined as net borrowings.
- * These sections make up the Directors' Report and set out the information on the Group's principal activities, together with a review of the developments and performance of the Group, including financial performance, in accordance with Section 417 of the Companies Act 2006.

Summary*

Headlines	01
The Best in British Food	02
Chairman's Statement	04
Group at a glance	06
Chief Executive's Statement	08
— Our four strategic pillars	10

Our business*

Brands	14
Partners	18
Focus	20
Sustainability	22

Performance*

Operating review	26
— Divisional review	28
Financial review	32
— Re-financing	32

Governance*

Board of directors and Group Executive	38
Corporate governance report	42
— Risk management	53
— Other statutory information	58
— Shareholder information	61
Directors' remuneration report	64

Financial statements

Contents	77
Independent auditors' report	78
Consolidated financial statements	80
Notes to the financial statements	85
Company financial statements	132
Notes to the Company financial statements	133
Glossary	136

The Best in British

The food Britain loves

Every nation has their favourite food and we are no different. What could be more British than:

- › Roast beef and Yorkshire puddings covered in steaming hot **Bisto** Gravy;
- › A spicy curry made with one of our authentic **Sharwood's** sauces;
- › Ploughman's made with **Hovis** wholemeal and tangy **Branston** pickle;
- › Apple crumble with thick creamy **Ambrosia** custard.

1 billion
Bisto meal occasions
each year



Made in Britain

We are Britain's biggest branded food producer.

- › Operating from over 40 manufacturing sites we span the country from Plymouth all the way to Glasgow.
- › This means almost all our products are produced in Britain.
- › And because we produce our food in the UK it's food you can trust and also has fewer food miles which is good for the environment too.

95%
of our products
produced in Britain



Food



03

Summary

Our business

Performance

Governance

Financial statements

Britain's favourite food brands

Our brands have been enjoyed by British households for generations.

- › Five of our eight Power Brands are over 100 years old!
- › To remain popular these brands have had to be resilient, adapting to changing consumer requirements through innovation.
- › Our eight Power Brands hold No.1 or No.2 positions in their respective categories.

99%

of British households purchase a Premier Foods' product each year



Supporting Britain

We employ around 12,000 people which makes us one of the largest food manufacturers in Britain.

- › We also support the British economy by sourcing as many of our ingredients, goods and services from the UK as we can, supporting British farmers and British jobs.
- › It's important to know where your food comes from and by sourcing locally we have effective traceability of our ingredients.

82%

of our ingredients, goods and services sourced in the UK



Chairman's Statement

04

A stable platform for sustainable growth



"The business has significant underlying strengths and there are many reasons to be positive as we look forward to 2012 and beyond."

Ronnie Bell
Chairman

2011 was an extremely challenging year for Premier Foods. While the results have been disappointing, the new management team put in place during the second half of the year has moved quickly to stem the decline in profitability and to obtain consent for a re-financing package which will provide a stable platform for future growth. I believe the business has significant underlying strengths and there are many reasons to be positive as we look forward to 2012 and beyond.

2011 overview

Trading in 2011 was affected by a number of significant issues. Poor underlying economic conditions had a significant impact on consumer confidence and spending whilst at the same time we experienced higher commodity inflation. Our price increases were not able to recover all of the increased input costs and this, together with an increase in promotional activity, had an impact on margin. In addition, we experienced strong competition from branded and non-branded competitors which was compounded by the impact of customer disputes. As a result sales and profitability were significantly below our expectations and this in turn put pressure on our banking covenants.

Stabilising the business

In July we announced the appointment of Michael Clarke as Chief Executive Officer. Given the challenges facing the Group it was essential that the Board appoint an outstanding executive with the experience and track record necessary to stabilise and turn around the business. I am delighted that Michael agreed to join Premier Foods and believe his skill, experience and success in managing and growing brands will be invaluable in returning the Group to sustainable growth.

A huge amount has been achieved in a short space of time. Since joining in August, Michael has moved very quickly to review the business, to understand the underlying issues and to formulate a compelling growth strategy. The consent received for the re-financing is a major milestone as it removes uncertainty surrounding the Group's financing and provides a solid platform to allow management to focus fully on managing and growing the business. Other key achievements include:

- › The appointment of a new senior management team with experience in brand management and turnaround situations;
- › Stabilising the decline in profitability;
- › Completion of a business plan to deliver long-term sustainable growth;
- › Focused investment behind our eight Power Brands;
- › Reducing costs, simplifying the business and improving competitiveness;

- › Divestment of non-core businesses to add focus; and
- › Building more collaborative long-term relationships with customers.

Consent obtained for a new re-financing package

The Group has obtained unanimous consent to the terms of a re-financing package from its banking syndicate, swap counterparties and pension schemes that will allow the Group to execute its future growth strategies.

The banking facilities will be extended to June 2016 and the covenants reset to reflect our strategic plan. Under the agreement the interest rate swaps will be converted to additional bank term loan and the amortisation payment schedule amended with payments deferred until mid 2014. In addition the Group's pension schemes have agreed to defer deficit contributions until January 2014.

We appreciate the support of both our banking syndicate and pension funds in establishing these new arrangements which provide the space needed to restore growth.

Further information on the re-financing can be found on pages 32 and 33.

Best in British Food

Our vision is to be the "Best in British Food". As Britain's biggest branded food producer, Premier Foods remains fundamentally a sound business with a portfolio of great British brands, passionate employees and a significant manufacturing footprint.

Many of our brands have a strong heritage and remain the product of choice for British consumers — 99% of households buy at least one of our products each year. Our products also compare favourably against competitors for taste and quality — 96% of our top 60 SKUs test at parity or superior when tested against competitor products in blind tasting.

In addition, we support the British economy both as a major employer in the manufacturing industry with factories across the country and also by supporting the British businesses and farmers that supply 82% of our ingredients, goods and services.

More information on the four strategic pillars that are aligned around our vision are set out in the Chief Executive's Statement on pages 8 to 11.

Increasing efficiency and investing in growth

Over the year we have continued to make good progress with our efficiency initiatives targeting 4% year-on-year gross savings in manufacturing controllable costs and we announced early in 2012 that we intend to double overhead savings to more than £40m by 2013 from the £20m we announced at the 2011 Half Year. Investment in the business is increasingly focused on supporting growth and productivity. For example in 2011 we completed a £5.5m investment in an automated packing line at our *Mr. Kipling* bakery in Stoke. The new line is able to pack 47,000 slices per hour in the new “snap pack” format. This is one of several major investments in our business and underlines our commitment to investing in innovation and efficiency to drive growth. For 2012 we have also announced a doubling of our marketing investment with the majority focused behind our Power Brands.

Environmental initiatives

We have continued to build on our strong track record in addressing environmental concerns. Of particular note is our commitment to sourcing 100% RSPO certified sustainable palm oil by 2015. In the 2011 World Wildlife Fund ‘Palm Oil Buyers Scorecard’, we scored top marks achieving a 9 out of 9 rating. In 2011 we also moved to sourcing 100% free range eggs across the entire *Mr. Kipling* range. Strong progress has additionally been made across all our environmental KPIs including CO₂ emissions, water usage and waste to landfill. Further details can be found on pages 22 and 23 of this annual report and also in our 2011 Sustainability report which is available on our website.

To read more about sustainability
www.premierfoods.co.uk/sustainability/

Employees

As a business we are dependent on the hard work, creativity and commitment of our employees. Over the year many achievements have been recognised particularly within the area of manufacturing excellence where Premier Foods was named Manufacturer of the Year at the European Strategic Manufacturing Awards, beating entries from across the European Manufacturing Industry. Continued improvements have also been achieved in terms of the health and safety resulting in 39 of our sites receiving RoSPA Gold Awards for workplace safety.

As we complete the planned divestment of non-core businesses and also reduce our cost base to reflect the smaller size of the business we recognise that this is inevitably a difficult time for employees. However, we believe these initiatives are in the long-term interests of both the business and employees as they will result in a stronger, more profitable business in the future.

Board changes

In addition to the appointment of Michael Clarke as Chief Executive Officer, there have been a significant number of changes in management in the year.

David Wild joined the Board in March 2011 and brings with him a wealth of experience in the retail industry. In December Mark Moran,



Significant increase in investment behind our eight Power Brands in 2012

who has extensive knowledge of working with global brands, was appointed as Chief Financial Officer. During the year we also announced a number of changes within senior management — details of the new Group Executive team are set out on pages 40 and 41. I believe we have in place a strong and effective Board and senior management team and look forward to working with them over the coming years.

In April 2011 Robert Schofield notified the Board of his intention to retire and he stepped down as CEO in August having led the Group for ten years. In addition, following changes in our management structure Tim Kelly and Jim Smart resigned as directors in November and December respectively and we wish them well for the future. Finally in August we announced with great sadness that Paul Kitchener, our Group Technical and Innovation Director, had passed away after a long fight against illness.

Governance

Your Board is committed to the principles of good governance and transparency. We continue to review and evaluate the structure and quality of our governance arrangements with the aim of ensuring they remain robust and in line with best practice. Details of the work of the Board and its committees and the overall governance framework are covered in detail in the Governance section of this report.

See Governance
on page

36 →

2012 outlook

The economic outlook for the UK remains challenging. However, with consent obtained for a new re-financing package we now have a solid platform to stabilise the business in 2012 and a strong business plan from which to build momentum. Much has been achieved in a short space of time under Michael Clarke's leadership and whilst there remain many challenges I am confident we have the right management team in place that will deliver sustainable growth and shareholder value going forward.

Ronnie Bell

Chairman

Group at a glance

Britain's biggest branded food producer

Group

During 2011 the Group was organised into three segments: Grocery, Bread and Disposed of Canning Operations

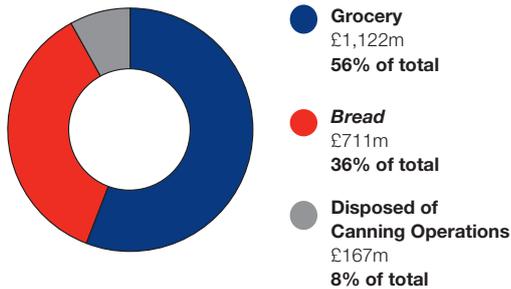
Group revenue

£2,000m

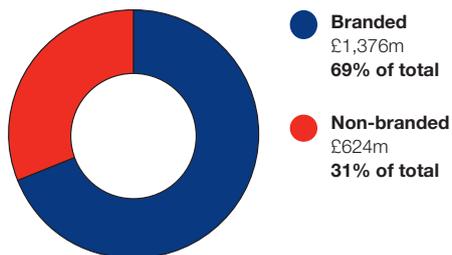
Group trading profit

£188m

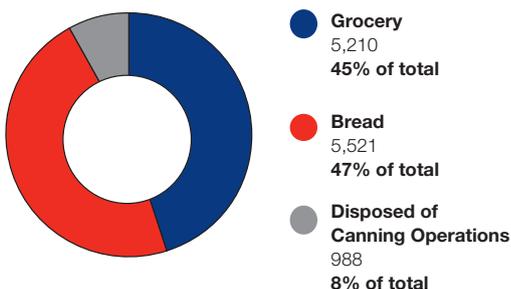
Revenue



Branded mix



Number of employees



We operate from over 40 sites across the UK

Grocery

The Grocery division encompasses a wide variety of ambient grocery sectors including cakes, ambient desserts, cooking sauces, Asian meal solutions, stocks, gravies, soups, spreads, home baking and pickles. The division also incorporates Premier's business in the Republic of Ireland.

Power Brands

Mr. Kipling, Ambrosia, Sharwood's, Loyd Grossman, Bisto, OXO and Batchelors

Support brands

Include: *Brantston, Hartley's, Homepride, Robertson's, Bird's, Angel Delight, Smash and Paxo*

Bread

The Bread division operates principally in the wrapped bread market and in addition manufactures non-branded bread and morning goods. The division is also the largest vertically integrated baker and flour miller in the UK and produces a wide range of bulk flours and branded and non-branded bagged flours.

Power Brand

Hovis

Support brands

Include: *Granary and Mother's Pride*

Meat-free

Meat-free manufactured and sold products under the *Quorn* and *Cauldron* brands.

On 24 January 2011 the Group announced the sale of its Meat-free business to Exponent Private Equity and Intermediate Capital Group; this disposal was completed on 7 March 2011. For the purposes of the financial statements, the results of the Meat-free business are disclosed within discontinued operations.

Premier Foods is Britain's biggest branded food producer with revenue of £2.0 billion. We manufacture, distribute and sell a wide range of branded and non-branded foods. The business employs around 12,000 people and operates from over 40 sites across the UK and Ireland. Our sites are dedicated to manufacturing high quality, great tasting food products which consumers know and love.

We have a wide portfolio of great British brands, many of which are market leaders and household favourites. Our business is focused behind eight Power Brands: *Hovis*, *Mr. Kipling*, *Ambrosia*, *Sharwood's*, *Loyd Grossman*, *Bisto*, *OXO* and *Batchelors*. In addition, we have a portfolio of many other iconic British food brands and also

an extensive non-branded food business which manufactures food in partnership with many of the UK's leading food retailers.

As part of our strategy to focus investment behind our eight Power Brands we have undertaken a number of business disposals in 2011. During the year we completed the disposal of our Meat-free, East Anglian canned grocery and Brookes Avana businesses. In addition, we announced the sale of four Irish brands which completed in January 2012.

For the purposes of the financial statements, the results of the Meat-free and Brookes Avana businesses are disclosed within discontinued operations.

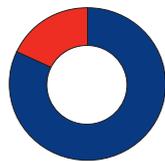
Revenue
£1,122m



Trading profit
£180m



Branded mix



- **Branded revenue**
£915m (82%)
- **Non-branded revenue**
£207m (18%)

● **Manufacturing sites**

- | | |
|------------|-------------|
| 1 Ashford | 6 Lifton |
| 2 Bury | 7 Middleton |
| 3 Carlton | 8 Moreton |
| 4 Histon | 9 Stoke |
| 5 Knighton | 10 Worksop |

○ **Distribution/Logistics centres**

- | |
|---------------|
| 1 Corby |
| 2 Rugby |
| 3 Wimblington |
| 4 Wisbech |

● **Ireland**

- | |
|----------------------------------|
| 1 Dublin — Premier Foods Ireland |
|----------------------------------|



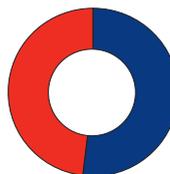
Revenue
£711m



Trading profit
£3m



Branded mix



- **Branded revenue**
£372m (52%)
- **Non-branded revenue**
£339m (48%)

■ **Bakeries**

- | | |
|---------------|--------------------------|
| 1 Avonmouth | 7 Glasgow |
| 2 Belfast | 8 Greenford |
| 3 Birmingham | 9 Leicester |
| 4 Eastleigh | 10 Leicester — Charnwood |
| 5 Erith | 11 Mitcham — Sebon |
| 6 Forest Gate | 12 Nottingham |
| | 13 Wigan |

□ **Mills**

- | |
|---------------------------------|
| 1 Andover |
| 2 Barry |
| 3 Gainsborough (wheat maltings) |
| 4 Glasgow |
| 5 Manchester |
| 6 Selby |
| 7 Southampton |
| 8 Wellingborough |

■ **Depots/RDC**

- | |
|------------------------------|
| 1 Bradford |
| 2 Dagenham |
| 3 Mendelsham |
| 4 Mossend |
| 5 Newbridge — Fleming Howden |
| 6 Plymouth |



Disposed of Canning Operations

On 8 February 2011 the Group announced the sale of its East Anglian canned grocery business to Princes Limited; this disposal was completed on 23 July 2011. For the purposes of the financial statements, the results of the canning operations up to the date of disposal have been disclosed as a separate operating segment.

Brookes Avana

Brookes Avana was our retailer branded chilled ready meal, cake and desserts business.

On 8 December 2011 the Group announced the sale of the Brookes Avana business to 2 Sisters Foods Group, and this disposal was completed on 30 December 2011. For the purposes of the financial statements, the results of the Brookes Avana business are disclosed within discontinued operations.

Chief Executive's Statement

Our vision is to be "The Best in British Food"



"I am convinced we have the right team in place to turn this business around."

Michael Clarke
Chief Executive Officer

2011 was clearly a challenging year for Premier Foods. Like many others in the industry, we felt the impact of significant commodity inflation and an unprecedented decline in consumer spending. Unfortunately, our price increases were not able to fully recover higher costs and were largely negated by higher promotional spending which affected margins. In addition, as consumers looked for greater value, we were unable to maintain demand for our brands due to reduced marketing investment. Retail customer support for our brands consequently declined in favour of our competitors and own label, a situation that was exacerbated by the effect of customer disputes.

Our trading results for the year tell the story. They also reflect certain underlying challenges facing the business. Despite its significant scale, the Group has been unable to fully exploit revenue and cost synergies. The business remains complex with insufficient focus and has additionally suffered from a lack of investment behind its brands and a short-term, tactical approach to trading. The need to service significant debt has compounded these challenges.

Since joining the Company last August, my focus has been on addressing these challenges. We have a great portfolio of brands that remain hugely popular and employees who are passionate about the business. To help build on these strengths, we have put in place a new leadership team that has significant collective experience. Our initial focus is to continue the stabilisation of the business, to refocus the portfolio and to invest in our future growth.

Last October, we announced five priorities to help stabilise the business and we are gaining momentum against each of these:

- Invest behind eight Power Brands — seven of our Power Brands will be back on TV with advertising in the first half of 2012 and we will invest significant promotional spend behind the eighth;
- Strengthen capabilities, particularly sales and marketing — new leadership is now in place and we are reorganising to improve effectiveness;
- Divest selected businesses to sharpen focus — the Brookes Avana and Irish Brands disposals have been completed;
- Right-size and reduce the Group's cost base — we have announced a doubling of previous overhead cost reduction programmes to achieve more than £40m savings by 2013;
- Agree a re-financing package with the banks — we have obtained consent to an extended re-financing package.

I'm delighted that we have been able to reach a positive outcome with our banking, swap counterparties and pension scheme partners on a new financing package. The consent for this re-financing package represents a strong sign of confidence and support for the business and is great news for our employees and all of our stakeholders. It also helps us draw a line under the performance of 2011 and will allow us to move forward in implementing our new growth strategies.

Our growth strategies are aligned around four pillars to achieve our vision to be the 'Best in British Food':

- **Brands** — We plan to invest behind our eight Power Brands of *Hovis*, *Ambrosia*, *Mr. Kipling*, *Sharwood's*, *Loyd Grossman*, *Bisto*, *OXO* and *Batchelors*. Detailed brand plans have been developed that leverage the 'Britishness' of our brands as well as step-up our innovation in product design, packaging and promotions. Our marketing spend behind these brands will be doubled in 2012, with further sustained increases in marketing investment in subsequent years. To help focus our efforts further we will seek to divest selected, non-core businesses.



New TV campaign features our Sharwood's chefs travelling the country to discover what makes a Great British curry

"Seven of our eight Power Brands will be back on TV in the first half of 2012"



£40m reduction in overhead costs targeted by 2013

- › **Partners** — We will build more collaborative relationships with all of our business partners. Specifically, we will develop joint business plans with key customers to drive mutual growth. We also plan to develop specific pricing and promotional strategies for the fast growing discounter and wholesale segment as well as improve our revenue growth management through optimising our trade investment, systems and processes.
- › **Focus** — Through improving our focus, we plan to drive further efficiency and effectiveness. Our supply chain will continue to target year-on-year savings of around 4% of manufacturing controllable costs and capital expenditure will be skewed to supporting growth and productivity programmes. In addition, we have announced that we will accelerate planned reductions in overhead costs. The £20m overhead savings by 2013 that we announced at the 2011 Half Year will now be doubled to more than £40m over the same time period. The costs to achieve these savings are approximately £21m, the majority of which are expected to be taken in 2012.
- › **Sustainability** — We intend to take a longer term approach to the business by ensuring we act sustainably in everything we do. We will continue investing in our brands, people and partnerships, driving high environmental and ethical standards and expanding better-for-you choices as part of our portfolio. Together, this will help us deliver sustainable results.

We recognise that the consumer environment remains challenging. Consumers will continue to focus on value and convenience; and competition will again be intense. There is no doubt that we will need to work hard to make our brands stand out. Nevertheless, our performance thus far in 2012 is in line with our expectations. I'm convinced we have the right team to turn this business around and I am very positive about our future. I look forward to updating you as we progress.

Michael Clarke

Chief Executive Officer

Consent has been obtained for a landmark 4½ year re-financing package

I am delighted that we have been able to reach a positive outcome with our banking syndicate, swap counterparties and pension schemes. This has been a key priority of mine since joining the Group and represents a strong sign of confidence and support for the business, its strategies and growth plans. It also provides us with a stable base from which to focus on executing our growth strategies and is great news for our employees and all of our stakeholders. The re-financing package is subject to the formalities of final documents being signed and this is expected by the end of March 2012.

Headlines

- › Banking facilities of £1.4bn extended to June 2016
- › Banking covenants reset to support strategic plan
- › Interest rate swaps converted to additional bank term loan
- › Pension schemes to defer deficit contributions until January 2014

The existing term loan (£733m) and revolving credit facility (£500m), previously due to mature on 31 December 2013, will be extended to a new maturity date of 30 June 2016. The current applicable bank margin of 2.25% will increase to 3.25% with effect from 1 January 2014.

Additionally, the current amortisation payment schedule has been amended, with amortisations to occur semi-annually from 30 June 2014.

Banking covenants of Net debt/EBITDA and EBITDA/Interest remain in place; they will continue to be tested biannually and have been reset to reflect the Group's strategic plan.

The total interest rate swap portfolio, including previously restructured swaps will be restructured into additional term loan totalling approximately £199m.

The Group has negotiated and obtained a commitment to a new securitisation programme relating to certain receivable balances available up to an amount of £120m.

Subject to the implementation of the new re-financing arrangements, the trustees of the Group's pension schemes have agreed to defer deficit contribution payments (c.£47m p.a.) until 1 January 2014 and there will be no increase in the agreed deficit contributions before 2016.

Further details of the re-financing can be found in the Financial review on pages 32 and 33.

Our four strategic

Brands

We have a great portfolio of brands, many of which hold leading positions in their categories. We are focusing on those that have the best growth prospects.

› Invest and grow eight Power Brands

We have selected eight Power Brands that we will focus our resources behind to drive growth:

Hovis, Mr. Kipling, Ambrosia, Sharwood's, Loyd Grossman, Bisto, OXO and Batchelors.

› Support brands

Our support brands and customer brands have an important role to play. They can help build category share and help utilise our existing asset base.

› Focused disposals

We will actively seek to dispose of selected non-core businesses to deleverage the business and align our portfolio behind our key focus areas.

Read more
on page

14 →

Partners

For our business to be successful we must develop strong long-term relationships with all our partners. These relationships must be sustainable and offer value to both sides.

› Engage our employees

We have a new management team in place and will increase focus on employee engagement at all levels, remove organisational complexity and simplify the reward structure to drive the delivery of our strategy.

› Connect with consumers

We must connect with consumers by producing products that taste great, are relevant to today's eating habits, are convenient, have innovative packaging and address consumer concerns around health and wellness.

› Win with customers

Our focus going forward will be to move from a transactional approach to developing long-term sustainable relationships with customers.

› Collaborate with stakeholders

We will continue to collaborate and develop strong relationships with a wide range of other stakeholders including suppliers and investors.

Read more
on page

18 →

pillars



Focus

The business has a good track record of increasing manufacturing efficiency and cost cutting. We will continue our efforts to simplify our structure and processes. This will further reduce our cost base, increase efficiency and make us more competitive.

› Lean structure

As we resize the business following the rationalisation of our portfolio we will also reduce our cost base to reflect the smaller size of the business.

› Simple processes

Continue to target simplification across the business.

› Quality, health & safety

As we target cost savings it is vital that we remain totally focused and committed to food quality and health & safety.

› Drive efficiency and effectiveness through productivity and service

Cost savings through manufacturing controllable costs and procurement will be invested to support growth.

Read more
on page



Sustainability

Ultimately our vision is to be a sustainable business in everything we do.

› Results (financial and productivity metrics)

We believe our strategy will return us to profitable growth. Equally important it will lay the foundations for a more stable, sustainable business which will deliver shareholder value.

› Better choice portfolio and innovation

We will offer a wider choice of products to meet consumers' requirements for healthier options and different portion sizes.

› Environmental programmes

We will build on the strong track record of environmental improvement and ethical sourcing.

› Scale

We will leverage the breadth and scale of our portfolio with our customers, our suppliers and other business partners.

Read more
on page



Our business



Brands	14
Partners	18
Focus	20
Sustainability	22



Brands

Power Brands are at the heart of our strategy

So what makes a Power Brand?

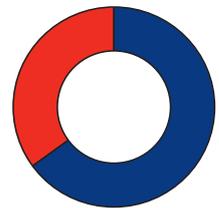
We have a great portfolio of brands that operate in a number of categories. Many of our brands have strong market positions and high brand awareness. To maximise our growth in the future we will focus on the ones that have the best growth prospects. These are our eight Power Brands.

Power Brands account for around 68% of our branded revenue and operate in large categories. They are major players within their respective categories holding either No.1 or No.2 positions. Most importantly they have the potential to expand into umbrella brands and broader categories.

We are significantly increasing our marketing investment behind the eight Power Brands, supporting new innovation in terms of product, packaging and promotions and ensuring our brands stand out in store.

We will double our marketing investment in 2012

- Power Brand revenue
£871m (67.5%)
- Support brand revenue
£419m (32.5%)



14



Category position

No.2

Wrapped bread

Key statistics

- Heritage dates back to 1886 when miller Richard "Stoney" Smith developed a method for preserving wheat germ goodness in bread
- Today *Hovis* is Britain's 4th largest Grocery brand
- Around 8 million *Hovis* loaves produced each week
- Delivered daily to supermarkets across the UK

Focus for 2012

- Only *Hovis* has 100% British wheat and no artificial preservatives
- Strong marketing support
- New product launch for *Hovis* Farmers Loaf
- Improvements to supply chain efficiency

See case study on page

16 →



Category position

No.1

Ambient cake

Key statistics

- Mr. Kipling's* "exceedingly good cakes" first appeared in 1967
- Britain's No.1 cake brand with many classics like Cherry Bakewells, French Fancies, Angel Slices and Viennese Whirls
- The entire range contains no artificial colours, flavours or hydrogenated fats
- 420 million *Mr. Kipling* slices baked each year

Focus for 2012

- High impact relaunch
- New pack design across the whole range
- Investment focused on innovative new "snap pack" design
- New product launches including: new sweet shop range and British Fancies

See case study on page

17 →



Category position

No.1

Ambient desserts

Key statistics

- Ambrosia* was established in Devon in 1917
- Britain's favourite custard
- Fresh milk still delivered to our Devon Creamery every day
- Made with no artificial colours, flavours or preservatives
- Naturally low in fat

Focus for 2012

- Major launch based around new individual pudding pots to suit all occasions
- Opportunity to drive usage — *Ambrosia* offers dairy goodness throughout the day
- Focus on rice as a "healthy everyday snack"

See case study on page

22 →


Category position

No.1

Asian cooking and sauces
accompaniments

Key statistics

- Founded by J. A. Sharwood in 1890
- Britain's leading Asian meal brand
- Comprehensive range of Indian, Chinese and Thai meal time solutions
- 21 million *Sharwood's* curries eaten each year

Focus for 2012

- › New marketing campaign behind *Sharwood's* Great British curry
- › Extension of *Sharwood's* Tikka range
- › Major new launch of new *Sharwood's* wrap kits
- › Strong marketing support and in-store execution

See case study
on page

16 →


Category position

No.2

Ambient wet cooking
sauce

Key statistics

- First sauces launched by Loyd in 1995
- Range now includes Italian, Indian, Thai and Mexican sauces
- Recipes specially created for those who share a passion for flavour
- All tomato based sauces contain one of your 5 a day

Focus for 2012

- › Strong marketing support
- › Brand relaunch and new TV campaign – “share a lifetime's passion”
- › Support behind range extension under *Loyd For One*


Category position

No.1

Ambient gravy

Key statistics

- *aah! Bisto* – established in 1908 – Britain's favourite gravy brings families and food together
- Range now includes *Bisto Best*, *Bisto Granules*, instant pour overs and *Bisto Sauce Mixes*
- New instant roast *Bisto* gravy launched in 2011
- Used in more than 1 billion food occasions each year

Focus for 2012

- › Strong marketing support
- › Return of successful *Bisto* “aah Night” campaign
- › Focus on increasing mid-week consumption and seasonal activity

See case study
on page

27 →


Category position

No.1

Dry stock

Key statistics

- Invented around 1840; the *OXO* name was created in 1900
- *OXO* was an official sponsor of the London Olympics in 1908
- Range extended to include “Spag Bol” recipe cube
- New reduced salt cube launched in Q4 2011
- 15 million *OXO* cubes made each week

Focus for 2012

- › Strong marketing support
- › Focus behind *OXO* reduced salt and *OXO Squeazy*

See case study
on page

29 →


Category position

No.1

Easy eating*

Key statistics

- Established by William Batchelor in 1895
- First *Cup a Soups* introduced in 1972
- Range includes *Super Noodles*, *Savoury rice* and *Pasta 'n' Sauce*
- 250 million mugs of *Cup a Soup* consumed each year in Britain

Focus for 2012

- › *Batchelors* savoury rice and *Pasta 'n' Sauce* restaging
- › Major support behind “Fuelling Britain” promotion across the range in 2012
- › New product launch of *Batchelors* Deli Box

See case study
on page

17 →

* Comprises Dry Soup, Savoury Noodles, Savoury Pasta, Pot Snacks and Savoury Rice.

Brands continued

“Significant opportunity exists to grow through extending brands into umbrella brands and broader categories.”



We intend to leverage our Power Brands by extending them into broader target markets.

An umbrella brand is a brand that has the potential to expand across a number of categories – for example *Sharwood's* has expanded to cover sauces, noodles, breads, poppadums, crackers and now wrap kits.

In addition, we have the opportunity to extend brands into broader areas – for example by using new packaging formats *Mr. Kipling* has the potential to move from a traditional teatime treat to lunch boxes and impulse channels.

16

Connecting with consumers

To connect with consumers we will leverage our “Britishness” which is an important point of difference with many of the multinational companies we compete with.

Case study: **Hovis 100% British Wheat**

Of the UK's three major bread brands, only *Hovis* has 100% British wheat and no artificial preservatives. We are changing all our bread packs to incorporate the Union Jack behind the *Hovis* logo, and an eye-catching consistent blue band to flag our work with Britain's farmers to develop premium wheat grown right here in the UK to produce loaves with flour made from 100% British Wheat and our “no artificial preservatives” message.

The new packaging will be supported by TV advertising based on the much-loved “Go on Lad” story featuring a young boy's journey through time, highlighting quintessential British scenes such as the Queen's Silver Jubilee, in a year which will be focused on being British.

In addition, April 2012 sees the launch of *Hovis* British Farmers Loaf, forecast to be our biggest launch of the year. The loaves are a more premium proposition with a traditional shape, flour dusted and *Hovis* embossed for a unique home-baked appearance which taps into consumer trends of nostalgia and tradition.



We will expand into umbrella brands and broader categories.

Case study: **Launch of new Sharwood's wrap kits**

In 2012 *Sharwood's* launched six innovative new *Sharwood's* wrap kits in two of the nation's favourite cuisines — Indian and Chinese.

This is another example of how the *Sharwood's* brand can extend into new areas. The meal kits sector is the fastest growing in the cooking sauces and accompaniments category increasing at around 8% year-on-year. The kits also recognise the growing popularity with consumers for “part home-made foods”.



Align with consumer trends for value, convenience, better-for-you choices and meal solutions.

Case study: **Batchelors Fuelling Britain**

Batchelors is giving consumers the chance to win free fuel for a whole year in the biggest on-pack promotion ever run on the brand, *Batchelors Fuelling Britain*. The promotion, which starts in March 2012, runs across the entire *Batchelors* range of products and every week gives shoppers the chance to win free fuel for a year, or a free tank of fuel every single day. To take part shoppers simply go online and enter a unique code that is printed on promotional packs.

Batchelors Fuelling Britain looks to engage and excite consumers around a subject close to their hearts and purses, namely soaring fuel prices.

Research has shown shoppers are three times more likely to buy into a “free fuel” promotion than any previous *Batchelors* on-pack promotion. The promotion will be advertised on radio as well as through activity in and around stores, such as car park banners, posters and cash machine screens.



Communicate with consumers through consistent advertising, innovation and promotions.

Case study: **Mr. Kipling snap packs**

Following major investment we have launched an innovative new style of packaging for *Mr. Kipling* cakes which is set to unlock the untapped potential of cake by making it more relevant to the way consumers choose their sweet treats. The two key areas driving growth are snacking and lunch boxes.

Mr. Kipling is seen as a traditional teatime treat but not always as something you can easily slip into a lunch box or grab for a quick snack. The new style “snap pack” packaging for *Mr. Kipling* slices presents them individually wrapped in a more snacking-friendly format for consumers who like to eat their snacks on the go.

In trials, 78% of consumers rated the snap packs as better than the previous pack; the new format was preferred for its attractiveness, ease of opening and visibility of product. They also said they would be more likely to eat them as a snack or pop them in their lunch box.



In addition, over the next three years we will increase our marketing investment significantly. For 2012 spend will be doubled and the majority of this will focus on our eight Power Brands.

Support and customer brands

Our support brands and customer brands have an important role to play helping to complement and protect our Power Brands. They can also help build our category share and provide total category solutions as well as helping us utilise our existing asset base. Finally they help to build and maintain relationships with customers. Our focus in this area is on operational efficiency and effectiveness, with an emphasis on selected categories where we have capacity and capability to compete.

Focused disposals

Over the course of 2011 we announced the disposal of a number of businesses in order to increase focus behind our eight Power Brands, to simplify the business and also to pay down debt. We will continue to target selected disposals where we believe they support this strategy.



Partners

Developing long-term partnerships

For our business to be successful we must develop strong long-term relationships with all our partners. These relationships must be sustainable and offer value to both sides.

Winning with customers

We have a broad customer base that operates across a number of channels including multiple retail, wholesale, cash & carry, impulse retail and international.

Collaborating with customers is a vital part of delivering our overall growth strategy. Our focus going forward will be to move from a transactional approach to developing long-term sustainable relationships with customers. To do this we will create a clear and compelling strategy for each category and brand that will maximise the opportunities for category growth.

We have built resource within the sales function to develop a strong commercially aware team. In addition, we are improving our information systems to improve modelling and analytical capabilities to enable us to optimise pack, price and promotional architecture.

For our major customers we will develop long-term joint business plans. This process involves:

- › Working with our customers to understand their categories and their strategy;
- › Developing ways that we can align to their strategic objectives;
- › Developing plans to grow key categories;
- › Using innovation and consumer insight;
- › Focusing on multi-format in-store execution;
- › Resourcing and delivering plans with excellence;
- › Reviewing progress against plan and realigning if necessary.

We are also moving to increase collaboration by creating cross-functional business plans with inputs from many levels within both organisations.



Connecting with consumers by producing products relevant to today's eating habits

Engaging our employees

Leadership

Over the year we have moved to strengthen the Group's leadership team. There have been a number of changes within the Group Executive and senior management as a whole and we now have a strong team in place with significant brand experience and a focus on execution and delivery.

We have refined the Group's reward structure to ensure focus on our strategic priorities and to further develop a strong performance culture.

Employee engagement

Premier Foods has surveyed its management population annually since 2007 in order to monitor progress in improvements in the way we manage and develop our people, how we lead the business and the way in which we work. With a response rate of 88% the results in 2011 demonstrated consistent progress year-on-year in some key areas, with an improvement in collaboration and team working. The results also highlighted some areas of focus which we are addressing. Over the course of 2012 we will increase focus on employee engagement at all levels of the organisation.

Communication

We recognise the value of good communication in engaging our employees in order to achieve common goals and we have a number of established employee communication mechanisms in place to achieve this goal, including: regular communication meetings; the Group's intranet site; the quarterly Group magazine; and specific consultation and involvement regarding major changes to the business.

"We will develop sustainable relationships with all our partners."



Recruitment

Premier Foods is committed to a fair approach to equal opportunities in all areas of our business. We recruit, train, promote and retain skilled and motivated people irrespective of sex, age, marital status, disability, sexual orientation, race, religion, ethnic or national origin. In line with this commitment we also promote a culture of openness and responsibility within our business.

It is our policy to give full and fair consideration to applications for employment received from disabled persons, having regard to their particular aptitudes and abilities; and wherever possible to continue the employment of, and to arrange appropriate training for, employees who have become disabled persons during the period of their employment. Premier Foods provides the same opportunities for training, career development and promotion for disabled people as for other employees.

Development and training

We are committed to providing high quality training and development initiatives to ensure we are equipped to deliver excellence in all we do. During the year we delivered a broader portfolio of programmes which now includes coaching skills training, commercial awareness and many others.

Career progression

Premier Foods actively encourages development from within. Our talent identification and succession planning processes are now embedded across the business and our intention is to ensure we develop our internal pool of talent so we can resource roles internally wherever possible. To support this we now offer a suite of specific programmes to develop key individuals.

Collaborating with stakeholders

We will continue to collaborate and develop strong relationships with a wide range of other stakeholders including suppliers and investors.

Suppliers

In 2011 we spent £1.6bn on externally sourced goods and services and we remain committed to working in close partnership with our key suppliers in order to facilitate and enhance longer term and more sustainable relationships.

We have actively engaged with our key suppliers during the year, for example our annual supplier conference which was attended by over 200 of our suppliers. The suppliers were addressed by our CEO, Michael Clarke, along with the CFO and our Procurement and Sales Directors. The various presentations updated suppliers on our current corporate strategy and identified areas where they could best support the Group going forward, as well as identifying how they could align themselves with our 2012 growth plans.

During 2011 our team of category procurement experts continued to consolidate our supply base, manage key supply chain risks through effective risk management and ensure that we have fully leveraged our scale across all areas of the business.

We have actively reduced the number of suppliers over a five year period by 50% to 4,634 in 2011 and we have targeted a further reduction of 10% during 2012. Our top 250 suppliers now represent some 79% of our total spend value.

Employee Recognition Awards

The Premier Foods Employee Recognition Awards are now in their fourth year and recognise the outstanding achievements of cross-functional teams across the business. The awards cover areas of focus across many aspects of the Group including: brand and process innovation, quality, health & safety and manufacturing efficiency.

The overall winner was the team from our factory at Worksop for their impressive reduction in manufacturing controllable costs ("MCC").

Worksop achieved the biggest reduction of MCC across the Group. Through delivery of key projects, the site achieved a total MCC reduction of 5%, delivering an MCC per tonne of 15% lower than 2009, whilst reducing inventory by £4.5m — a huge achievement. They also received recognition for the impressive environment and health & safety performance at the site.



Focus

Increasing efficiency and competitiveness

The business has a good track record of increasing manufacturing efficiency and cost-cutting. We intend to continue our focus on simplifying both our structure and processes to further reduce our cost base, increase efficiency and make us more competitive.

We are committed to delivering manufacturing efficiency and reducing costs within the supply chain. Over the past few years we have demonstrated strong delivery in the following areas:

- › Major rationalisation in operational sites;
- › Significant increase in asset utilisation;
- › Step change in safety with a 75% reduction in reported accident rate over three years;
- › Tight inventory control;
- › Year-on-year reductions in manufacturing controllable costs.

However, we believe that further improvements and cost reductions are achievable as we right-size the business.

Controllable costs

We have had significant success at reducing controllable costs within our manufacturing operations. Controllable costs include:

- › Direct and indirect labour
- › Business variances
- › Operational overheads
- › Waste

We will continue to target a 4% year-on-year gross reduction.

Procurement

We have a centralised procurement team focused on specialised categories. We will continue to consolidate our supplier base and leverage our scale to achieve lower purchase costs.

Consolidation of Grocery logistics

The business disposals announced in 2011 have provided an opportunity to significantly reduce the size of our Grocery logistics footprint reducing complexity and reducing costs going forward.

Accelerating cost savings

As announced earlier in 2012 we are accelerating overhead savings targeting a £40m reduction by 2013 as we further reduce complexity and also to reflect the smaller overall size of the Group. It is expected that this will result in headcount reduction largely within overhead functions.

*“Premier Foods was named
Manufacturer of the Year
at the European Strategic
Manufacturing Awards
in 2011”*



Our Workshop site achieved the highest reduction in manufacturing controllable costs in 2011

IT investment

Further efficiency will be delivered as we complete the move from older legacy systems to a single central information system across the Group using SAP. This will also bring business reporting benefits simplifying the current reporting structure and aiding decision making with improved information available to all areas of the business — factory management, finance, procurement and sales.

Investing for growth

The savings generated from improved efficiency will be used to fuel investment in growth behind our Power Brands. Over the year we commenced two major investments to fuel growth behind *Mr. Kipling* and *Ambrosia*.

Quality and health & safety

As we target cost savings it is vital that we maintain totally focused and committed to food quality and health & safety.

Food safety and quality

Premier Foods is focused on food safety and quality as a core requirement throughout our organisation. We have put in place integrated monitoring and traceability systems from animal and crop husbandry, via delivery of these raw materials to our factories, through the manufacturing process and distribution, to our products being consumed within the home.

Over the last four years we have achieved a 20% reduction in consumer complaints based on sales volumes. In 2011 we achieved a 4% reduction in complaints supported by the introduction of a quality benchmarking programme for the eight Power Brands, requiring daily product quality evaluations in all factories to ensure our products deliver on quality.

During 2011, Premier Foods has carried out an extensive review of supply chain food safety and quality controls including the outsourcing of our Supplier Audit Programme to a specialist provider. These audits are carried out to The British Retail Consortium (“BRC”) Global Standard for Food Safety and/or our bespoke Corporate Technical Standard to guarantee the quality and consistency of the ingredients we use. A risk based due diligence chemical contaminant testing programme is in place to verify regulatory compliance of the ingredients we use.

Case study: *Investment in new Mr. Kipling automated packing line*



As part of a major investment in our Cake business a £5.5m automated packing line was successfully installed at the *Mr. Kipling* Stoke bakery to pack cakes in the new “snap pack” format. The project underlines our commitment to investing in innovation and efficiency to drive growth.

The new machinery represents the latest in food manufacturing technology and the fully automated line is capable of packing 47,000 slices per hour. Sixteen robots carry out the whole operation in three phases. In the first, individual slices are picked and placed into trays. In the next phase, individual slices are top sealed in threes, then two stacked together and a sleeve wrapped around them. The final phase sees 12 packs wrapped ready for dispatch to customers.



The installation has created more skilled operator jobs at Stoke which were filled by internal recruitment giving the successful candidates the opportunity to acquire new skills working with the very latest technology.

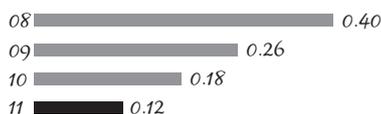
We have continued to see improvements in our factory standards reflecting the investment made in both people and infrastructure, such that 94% of all factories and depots achieved BRC Grade A audit results. We also have a rigorous internal food safety audit programme where factories have unannounced visits by our trained auditors to check that controls and due diligence requirements are being applied.

Workplace health & safety

To be “The Best in British Food”, our site management and their teams recognise that we must also be the best in workplace safety. 2011 marked another successful year in Premier Foods’ health & safety performance with 61% of our sites recording zero RIDDOR reportable accidents, up from 42% in 2010.

RIDDOR Accident Frequency

Per 1,000 hours worked



At the end of 2011, at 0.12 reportable accidents per 100,000 hours worked, we achieved our lowest ever RIDDOR frequency rate. The 33% year-on-year reduction in the RIDDOR rate was also accompanied by a very impressive 53% reduction in major RIDDOR accidents.

A Safe Workplace for All

Launched early in 2011, our corporate plan “A Safe Workplace for All” set out the array of leading and lagging indicators by which we would measure our performance, together with the initiatives through which we would deliver the improvements demanded in workplace safety, including:

- 1. Total Observation Process (“TOPS”):** During 2011, through TOPS our bespoke process, 27,000 workplace hazards were reported and resolved. Since its inception, over 100,000 hazards have been resolved and consequently over 100,000 potential accidents have been prevented.
- 2. BS OHSAS 18001:2007:** Throughout 2011, the Health and Safety Management system across all our sites was successfully audited by an independent, accredited third party auditor.
- 3. ALARP risk assessment process:** The Premier Foods ALARP process has been pivotal in delivering ground-breaking safety performance across our sites. To date, in excess of 1,100 risk assessors have received competency training in our bespoke risk assessment methodology.
- 4. Safety Leadership:** Safety leadership at every level of an organisation is essential in driving the health & safety agenda and our certificated Safety Leadership Programme has been a vital ingredient underpinning our success. To date, over 1,000 Premier Foods Safety Leaders have graduated through our bespoke Safety Leadership Programme.

In 2011, the Royal Society for the Prevention of Accidents (“RoSPA”) recognised the commitment and dedication of our managers and their teams to workplace safety by awarding 39 Gold and 12 Silver RoSPA Awards to our sites together with a RoSPA Gold Award for the Management of Occupational Road Risk.

It is our deeply held conviction that an excellent organisation is by definition a safe organisation and we believe that there must be no compromise where safety is concerned. We must all guard against complacency and will continue to drive further improvements in our health & safety performance; in active partnership with our employees across all of our sites, we will continue to strive for “A Safe Workplace for All”.

Sustainability

Ultimately our aim is to be a sustainable business in everything we do

We see sustainability as central to the way we run the business, in our approach to buying goods and services, in how we manufacture and distribute our products, in our relationships with partners and in the health and nutrition benefits of our products.

We believe that if we can get this right then it will in turn lead to sustainable financial results.

22

Financial and productivity KPIs

The recent change in management has resulted in a new growth strategy for the Group aligned behind the four strategic pillars of Brands, Partners, Focus and Sustainability. As a result a new set of KPIs will be developed to help focus on the delivery of this strategy and to measure our success and we intend to report against them for 2012. Our environmental targets remain unchanged and progress against them is set out below.

Better choice portfolio and innovation

There is a real opportunity for us to connect with consumers and drive growth through offering a wider range of better-for-you options and a range of different portion sizes.

Healthier choices for consumers

Our health and nutrition strategy consists of a number of strands:

Addition of positives	The addition of wholesome, healthy and natural ingredients such as wholegrains, cereals, oats, pulses, fruits and vegetables
Reduction in ingredients of concern	The removal or reduction of ingredients where nutritional concerns exist e.g. salt, saturated fat, hydrogenated vegetable oils and non-naturally occurring trans fats
Portion size options	To offer consumers a range of portion sizes
Clear labelling	To clearly communicate the nutrition content of products for example through front of pack % Guideline Daily Amount labelling complemented by detailed nutrition on the back of pack



The entire Mr. Kipling range contains no artificial colours, flavours or hydrogenated fat

"100% free range eggs used across entire Mr. Kipling range"



Salt reduction

We are working with the Department of Health and other partners in the food industry to develop programmes that will help people make healthier choices through providing information to consumers, re-evaluating the nutritional content of food and promoting healthier choices.

By the end of 2012 we will have reduced the salt in more than 639 individual products across 53 branded categories from *Hovis* bread to *Batchelors* Savoury Rice. In 2011 we launched *OXO* reduced salt cubes so consumers can now enjoy *OXO* with reduced salt in the cube they know so well. *OXO* reduced salt cubes have shown a significant increase in sales over their predecessor, a granular format in a jar, indicating we are meeting consumer demand for lower salt versions of their favourite products. Already we have made salt reductions of 100 tonnes per annum across our brands and the remainder of the new recipes will roll out over 2012.

Case study: New Ambrosia range

In 2011, we started work on a range of portion sizes intended to meet the needs of different consumers and increasing suitability for increased eating occasions, i.e. snacking, in addition to the more traditional shared dessert.

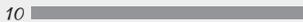
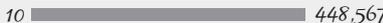
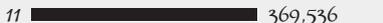
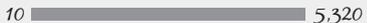
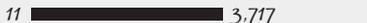
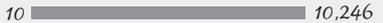
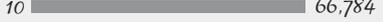
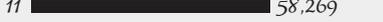
Ambrosia rice is now available in 4 new formats. All products are naturally low in fat and now come in a range of flavours: 120g smaller pots, perfect for lunchboxes or smaller appetites; 190g pots which are great for adult snacking; 115g, which contains just 99 calories and is the perfect snack for weight managers; and a 500g Sharing Rice Pot which is both re-sealable and suitable for the microwave to increase convenience.



Environmental programmes

We will continue to build on our strong track record of environmental improvement and ethical sourcing.

In 2011 we made good progress against all our environmental targets details of which are set out in the table below. To build on this further, in 2012, we launched our 'Green Matters' programme with an aim to create a Group-wide culture of environmental improvement and to embed 'green' as a long-term strategic priority.

Target for 2011	Achievement in 2011		Target for 2012
Energy — Energy usage (gigawatts) -3.0%	10  1,586 11  1,322	-17% (-6.6%)*	-3.0%
Carbon — Carbon (CO₂) equivalent emissions (tonnes) -4.0%	10  448,567 11  369,536	-18% (-6.8%)*	-4.0%
Water — Water usage (excluding water embedded in our products) (megalitres) -3.0%	10  5,320 11  3,717	-30% (-21.3%)*	-5.0%
Waste — Waste to landfill (tonnes) -20.0%	10  10,246 11  6,877	-33% (-25.1%)*	-20.0%
Transport — Delivery miles (actual miles travelled (m)) -3.0%	10  66,784 11  58,269	-13% (-1.35%)*	-5.0%

* We have historically reported all environmental results in terms of absolute figures. As highlighted earlier in this annual report the Group has completed a number of business disposals in 2011 which has impacted on environmental performance. For consistency we will continue to report absolute figures but we have also included relative reduction figures (shown in brackets) to take into account the impact of these disposals.

Ethical sourcing

As a major British food manufacturer we are proud of the fact we spend 82% of our annual procurement budget with UK suppliers and farmers.

In 2010, we began to develop our 'Sustainable Procurement Roadmap' (SPR) and last year we committed to embedding sustainability criteria within our ingredient category sourcing plans and risk logs. We have now completed sustainability assessments in 20 key categories and we will continue to roll out this innovative approach to sustainable procurement in 2012 and beyond.

Mr. Kipling 100% free range eggs

In January 2011, our *Mr. Kipling* cake brand moved to using 100% free range eggs across the entire range. *Mr. Kipling* uses the equivalent of over 60 million free range eggs each year.

Manufacturer of the Year 2011

The hard work of employees operating across our supply chain was recognised when Premier Foods took top honours being named Manufacturer of the Year at the European Strategic Manufacturing Awards in October 2011 beating competition from across the European manufacturing industry. We also picked up the top award for Operational Excellence. The awards recognise the significant achievements made by the Group across a number of areas in the supply chain including manufacturing efficiency, cost reduction, environmental impact and health & safety improvements.

100% Sustainable palm oil

Premier Foods has committed to sourcing 100% RSPO certified sustainable palm oil by 2015. Our policy is to source palm oil only from suppliers who are members of the Roundtable for Sustainable Palm Oil (RSPO). In December 2011, BM TRADA, the leading independent certification body, recognised our efforts in getting 21 of our sites certified as having RSPO approved traceability systems capable of guaranteeing the use of palm oil from sustainable sources — more than any other company worldwide. In the 2011 World Wildlife Fund (WWF) 'Palm Oil Buyers Scorecard', we scored top marks achieving 9 out of 9 in the WWF palm oil buyers rating. The WWF Palm Oil Buyers' Scorecard measures the performance of companies against strict criteria which show whether the companies assessed are acting responsibly.

External recognition

Our progress in sustainability received external recognition in 2011 and we were listed on the FTSE4Good Index and Ethibel Excellence Register for the first time, highlighting that the Group is now meeting globally established corporate responsibility standards.

More information on the work we do in this area can be found in the 2011 Sustainability Report and also on our website.

Performance



Operating review	26
— Divisional review	28
Financial review	32
— Re-financing	32



Operating review

Investing for future growth



"Our immediate priorities are to continue the stabilisation of the business, refocus the portfolio and invest in our future growth."

Michael Clarke
Chief Executive Officer

To read more about our financial results
www.premierfoods.co.uk/investors/results-and-presentations

Continuing operations

£m	2011	2010	
Revenue			
Grocery	1,121.5	1,212.6	(7.5%)
Bread	711.3	687.6	3.4%
Disposed of Canning Operations	166.7	334.2	(50.1%)
Total revenue	1,999.5	2,234.4	(10.5%)
Trading profit			
Grocery	179.5	220.5	(18.6%)
Bread	3.4	35.3	(90.4%)
Disposed of Canning Operations	5.4	27.8	(80.6%)
Total Trading profit	188.3	283.6	(33.6%)
Amortisation of intangible assets	(72.0)	(65.8)	(9.4%)
Foreign exchange valuation items (charge)	(1.7)	(2.0)	15.0%
Pension financing credit	17.0	4.1	–
Restructuring costs relating to disposals	(10.5)	–	–
Re-financing fees	(4.2)	–	–
Impairment of goodwill and intangible assets	(282.0)	–	–
Loss on disposal of operations	(11.2)	–	–
Operating (loss)/profit	(176.3)	219.9	–

Ongoing business

£m	2011	2010	
Revenue			
Grocery	1,099.7	1,187.1	(7.4%)
Bread	711.3	687.6	3.4%
Total revenue	1,811.0	1,874.7	(3.4%)
Trading profit			
Grocery	170.3	210.4	(19.1%)
Bread	3.4	35.3	(90.4%)
Total Trading profit	173.7	245.7	(29.3%)

Note:
The Brookes Avana business is disclosed in the financial statements as a discontinued operation. Consequently this business is reported before the allocation of Group overheads. Trading profit for Grocery and Bread are therefore stated after the allocation of Group overheads previously assigned to Brookes Avana.

The previously named 'Hovis' division has been renamed the 'Bread' division.

Introduction

In the financial statements for the year ended 31 December 2011, the Meat-free and Brookes Avana businesses are both treated as discontinued operations, reflecting their status as individual operating segments within the Group structure. The East Anglian canned grocery operations is treated as a continuing operation in the financial statements and reported separately as an operating segment, 'Disposed of Canning Operations'. The Irish Brands business, the disposal of which completed on 23 January 2012, was a constituent part of the Grocery segment for the duration of 2011 and is, therefore, treated as a continuing operation.

The definition of 'Ongoing business' is used as a basis to illustrate the business performance of the Group following recent divestment activity. It excludes the Meat-free, East Anglian canned grocery operations, Brookes Avana and Irish Brands businesses. All commentary refers to Ongoing business unless otherwise stated.

Ongoing business revenue decreased by 3.4% to £1,811.0m in the year, a decrease of £63.7m compared to the prior year. Ongoing business Trading profit decreased by 29.3% to £173.7m in the year reflecting a challenging consumer environment and customer disputes.



Sharwood's Tikka sauce range extension focusing on Britain's favourite curry

Significant one-off items

The reported Ongoing business Trading profit of £173.7m in the year is stated after recognising pension credits of £37.4m and aged receivable reviews and associated commercial provisions of £37.4m.

The pension credits in 2011 include a credit in H1 2011 amounting to £12.1m, of which £10.0m related to the Ongoing business and reflected the move from final salary scheme to CARE and defined contribution schemes. An additional credit in H2 of £29.9m, of which £27.4m related to the Ongoing business, was due to changes in the statutory inflation assumption used in calculating certain scheme liabilities. The statutory inflation assumption change, prompted by legislation, involves replacing the retail price index (RPI) with the consumer price index (CPI) in calculating certain scheme liabilities. This amendment has been made to certain of the Premier Foods pension schemes liabilities only in 2011; the Group and Trustees of the RHM Pension Scheme are currently seeking legal clarification to ascertain the extent to which certain provisions of the RHM Pension Scheme are also affected by the move from RPI to CPI. In 2010, the Group's results included a pension credit of £11.6m owing to past service credits.

Additionally, following recent disposal and restructuring activity, the Group has reassessed the recoverability of assets held on the balance sheet. Following this review, the Group has written off some aged receivable balances deemed unrecoverable and adjusted some associated commercial provisions. Accordingly, the Group recognised an expense of £37.4m in Ongoing business Trading profit.

“Capital investment is increasingly moving from infrastructure to supporting growth and productivity”



The effect on Ongoing business Trading profit of these one-off items is neutral for the full year. Of the £27.4m pension credit recognised in H2, £26.0m was reflected in Ongoing business Trading profit of the Grocery division. The write-off of aged receivable balances and adjusted commercial provisions were all recognised in the Grocery division. A pension credit of £11.6m owing to past service credits was also recorded in 2010 reported Trading profit.

Group net debt as at 31 December 2011 was £995.1m. This is stated after gross disposal proceeds of £30.3m from the completed divestiture of the Brookes Avana business. Average gross borrowings decreased from £1,439m in 2010 to £1,194m in 2011. Historically, the Group has experienced a low point in the working capital cycle at the end of December. In future, the Group expects to have a lower degree of variability in net debt levels.

An impairment charge of £282.0m is attributable to the Bread segment as a result of the decline in profitability of the business in 2011 compared to the prior year and hence the assessment of future forecasted cash flows for this segment. Additionally, and as a result of the sale of the Brookes Avana business, an impairment charge of £80.4m was taken against the assets of the business in 2011, reflecting the difference between the net sale proceeds and the carrying value of the business.

Case study: *Make tonight your “aah Night!”*

Bisto is back on TV in 2012 with a new “aah Night!” campaign where members of the public commit to going home on time and spending time with their family. The campaign aims to encourage more families to use gravy as part of their evening meal to drive growth in the category.

And there is definitely an opportunity to drive growth — we know that 13.5 million *Bisto* users consume the brand less than once a week and that more than three-quarters of all sausages are eaten at home during the week without gravy!

This year's investment in TV and radio is set to keep *Bisto* at the top of the shopping list especially at Easter, as well as working on our longer term objective of increasing mid-week consumption.



Operating review continued

Grocery division

£m	2011	2010	
Branded sales	892.5	972.8	(8.3%)
Non-branded sales	207.2	214.3	(3.3%)
Total sales	1,099.7	1,187.1	(7.4%)
Gross profit	331.1	408.6	(19.0%)
Trading profit	170.3	210.4	(19.1%)

Sales in our Grocery division decreased by 7.4% to £1,099.7m compared to £1,187.1m in 2010. Trading profit was £170.3m, a 19.1% decline in the year.

Grocery category performances in 2011 were characterised by the effect of challenging market conditions and high promotional activity. During the year, our markets declined by 2.5% in volume terms, significantly down on long-term averages, although this trend improved in the second half of 2011. Overall, branded volumes in the Grocery division declined year-on-year, owing to these market declines and a protracted customer dispute that particularly affected the *Ambrosia*, *Batchelors*, *Lloyd Grossman* and *Sharwood's* brands.

The Group experienced a significant wave of input cost inflation during the first quarter of 2011. In response, price increases were negotiated and achieved, however, these only became effective from the beginning of the second quarter. As a result of this time lag, gross margins declined by £14m in the first quarter.

During the year, promotional activity in the market continued at historically elevated levels. While volumes on promotion were higher than 2010, the annual rate of increase slowed and the depth of discount increased.

We continue to generate savings in the supply chain, both in increasing manufacturing efficiency at our sites and through procurement gains. Manufacturing efficiencies benefited Trading profit by £20m as a result of improvement programmes across a number of sites, while procurement gains delivered £14m.

A pension credit of £33m is recognised in Ongoing business Trading profit, owing to the change in inflation rate assumption from RPI to CPI and the movement of pension schemes from final salary to career average schemes.

Bread division

£m	2011	2010	
Branded bakery sales	372.0	375.6	(1.0%)
Non-branded bakery sales	128.5	139.6	(8.0%)
Total bakery sales	500.5	515.2	(2.9%)
Milling sales	210.8	172.4	22.3%
Total sales	711.3	687.6	3.4%
Gross profit	208.0	239.9	(13.3%)
Trading profit	3.4	35.3	(90.4%)

Reported Trading profit of the Bread division in 2010 of £38.8m has been restated to £35.3m to reflect the reallocation of costs previously absorbed by the discontinued Brookes Avana business. Additionally, in 2010, other group and central costs have been allocated to the Bread division to more closely reflect support function activity. The net effect of these items has been to reduce reported Trading profit by £9.8m.

Total sales for the Bread division increased 3.4% in 2011 to £711.3m, while Trading profit declined from £35.3m in 2010 to £3.4m. Sales in our Bakery operations were down 2.9% in the year while Milling sales increased by 22.3%, largely due to higher pricing compared to the previous year to cover higher raw material costs.

The performance of the Bakery business reflected challenging market conditions, with category volumes down 3.3% during the year. High levels of promotional activity remained a key feature of the market and as a result, Trading profit was lower in the year. *Hovis* branded market share was broadly flat during the year, while non-branded volumes were lower, partly as a result of a contract loss.

Brookes Avana

(Discontinued operation)

£m	2011	2010	
Revenue	195.4	203.6	(4.0%)
Trading (loss)/profit	(11.6)	11.3	–

The disposal of the Brookes Avana business to 2 Sisters Food Group was completed on 30 December 2011 for gross proceeds of £30.3m. In line with the key priorities for the Group, the disposal of Brookes Avana allows the business to better focus its resources behind growing the eight Power Brands.

Revenue for Brookes Avana decreased by 4.0% to £195.4m, down from £203.6m in 2010. This reflects the loss of a major pie contract at the Leicester site during the middle of the year, partly offset by pricing achieved in the first half.

A Trading loss of (£11.6m) was recorded in the year owing to competitive pricing pressure, significant contract churn and the resultant impact on supply chain efficiencies. A restructuring charge of £4m was taken in H1 due to redundancy costs associated with a lost pie contract and asset write-offs. The loss is stated before previously absorbed group overheads which would have amounted to £10.7m in 2011.



Hovis "Go on Lad" advertising back on air in 2012

Case study: **OXO Reduced Salt**

Following the new launch in 2011 consumers can now buy reduced salt OXO in the cube shape they know and love. Available in beef, chicken and vegetable flavours, they contain 25% less salt than a standard OXO cube.

We've been offering reduced salt OXO granules in jars since 2008. But now consumers can enjoy the signature rich OXO reduced salt flavour in the cube box they know so well. They will be able to find it easily in stores, because retailers will display all our cubes together. This is helping our customers by increasing the opportunity for multi-buy promotions and ensuring there is no confusion with gravy granule products in jars.



Reducing the salt, but retaining our favourite cube shape, was a challenge for our technical team. Salt is the ingredient which binds the stock granules together. So reducing salt can impact the shape and consistency of the cube. The team used their detailed knowledge of ingredients and how they respond in recipes to create a high quality product range.

Operating review continued

Sales

£m	2011	2010	
Power Brands	871.2	923.3	(5.6%)
Support brands	419.0	447.3	(6.3%)
Total Branded	1,290.2	1,370.6	(5.9%)
Non-branded	520.8	504.1	3.3%
Total Sales	1,811.0	1,874.7	(3.4%)
Branded sales %	71.2%	73.1%	(1.9ppt)

Total Ongoing business sales declined 3.4% compared to the prior year and the branded sales mix reduced by 1.9ppt to 71.2%.

Power Brands sales declined 5.6% during the year reflecting market declines and the effect of major customer disputes. Support brands, defined as all other brands outside the Power Brands group, were down 6.3% to £419.0m in the year.

Non-branded sales increased by 3.3% as increased milling sales were partly offset by lower non-branded bakery sales and reduced Grocery non-branded sales.

Gross profit

£m	2011	2010	
Gross profit (£m)	539.1	648.6	(16.9%)
Gross margin %	29.8%	34.6%	(4.8ppt)
Gross margin movements:			
Branded growth, product mix, manufacturing efficiency and procurement	(1.6ppt)		
Commodity costs, pricing and promotions	(3.2ppt)		
Total change (ppt)	(4.8ppt)		

Gross margin declined by 4.8% in 2011 to 29.8%. Manufacturing controllable costs improvements and procurement gains were offset by adverse product mix as non-branded sales increased by 3.3% while branded sales declined by 5.9%.

The impact of commodity costs, pricing and promotional activity reduced Gross margin by 3.2%. Pricing recovery to offset input cost inflation in the first half of the year maintained gross profit, but increased turnover and hence reduced the gross margin. Additionally, unrecovered commodity cost inflation in Q1 reduced gross margin.

Consumer marketing

£m	2011	2010	
Consumer Marketing	25.6	31.6	(19.0%)

Marketing investment declined by 19.0% during 2011 as the business sought to reduce costs in response to the challenging environment. The Group has taken the opportunity to redefine the definition of consumer marketing, to include, but not limited to, media spend, production costs, design, research, PR, sampling and associated fees. The table above reflects this revised definition. Costs of in-store marketing with our customers are not included in this revised definition of consumer marketing.

Cash flow

£m	2011	2010
Ongoing business Trading profit	173.7	245.7
Depreciation	41.8	39.3
Other non-cash items	(25.4)	16.1
Interest	(108.3)	(118.0)
Taxation	(2.4)	(1.8)
Pension contributions	(74.7)	(64.3)
Regular capital expenditure	(61.7)	(58.7)
Working capital	(0.1)	11.1
Recurring cash flow from Ongoing business	(57.1)	69.4

Group recurring cash flow from Ongoing business before non-recurring items in the year was an outflow of £57.1m compared to an inflow of £69.4m in the prior year. This adverse movement reflected a reduction in Trading profit in the year of £72.0m, higher pension contributions and an adverse movement in working capital of £11.2m. Historically, the Group's working capital cycle reaches a low point in December, and while this remains so, the extent of this low point was reduced in December 2011 resulting in this working capital movement.

Other non-cash items includes the add-back of the pension credit recognised in Trading profit, partly offset by the pension financing credit. Lower cash interest of £108.3m was due to lower average debt levels following divestitures partly offset by phasing differences.

£m	2011	2010
Recurring cash flow from Ongoing business	(57.1)	69.4
Trading profit & restructuring activity from disposed businesses	(10.3)	65.1
Other cash flows from disposed businesses	(40.6)	(18.9)
Operating cash flow from total group	(108.0)	115.6
Disposal proceeds	400.2	9.1
Financing fees & finance leases	(7.3)	(39.6)
Movement in net debt	284.9	85.1

Movement in net debt in the year was £284.9m, an increase of £199.8m compared to 2010. Total disposal proceeds from the sale of Meat-free, East Anglian canned grocery and Brookes Avana totalled £394.8m and other smaller asset sales amounted to £5.4m. These proceeds were partly offset by the recurring cash outflow from Ongoing business of £57.1m and cash outflows from disposed businesses of £50.9m.

Net debt

£m	2011	2010
Gross debt	1,011.1	1,301.3
Deferred financing fees	(16.0)	(21.3)
Net debt	995.1	1,280.0

Group net debt at the year end was £284.9m lower in the year at £995.1m.

Pensions

Total cash paid to the pension schemes in the year was £77.3m, comprising £29.0m of regular contributions and administrative expenses and £48.3m of deficit contributions. This is in line with guidance provided at the Half Year. At 31 December 2011, the deficit as calculated on an IAS 19 basis was £282.4m, equivalent to £212.4m net of deferred tax.

£m	31 Dec 2011	31 Dec 2010
Assets		
Equities	425.1	588.1
Bonds	472.4	445.7
Property	127.6	121.5
Absolute return	721.9	566.8
Swaps	231.6	80.9
Cash & other	1,177.4	996.4
Total Assets	3,156.0	2,799.4
Liabilities		
Discount rate	4.80%	5.45%
Inflation rate (RPI/CPI)	(3.15%/	(3.45%/
	1.95%)	N/A)
Total Liabilities	(3,438.4)	(3,120.3)
Gross deficit (IAS 19)	(282.4)	(320.9)
Deferred tax	70.0	85.8
Net deficit (IAS 19)	(212.4)	(235.1)

Business disposals

The Group has stated its intention to focus on investing behind growing eight Power Brands. Following divestitures completed since the beginning of 2011, the Group expects further selected businesses to be divested in 2012 to increase the Group's focus on its Power Brands and additionally help deleverage the business.

During the course of the year, the Group completed the disposal of the Meat-free, East Anglian canned grocery and Brookes Avana chilled ready meals and cake businesses. The disposal of Meat-free to Exponent Private Equity and Intermediate Capital Group was completed on 7 March 2011 for a cash consideration of £205.0m and the disposal of the East Anglian canned grocery business to Princes Limited was completed on 23 July 2011 for a cash consideration of £182.2m. Brookes Avana was sold to 2 Sisters Food Group on 30 December 2011 for £30.3m. Additionally, on 23 January 2012, the Group announced the completed disposal of the Irish Brands business, comprising the *Chivers*, *Gateaux*, and *McDonnell's* brands and the *Erin* licence to the Boyne Valley Group for €41.4m. Net proceeds will be confirmed in due course, following the completion of final working capital statements.

	Meat-free	East Anglian canned grocery	Irish Brands	Brookes Avana
Announcement	24 January 2011	8 February 2011	7 December 2011	15 December 2011
Completion	7 March 2011	23 July 2011	23 January 2012	30 December 2011
Gross Proceeds	£205.0m	£182.2m	€41.4m	£30.3m
Net Proceeds	£196.6m	£165.3m	Not concluded	£31.6m
Loss on disposal	£12.4m	£11.2m	Not concluded	£2.2m
Purchaser	Exponent Private Equity and Intermediate Capital Group		Boyne Valley Group	2 Sisters Food Group

The table below serves to illustrate key financial metrics of the four transactions outlined above; Meat-free and East Anglian canned grocery are based on 2010 results and Irish Brands and Brookes Avana are based on 2011 results.

£m	Meat-free	East Anglian canned grocery	Brookes Avana	Irish Brands	Total Disposals
Branded sales	128.8	147.5	–	21.8	298.1
Non-branded sales	–	186.7	195.4	–	382.1
Total sales	128.8	334.2	195.4	21.8	680.2
Trading profit/(loss)	16.2	27.8	(11.6)	9.2	41.6
EBITDA	19.3	31.7	(7.1)	9.2	53.1
Capital expenditure	1.2	2.1	5.3	–	8.6

Outlook

The recently announced re-financing package provides the foundation on which the Group's growth strategies can be implemented. During the coming year, the Group's priorities remain to stabilise its operational performance, while enabling the business to increase its focus through selected disposals. The consumer environment is expected to remain challenging with continued high levels of promotional activity and ongoing cost inflation, albeit at lower levels than 2011. The Group, nevertheless, believes the planned increase in marketing investment, proposed cost reduction programmes, better customer collaboration and renewed focus across the Group will provide the platform to deliver future branded growth.

Consequently, over the medium term, the Group expects a return to sales growth, and higher Gross margins. This will be supported by further sustained increases in marketing investment and a continuation of cost reduction and efficiency programmes. Additionally, the Group will reduce interest charges and net debt.

Financial review

Robust financing in place



"We have obtained unanimous consent from our banking syndicate, swap counterparties and pensions schemes on a re-financing package which will allow the Company to execute its new growth strategies."

Mark Moran
Chief Financial Officer

The Group is presenting its financial results for the year ending 31 December 2011 with comparative information for the year ending 31 December 2010.

Re-financing package

The Group has obtained consent from its banking syndicate, swap counterparties and pension schemes on a re-financing package subject to the formalities of final documents being signed, expected by the end of March 2012.

The existing term loan (£733m) and revolving credit facility (£500m), previously due to mature on 31 December 2013, will be extended to a new maturity date of 30 June 2016. The current applicable bank margin of 2.25% will increase to 3.25% with effect from 1 January 2014.

Additionally, the current amortisation payment schedule has been amended, with amortisations to occur semi-annually from 30 June 2014. Banking covenants of net debt/EBITDA and EBITDA/interest remain in place; they will continue to be tested bi-annually and have been reset to reflect the Group's strategic plan. The covenant tests are set out in the table opposite.

Having already realised net disposal proceeds of £400m in 2011, the Group is required to realise proceeds from disposals of £330m by 30 June 2014, with 80% of this to be achieved by 31 December 2013 and 90% of this by 31 March 2014.

The total interest rate swap portfolio, including previously restructured swaps, will be restructured into additional term loan totalling approximately £199m. Of this additional term loan, approximately £117m of the previously restructured swaps will be interest bearing with immediate effect. The remaining £82m of previously restructured swaps will attract interest from 1 January 2014. These new tranches of additional term loan will attract the same interest margin as the main term loan. The result of this conversion from swaps to additional term loan will significantly reduce the Group's interest expense in 2012 and 2013 and the previously arranged agreed swap settlements of £35m in 2012 and £82m in 2013 are no longer applicable. A new amortising swap commencing in July 2012, with a nominal value of approximately £750m will be arranged, attracting a swap rate of 1.55%.

The Group has negotiated and obtained a commitment to a new securitisation programme relating to certain receivable balances available up to an amount of £120m, subject to sufficient receivables being capable of being sold into the programme. These balances will be included as part of net debt, reflecting their recognition on the balance sheet and will attract an interest margin of 3.5%.

All term loan and securitised debt attract interest charges based on LIBOR.

A sliding scale of new deferred fees at market rates will be applicable from 2014 through to 2016, which are payable on a subsequent re-financing. Planned future disposal proceeds will be shared between the banks in the banking syndicate (including those swap counterparties whose swaps have been restructured into additional term loans as described above).

Subject to implementation of the new re-financing arrangements, the Trustees of the Group's pension schemes have agreed to defer deficit contribution payments (c.£47m p.a.) until 1 January 2014 and there will be no increase in the agreed deficit contributions before 2016. Regular contributions of approximately £26m per annum will continue to be paid to the pension schemes.

On 31 December 2013, a 'cash sweep', reflecting excess cash generated over and above an agreed level will be calculated and paid in early 2014 to the banking syndicate, (including those swap counterparties whose swaps have been restructured into additional term loans as described above) and pension schemes in lieu of payments forgone by this date. Further cash sweeps will be included annually with amounts distributed only to the banking syndicate (including those swap counterparties whose swaps have been restructured into additional term loans as described above).

The Company is restricted from paying dividends under the terms of the re-financing package.

Capital expenditure is to be held in line with target of approximately 3% of sales.



The Bisto range was extended in 2011 to include new instant roast gravy.

Summary of Re-financing package

Bank facility maturity	30 June 2016	
Bank margin	2.25% until 31 Dec 2013 3.25% 1 Jan 2014 – 30 June 2016	
Facilities	Term loan A £733m RCF £500m Additional term loan <i>circa</i> £199m	
Amortisation payments	30 June 2014 – £25m 31 Dec 2014 – £25m	30 June 2015 – £30m 31 Dec 2015 – £30m
Disposals	Proceeds shared between banks and swap counterparties £330m disposal proceeds required by 30 June 2014; certain progress milestones from 31 December 2013	
Securitisation	Programme now £120m and now on balance sheet	
Cash sweep	Paid in February 2014, split between banks, swaps and pension schemes. Further cash sweeps annually thereafter (excluding pension schemes)	
Consent fee	1% fee on outstanding facilities	
Existing deferred fee	0.5% on existing facilities, paid Dec 2013	
New deferred fee	2.0% on facilities between 28 March 2013 – 27 March 2014 2.5% on facilities between 28 March 2014 – 27 March 2015 3.0% on facilities between 28 March 2015 – 27 March 2016	
Covenant test dates	Bi-annually, 30 June and 31 December	
Net debt/ EBITDA covenant	30 June 2012	6.96x
	31 December 2012	5.87x
	30 June 2013	5.26x
	31 December 2013	4.52x
	30 June 2014	4.66x
	31 December 2014	3.92x
	30 June 2015	3.82x
	31 December 2015	3.26x
EBITDA/ Interest covenant	30 June 2012	2.37x
	31 December 2012	3.69x
	30 June 2013	4.50x
	31 December 2013	4.50x
	Each test thereafter	4.50x

The re-financing package is subject to final documentation being put in place and the directors are confident that this will be achieved and signed by the end of March 2012. On this basis, the directors believe it is appropriate to continue to adopt the going concern basis of accounting as fully described in note 2 to the financial statements.

Financial review continued



New Loyd Grossman TV campaign based around Loyd's lifetime passion for food

Group structure

During the year, the Group disposed of its Meat-free business (incorporating the *Quorn* and *Cauldron* brands), the Canned grocery operations business and the Brookes Avana chilled ready meals and cake business. The sale of the Irish Brands *McDonnell's*, *Gateaux*, *Chivers* and *Erin* licence also completed on 23 January 2012.

The results of the Meat-free and Brookes Avana businesses are set out in note 11 to the financial statements. The income statement for 2010 has been restated to reflect the Meat-free and Brookes Avana businesses as discontinued operations. The Canned grocery operations business is treated as a continuing operation in the financial statements and reported separately as an operating segment, 'Disposed of Canning Operations'. All commentary on the performance of the Group included below refers to continuing operations unless otherwise stated and incorporates the Irish Brands business.

Income statement

Revenue from continuing operations was £1,999.5m, a decrease of £234.9m in the year. The primary reason for the decrease was due to the disposal of the Canned grocery operations business in July 2011 and reduced branded sales resulting from market declines and customer disputes.

Operating profit

Operating profit for continuing operations before impairment and loss on disposal was £116.9m, a 46.8% decrease on the year to 31 December 2010. This decrease was largely due to a reduction in Trading profit of £95.3m in the year to £188.3m. The Grocery division declined due to the reasons outlined in the income statement above while the Bread division experienced high levels of promotional activity in a competitive market, impacting profitability.

An operating loss of £176.3m was recorded for the year compared to a profit of £219.9m in 2010 reflecting the Trading profit movement and an impairment of goodwill and intangible assets of £282.0m.

The impairment charge of £282.0m was recognised against the goodwill and intangible assets of the Bread division, which has arisen following adverse trading conditions within this operating segment in the year. Additionally, a loss on disposal of £11.2m was recognised relating to the divestiture of the Canned grocery operations. A charge of £10.5m for restructuring costs associated with disposed of businesses is due to redundancy and restructuring costs and closure of the Windsor office.

Finance expense

Net finance expense in 2011 was £82.8m, compared with £191.4m in 2010. This decrease is primarily due to lower average debt levels following disposals and hence lower applicable bank margin, in addition to a positive movement in the fair valuation in the market of interest rate swaps.

Net regular interest costs were £115.7m, compared to £145.2m in 2010, principally due to reduced average debt levels and lower bank margin, as outlined above. Amortisation and deferred fees in the year were £13.4m compared to £14.4m in the prior year. The fair valuation of interest rate financial instruments reduced in the year by £36.9m.

Taxation

The taxation credit for 2011 was £29.1m compared to a charge of £24.4m in 2010. In the year, the current tax credit was £0.3m and the deferred tax credit amounted to £28.8m. The deferred tax credit is principally due to reduction in tax liabilities following the impairment of intangible assets in the year and also the reduction in the deferred tax rate from 27% in 2010 to 25% in 2011.

The corporation tax rate for 2012 is expected to be 25.25% and the deferred tax rate is expected to be 24.0% from April 2012.

Earnings per share

A basic loss per share of 9.6 pence for the year on continuing operations is calculated by dividing the loss attributed to ordinary shareholders of £230.0m (31 December 2010: £4.1m profit) by the weighted number of shares in issue during the period. This compares to earnings per share of 0.2 pence for the year to 31 December 2010.

Adjusted earnings per share for continuing operations was 2.2 pence (31 December 2010: 4.2 pence). Adjusted earnings per share on continuing operations has been calculated by dividing the adjusted earnings (defined as Trading profit less net regular interest payable and notional taxation) attributed to ordinary shareholders of £53.4m (31 December 2010: £99.7m) by the weighted number of ordinary shares in issue during each period. These earnings have been calculated by reflecting tax at a notional rate of 26.5% (31 December 2010: 28.0%).

Cash flow and borrowings

In the year, the net borrowings of the Group decreased from £1,280.0m at 1 January 2011 to £995.1m, a decrease of £284.9m. Of this movement, the cash and non-cash elements were £290.8m and (£5.9m) respectively. The non-cash movement related to amortisation of debt issuance costs.

The cash outflow from operating activities was £29.1m (31 December 2010: inflow of £180.5m). This included cash inflow from continuing operations of £134.6m (31 December 2010: £275.6m) and cash outflow from discontinued operations of £47.9m (31 December 2010: inflow of £37.6m). Additionally, net cash interest paid was £113.4m (31 December 2010: £131.0m) of which £108.3m relates to Ongoing business, reflecting lower average debt and lower bank margin levels. Tax paid in the year was £2.4m (31 December 2010: £1.7m).

Sale of subsidiaries and property, plant and equipment in the year amounted to £400.2m following the completed disposals of the Meat-free and Brookes Avana businesses and the East Anglian canned grocery operations.

Net capital expenditure in the year was £71.9m (31 December 2010: £62.0m), of which £61.7m relates to Ongoing business reflecting the focus on our eight Power Brands, investing in sites for our *Mr. Kipling*, *Ambrosia* and *Hovis* brands.

Repayment of borrowings in 2011 was £363.6m (31 December 2010: £116.2m) reflecting the pay down of term loan debt following disposals completed during the year.

Pension schemes

At 31 December 2011 the Group's pension schemes showed a gross deficit of £282.4m demonstrating a reduction of £38.5m in the year from £320.9m as at 31 December 2010. This comprised a £267.7m deficit in relation to Premier schemes and a deficit of £14.7m in relation to the RHM schemes. The reduction in the RHM scheme deficit reflects a positive movement in the market value of the scheme assets during the year partially offset by an increase in liabilities as a result of a decrease in discount rate from 5.45% to 4.80%. The increase in the valuation of the Premier scheme liabilities is primarily due to the decrease in the discount rate from 5.45% to 4.80%. The discount rate is based on UK corporate AA bond yields.

A UK Government change to the statutory inflation index applied to certain pension scheme liabilities was applied to the Premier Foods pension schemes during the year. This amendment has been made to the Premier Foods pension schemes only in 2011. The effect of this change resulted in a credit of £29.9m reflected in continuing operations Trading profit (£27.4m in Ongoing business Trading profit). The Group and Trustees of the RHM Pension Scheme are currently seeking legal clarification to ascertain the extent to which certain provisions of the RHM Pension Scheme are also affected by the move from RPI to CPI.

In the first half of the year, a credit of £11.4m was taken in Trading profit (Ongoing business £10.0m) following the move from final salary to career average schemes for existing employees.

The Group has been in discussion with one of the Group Pension Schemes relating to the possibility that it may have to recognise some additional liability as a result of alleged failure to adequately equalise retirement ages between 1990 and 1993. During 2011 the Group decided to seek a court ruling. On 20 February 2012 the case was heard in court and on 2 March 2012 the judge ruled in favour of the Group. As a result there is no material additional liability to be recognised and no impact on pension deficit recovery payments relating to this case.

Following the re-financing package concluded with the banking syndicate, swap counterparties and pension schemes, pension deficit contribution payments will be suspended from March 2012 to December 2013 and resume in 2014 in line with the current deficit contribution payment schedule.

Governance



Board of directors and Group Executive	38
Corporate governance report	42
— Risk management	53
— Other statutory information	58
— Shareholder information	61
Directors' remuneration report	64



Board of directors and Group Executive

Board of directors



Ronnie Bell

Non-executive Chairman

Appointed to the Board: October 2010

Skills and experience: Ronnie spent a 30 year career with Kraft Foods Inc, the world's second largest food company. During this time he gained extensive experience in marketing, business development and general and international management. Ronnie assumed his first country general management role, for the UK and Republic of Ireland, in 1990. He then widened his responsibilities geographically to include 16 European countries following his appointment as President of Kraft Foods Europe, a position he held for five years. In this role he was responsible for all the Group's coffee, chocolate and grocery brands in the region.

Board contribution: Ronnie has extensive marketing and sales experience within the UK and international food industry. He is responsible for leading the Board and ensuring it operates in an effective manner. As Chairman he is responsible for setting Board agendas and ensuring sufficient time is available for discussing key strategic issues. He is also responsible for promoting constructive relations between the executive and non-executive directors and ensuring effective communication with shareholders. During the year Ronnie led the process for the appointment of Michael Clarke as the Group's new CEO and also David Wild as a new non-executive director.

Other appointments: Ronnie is currently non-executive Chairman of Milk Link Ltd and non-executive director of Ansell Ltd and The Edrington Group Ltd. He was previously a non-executive director of Northern Foods plc and Gallaher Group plc.

Committee membership: Ronnie chairs the Nomination Committee and is a member of the Finance and Remuneration committees.



Mark Moran

Chief Financial Officer

Appointed to the Board: December 2011

Skills and experience: Prior to joining the Group Mark served as Chief Financial Officer of SSL International plc where he gained extensive experience of working with global brands during his six years including strategic and day-to-day financial management, executive Board responsibilities and investor relations. Prior to this he was Group Finance Director of Porvair plc and also held senior roles at Caradon plc. Mark trained as a Chartered Accountant with Arthur Andersen.

Board contribution: Mark is responsible for overseeing the financial operations of the Group and setting its financial strategy in conjunction with the Finance Committee and the Board. He also oversees the overall framework for financial forecasting, planning, analysis and reporting. Mark's immediate priority since joining has been to focus on the delivery of the new re-financing plan.

Past appointments: Chief Financial Officer of SSL International plc between 2004 and 2010. Non-executive director of Brixton plc between 2008 and 2009.

Committee membership: Mark is a member of the Finance Committee and regularly attends meetings of the other Board committees by invitation.



Michael Clarke

Chief Executive Officer

Appointed to the Board: August 2011

Skills and experience: Prior to joining the Group, Michael served as President of Kraft Foods Europe. In this role he was responsible for managing the group's entire European business, with revenues of \$13 billion, 58 manufacturing sites and 25,000 employees, reporting directly to Kraft's Chairman & CEO. Previously Michael was President of The Coca-Cola Company, Northwest Europe (including the UK) & Nordics and was with the company for 12 years in a number of senior roles. Previous to this, Michael was Vice-President for Reebok South Asia/Pacific and began his early career as a Chartered Accountant in South Africa with Deloitte. He graduated with a degree in Commerce from the University of Cape Town.

Board contribution: Since joining the Company in August Michael's initial priorities have been to agree a new business plan for the Group, undertake a strategic review of the business including identifying potential disposals and to agree a new re-financing plan. Michael has also appointed a new senior management team.

Other appointments: Michael is currently non-executive director of Wolsley plc.

Past appointments: President of Kraft Foods Europe.

Committee membership: Michael is a member of the Finance Committee and regularly attends meetings of the other Board committees by invitation.



Charles Miller Smith

Deputy Chairman and non-executive director

Appointed to the Board: June 2009

Skills and experience: Charles is a senior adviser at Warburg Pincus LLC and prior to this was an International Adviser at Goldman Sachs International from 2001 until 2005. Charles worked with Unilever plc for over 30 years, the last five of which he served as a Director of Finance and then Foods. He held a wide range of financial and general management positions in the UK, the Netherlands and India. Charles was Chief Executive Officer and then Chairman at ICI plc from 1994 to 2001 and served as Chairman of Scottish Power plc between 2000 and 2007.

Board contribution: As Deputy Chairman Charles is responsible for assisting the Chairman in performing his duties and where appropriate deputising in his absence. Charles has extensive commercial experience both as an executive director of a number of multinational companies and also in advising a range of financial organisations.

Other appointments: Charles is a member of the international advisory council for Principal Financial in the USA and also Chairman of Firstsource Solutions UK Ltd.

Committee membership: Charles is a member of the Finance and Nomination committees.



David Beever

Senior Independent Director and non-executive director

Appointed to the Board: January 2008

Skills and experience: After qualifying as a Chartered Engineer, David has spent most of his career in the financial sector. He was a Vice-Chairman of S. G. Warburg where he handled many corporate finance transactions for major UK and International companies. He was later a board member of KPMG and Chairman of Corporate Finance. Earlier he worked for several years at 3i Group plc. He is a non-executive director of Stobart Group Ltd and was previously Chairman of a number of listed and other companies including Volex Group plc and London and Continental Railways plc, builders of the Channel Tunnel Link. He was also a non-executive director of JJB Sports plc and Paragon Group of Companies plc.

Board contribution: David has a wealth of experience within the finance industry and provides advice and counsel to the Board on major strategic financial issues as Chairman of the Finance Committee and a member of the Audit Committee. The main focus over the year has been to review and approve progress in connection with the Group's re-financing plan. As Senior Independent Director he has responsibility for meeting with the other non-executive directors to review the Chairman's performance and is available to shareholders to discuss their concerns.

Other appointments: David is a Member of the Board of Trustees at the University of London.

Committee appointments: David is Chairman of the Finance Committee and also a member of the Audit, Remuneration and Nomination committees.



Louise Makin

Non-executive director

Appointed to the Board: October 2006

Skills and experience: Louise is currently Chief Executive Officer of BTG plc, an international specialist healthcare company. Louise was appointed CEO in October 2004 and has led the turnaround, strategic positioning and growth of the company. Previously, Louise was President of the Biopharmaceuticals Division of Baxter Healthcare Europe, after having joined Baxter in 2000 as Vice-President, Strategy & Business Development Europe. Prior to Baxter, Louise spent 13 years with ICI plc and English China Clay. Louise holds an MA in Natural Sciences, a PhD in Metallurgy from the University of Cambridge, and an MBA.

Board contribution: Louise has significant commercial and management expertise within the Healthcare industry. She chairs the Remuneration Committee which over the year has focused on the significant management changes within the Group and consulted with major shareholders and investor bodies regarding the new Long Term Incentive Plan.

Committee appointments: Louise is Chairman of the Remuneration Committee and a member of the Nomination Committee.

Committee Memberships:

Audit Committee:

Ian McHoul (Chairman),
David Beever,
David Wild

Finance Committee:

David Beever (Chairman),
Ronnie Bell, Michael Clarke,
Ian McHoul, Mark Moran,
Charles Miller Smith



Ian McHoul

Non-executive director

Appointed to the Board: July 2004

Skills and experience: Ian is currently Chief Financial Officer of AMEC plc. Ian's earlier career was spent in the brewing industry where he spent ten years with Courage Ltd and its parent company Foster's Brewing Group in a variety of roles and served as General Manager of Strategy of Foster's Brewing Group and executive director of Strategy and Planning of Courage Ltd from 1992 to 1995. He was Finance and Strategy Director of the Inntrepreneur Pub Company Ltd from 1995 to 1998. Ian then served at Scottish & Newcastle plc between 1998 and 2008, holding the position of Finance Director from 2001. Ian qualified as a Chartered Accountant with KPMG in 1985.

Board contribution: Ian has extensive financial experience and expertise which is utilised by the Board in his capacity as Chairman of the Audit Committee and also as a member of the Finance Committee. The Audit Committee has responsibility for monitoring the integrity of the Group's financial reporting systems, financial controls and the effectiveness of the internal audit function.

Committee appointments: Ian is Chairman of the Audit Committee and also a member of the Finance and Nomination committees.



David Wild

Non-executive director

Appointed to the Board: March 2011

Skills and experience: David joined the Group in March 2011. He is currently Chief Executive Officer of Halfords Group plc and was previously with Walmart where he was Senior Vice-President of New Business Development in San Francisco. Prior to this role, David was President of Walmart Germany. Earlier in his career he was with Tesco plc (1985 to 2003) where he held a variety of roles including developing and latterly leading their business in Central Europe.

Board contribution: David brings over 20 years' retailing experience, gained at two world-leading businesses and the skills and ability to develop growth strategies.

Committee membership: David is a member of the Audit, Remuneration and Nomination committees.

Nomination Committee:

Ronnie Bell (Chairman), David Beever,
Ian McHoul, Louise Makin, Charles
Miller Smith, David Wild

Remuneration Committee:

Louise Makin (Chairman),
David Beever, Ronnie Bell,
David Wild

Board of directors and Group Executive continued

Group Executive

The Group Executive is appointed by the Chief Executive Officer. The Group Executive is responsible for the day-to-day management of the business and implementing the Group's strategy. Over the course of the year, there have been a significant number of changes in membership. Details of the Group Executive are set out below:



Brian Carlton
Group HR Director

Skills and experience: Brian joined the business in 1994 as Head of Personnel for the Canned Foods division. His responsibilities have since been extended to embrace all HR activities across the Group. He was appointed to the Group Executive in October 2006. Prior to joining Premier Foods, Brian held HR and Operational roles in Chrysler UK, K Shoes, Metal Box and Smurfit Packaging.

Key responsibilities: These include leadership development, talent management, remuneration, resourcing and employee relations management across the business.



Ian Deste
Group Sales Director

Skills and experience: Ian joined Premier Foods in September 2011 as Group Sales Director. He previously spent 20 years with Coca-Cola Enterprises Ltd (CCE), including nine years as a member of the GB board. Most recently, Ian held the position of Vice-President, Sales and Customer Development, prior to which he held other senior positions in sales, marketing and communications at CCE. In his early career, he worked in the beer and tobacco industries.

Key responsibilities: These include developing strategy, tactics, sales plans and profit targets; identifying and reporting on business opportunities in target markets; and working towards achieving targets for revenue, profitability and sales growth.



Dean Holroyd
Group Technical and Innovation Director

Skills and experience: Dean was appointed Group Technical and Innovation Director in July 2011. Prior to this Dean was Hovis Supply Chain Director and joined Premier Foods following the acquisition of RHM in 2007. Dean joined the RHM Group in 1997 and served the first seven years as Managing Director initially at Ledbury Preserves before moving on to Le Pain Croustillant. Prior to this Dean worked in a number of commercial and operational roles with Associated British Foods plc, Manor Bakeries and Northern Foods plc.

Key responsibilities: These include setting the strategy to develop and deliver a strong innovation pipeline; ensuring product design, systems and processes deliver consumer preferred product quality in our chosen areas; and ensuring that all Premier Foods products comply with the highest standards of food safety and legislation.



Mark Hughes
Group Procurement Director

Skills and experience: Mark joined Premier Foods and the Group Executive in 2007 following the acquisition of RHM. Mark joined RHM in 2003 as Divisional Services Director (Bread Bakeries) and became a member of the Bread Bakeries Division Executive in 2004, and was Group Procurement and Logistics Director and a member of the Group Executive of RHM in 2006. Mark was previously director at Archer Daniels Midland Milling (UK) and has held a number of senior positions with Associated British Foods plc.

Key responsibilities: Control and risk management of c.£1.5bn of spend on ingredients, packaging, energy, machinery, facilities, engineering, marketing and all corporate spend. Responsibilities include ensuring the Group remains competitive and well placed within a changing market through the provision of innovative procurement processes, policies, stakeholder engagement and external supplier relationship management.



Richard Johnson
Group Corporate Affairs Director

Skills and experience: Richard joined Premier Foods in October 2011 as Group Corporate Affairs Director. Previously, Richard was Corporate Affairs Director for Kraft Foods Europe based at the company's headquarters in Switzerland. He also held senior corporate affairs roles at Kraft Foods in the UK, Belgium and the US and, for a time was Vice-President Corporate Affairs for McDonald's Europe.

Key responsibilities: These include leading the Group's internal and external communications, public affairs, sustainability and community relations activities.



Andrew McDonald
General Counsel and Company Secretary

Skills and experience: Andrew joined the Company in November 2011 as General Counsel and Company Secretary. Prior to this he held the same position at Uniq plc, recently acquired by the Greencore Group. Andrew is a qualified solicitor and worked as a corporate lawyer at Freshfields Bruckhaus Deringer before moving into industry. He is a law graduate of Manchester University.

Key responsibilities: Andrew has responsibility for the legal, company secretarial and internal audit functions and is actively involved in key operational issues facing the business. He is on the steering group of all corporate and strategic projects pursued by the Group. He chairs the risk review group and policy steering group. He also supports the Chairman with the management of the Board to ensure it fulfils its corporate governance obligations.



Bob Spooner

Group Supply Chain Director

Skills and experience: Bob joined Premier Foods as Group Operations Director in April 2007. In October 2011 Bob was appointed Group Supply Chain Director with responsibility for the Group's combined Operations, Technical and Procurement functions. Before joining, Bob was Group Supply Director for Northern Foods plc and Managing Director of Northern Foods' Pastry Products business and prior to that held senior operational and supply chain roles with ICI Paints, and Sara Lee.

Key responsibilities: These include leading and implementing the Group's manufacturing, logistics, procurement, technical and innovation strategy across the businesses.



Mark Vickery

Group IS & Change Director

Skills and experience: Mark joined the Group in early 2005 as Director of IS & Change Management. Following the acquisition of RHM he assumed the role of Group IS & Change Director. Mark started his career at Unilever plc where he spent 17 years working in a number of businesses and geographies. He then moved to United Biscuits as IS Director prior to joining Premier Foods.

Key responsibilities: These include managing the Information Services function and delivering major system and change programmes into the business.



Iwan Williams

Managing Director

Skills and experience: Iwan joined Premier Foods in November 2011 as Managing Director. Iwan has a wealth of general management and marketing experience gained through previous roles including President of McCormicks Europe, Middle East and Africa and Strategic Marketing Director of Coca-Cola, Asia Pacific. His earlier career included time with S.C. Johnson Wax and Cadbury Schweppes.

Key responsibilities: These include responsibility for the day-to-day operations of the Group's Grocery and Bakery businesses.

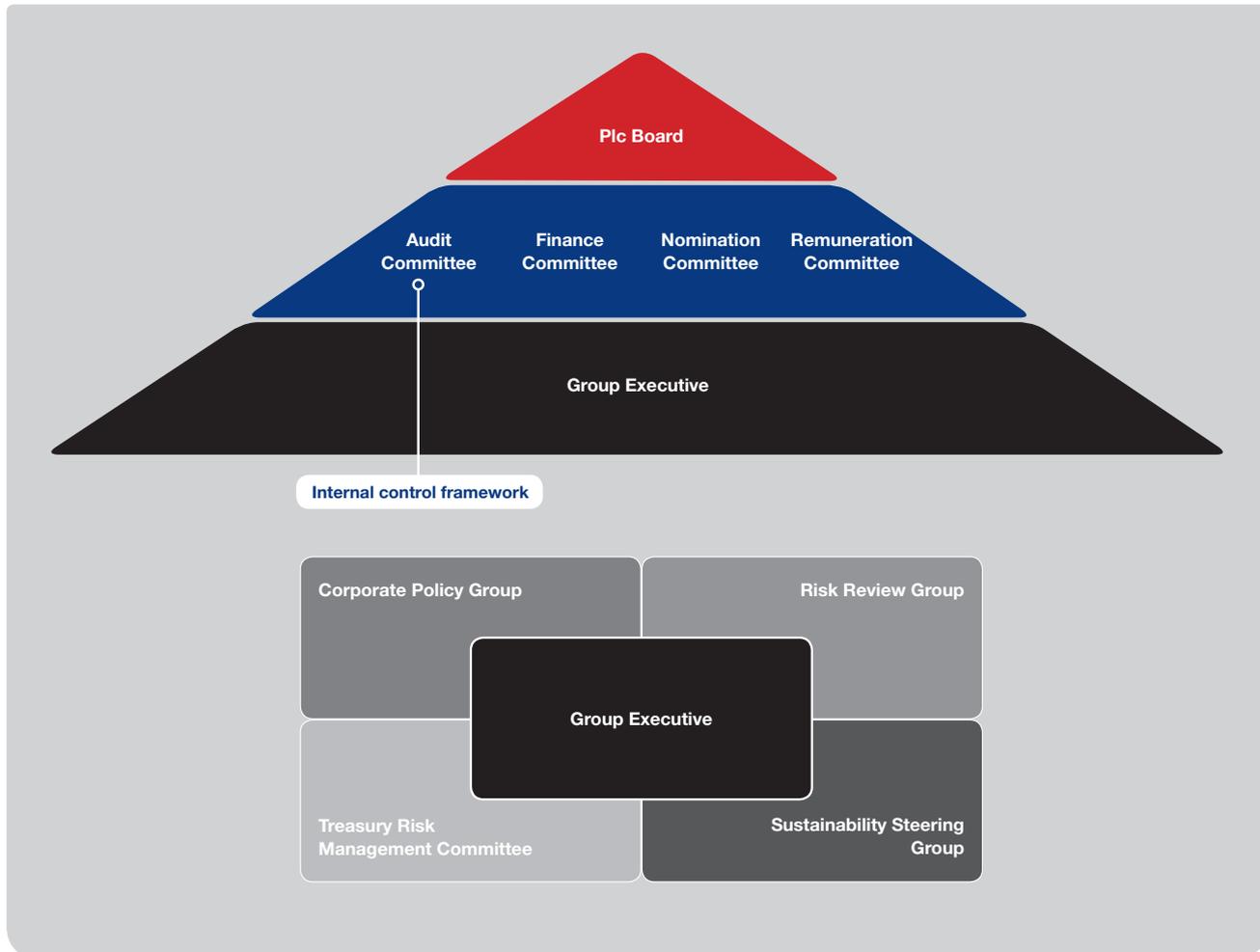
Corporate governance report

Contents

Corporate governance framework	43	Remuneration	
Leadership		Remuneration Committee	53
Board skills and experience	38–39 & 43	<i>(including its terms of reference, further details are set out in the remuneration report on pages 64 to 76)</i>	
Board tenure	43 & 46	Accountability	
Board membership	38–39 & 44	Risk management	53–56
Board biographies	38–39 & 44	Internal control	53–54
Director conflicts of interest	44	Risk register	54
Warburg Pincus Relationship Agreement	44 & 58	Risk radar	54
Role of the Board, Chairman, CEO and SID	45	Key risk factors	55–56
Allocation of Board meeting time	45	Relations with shareholders	
Bribery Act & Anti-Corruption Policy	45	Shareholder engagement	57
Gender diversity — Board	46	Board — shareholder updates	57
Gender diversity — Group-wide	46	Other statutory information	58–60
Non-executive director tenure	46	Employees	58
Independent professional advice	46	Profit and dividends	58
Effectiveness		Research and development	58
Board evaluation and 2011 outcomes	47	Significant agreements	58
Attendance — Board and committee meetings	48	Business disposals	58
Director site visits	48	Charitable and political donations	59
Management committees	49	Going concern	59
Audit Committee	49–50	Supplier payment policy	59
<i>(including membership and meeting attendance, the Committee's role and its terms of reference, auditors and non-audit services and key discussions during the year)</i>		Directors' responsibility statement	59
Finance Committee	51	Auditors	60
<i>(including membership and meeting attendance, the Committee's role and its terms of reference, and key discussions during the year)</i>		Shareholder information	61–63
Nomination Committee	51–52	Share capital information	61
<i>(including membership and meeting attendance, the Committee's role and its terms of reference and key discussions during the year)</i>		Substantial shareholdings	61
Succession planning	52	Shareholder FAQs	62
Director Induction Programme	52	Correspondence with shareholders in 2011	62–63
		2012 Annual General Meeting	63
		Key shareholder contacts	63

Overview of our corporate governance framework

This report sets out our approach to corporate governance and our commitment to work towards best practice recognising our position as one of the largest manufacturers in the UK food industry. Corporate governance continues to evolve and we will continue to monitor our procedures to respond to new issues and strive for best practice. We believe in transparency in governance and in maintaining the highest ethical standards in all our business dealings. During 2011 the Company complied with all the provisions of the UK Corporate Governance Code (the "Code"). The Code is available on the Financial Reporting Council's website.

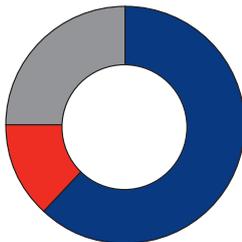


For further details of the role of the committees above see pages 49 to 52 and 66.

LEADERSHIP

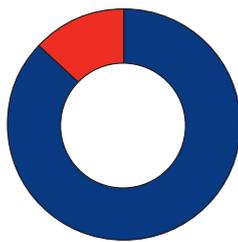
Our Board structure

Executive/non-executive director split



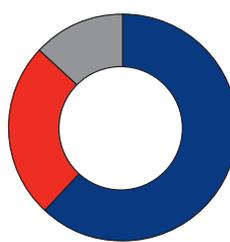
- Non-executive directors 62%
- Chairman 13%
- Executive directors 25%

Boardroom gender diversity



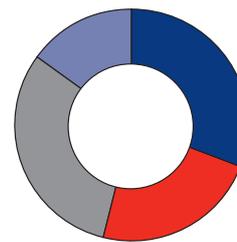
- Male 87%
- Female 13%

Length of Board tenure (including executive directors)



- 0-3 years 62%
- 4-6 years 25%
- 7-9 years 13%

Board skills and experience



- Branded retail industry 31%
- Finance 23%
- Retail sector 31%
- Marketing & sales 15%

Corporate governance report continued

Below is a table summarising the directors during the year and committee membership:

	Designation	Audit Committee	Finance Committee	Nomination Committee	Remuneration Committee
Current directors					
Michael Clarke	Chief Executive Officer		x		
Mark Moran	Chief Financial Officer		x		
Ronnie Bell	Non-executive Chairman		x	x	x
Charles Miller Smith	Non-executive Deputy Chairman		x	x	
David Beever	Senior Independent Director	x	x	x	x
Ian McHoul	Independent non-executive director	x	x	x	
Louise Makin	Independent non-executive director			x	x
David Wild	Independent non-executive director	x		x	x
Past directors					
Robert Schofield	Chief Executive Officer				
Jim Smart	Chief Financial Officer				
Tim Kelly	Chief Operating Officer				
David Felwick	Senior Independent Director				

Q. Who is on the Board and who are the Group Executive?

A. Biographies of the current directors and members of the Group Executive are provided on pages 38 to 41. Biographies of the Board are also included in the Notice of AGM to aid shareholder election/re-election decision making.

Q. What changes have been made to the Board during the year?

A. In 2011 the following Board changes took place:

- Michael Clarke was appointed CEO on 16 August 2011 and Robert Schofield retired from the Board on 13 September 2011;
- Mark Moran was appointed as CFO on 8 December 2011 and Jim Smart resigned;
- Tim Kelly resigned as COO on 25 November 2011;
- David Wild was appointed as a non-executive director on 7 March 2011;
- David Felwick resigned as a non-executive director on 28 April 2011; and
- David Beever was appointed as Senior Independent Director on 28 April 2011 following David Felwick's resignation.

Q. What is the role of the non-executive directors?

A. The independence, external experience and challenge non-executive directors bring to the Board is essential to its effective operation. The current non-executive directors bring extensive and broad ranging experience as highlighted in the biographies on pages 38 to 39. The Board considers that the non-executive directors, with the exception of Charles Miller Smith (as noted below in conflicts of interest), are independent in character and judgement.

Q. Is the Board able to appoint additional directors?

A. The Board has the power to appoint one or more directors. Under the Articles any such director shall hold office until the next AGM when they shall be eligible for election. With the exception of Charles Miller Smith (as noted below in conflicts of interest), an ordinary resolution of the shareholders is sufficient to appoint or remove a director.

Q. How does the Board comply with the requirements of the Code?

A. During 2011 the Company complied with all aspects of the Code. The Company is also compliant with the Walker Review recommendations for the annual election/re-election of directors which will take place at the 2012 AGM. Details of the executive director/non-executive director split can be found on page 43.

Q. Do any of the directors have conflicts of interest?

A. The Company has procedures for managing conflicts of interest in place and directors have continuing obligations to update the Board on any changes to these conflicts. This process includes relevant disclosure at the beginning of each Board meeting and also the Company's annual formal review of potential conflict situations which includes the use of a questionnaire.

Under the terms of the Relationship Agreement between the Company and Warburg Pincus, Charles Miller Smith, a senior adviser to Warburg Pincus, was appointed to the Board. Under the agreement, Warburg Pincus (with the agreement of the Company) may appoint to the Board a director so long as they retain a minimum interest of 239,802,158 shares in the Company.

Ronnie Bell is also Chairman of Milk Link Ltd, a supplier of milk to the Group. The Board reviewed this relationship on his appointment and was satisfied that it does not impact on his independence. Ronnie will absent himself from any discussions regarding Milk Link at Board meetings.

Save as disclosed above, no director had a material interest at any time in any contract of significance with the Company or Group other than his/her service contract.

Q. What are the roles and responsibilities of the Board and its key members?

A.

<p>The Board:</p> <p>The Board has an agreed schedule of matters reserved which include:</p> <ul style="list-style-type: none"> • Setting long-term strategic and commercial objectives; • Approving annual operating and capital budgets; • Reviewing business performance; • Overseeing the Group’s internal control systems; and • Ensuring appropriate resources are in place to enable the Group to meet its objectives. <p>The Board delegates to the Group Executive responsibility for overseeing the implementation of the Group’s policies and strategy.</p>	<p>The Chairman:</p> <p>The Chairman’s responsibilities are primarily the leadership of the Board and ensuring its effectiveness. This is achieved by:</p> <ul style="list-style-type: none"> • Chairing Board meetings; setting the agendas in consultation with the CEO and General Counsel and Company Secretary; and encouraging directors’ active participation in Board discussions; • Leading the performance evaluation of the Board, its committees and individual directors; • Promoting the highest standards of corporate governance including compliance with the Code wherever possible; • Ensuring timely and accurate distribution of information to the directors and effective communication with shareholders; • Establishing an effective working relationship with the CEO by providing support and advice whilst respecting executive responsibility; and • Periodically holding meetings with the non-executive directors without the executive directors present.
<p>The Deputy Chairman:</p> <p>The Deputy Chairman is responsible for:</p> <ul style="list-style-type: none"> • Supporting the Chairman in discharging his duties; and • Where appropriate deputising for the Chairman in his absence. 	
<p>The Chief Executive Officer:</p> <p>The CEO is responsible for:</p> <ul style="list-style-type: none"> • The executive management of the Group; and • Ensuring the implementation of Board strategy and policy within the approved budgets and timescales. <p>The CEO is assisted in meeting his responsibilities by the CFO and the Group Executive (who head up the Group’s principal operations and functions).</p>	<p>The Senior Independent Director:</p> <p>The SID is responsible for:</p> <ul style="list-style-type: none"> • Supporting the Chairman and leading the non-executive directors in the oversight of the Chairman and CEO. <p>The SID’s specific responsibility is to be available to shareholders if they have concerns which the normal channels have failed to resolve or where such contact is inappropriate.</p>

Q. What are the directors paid?

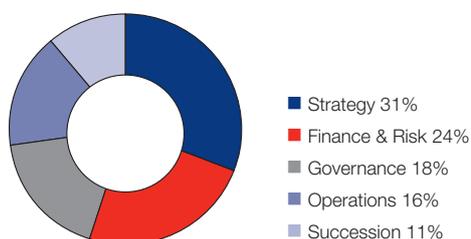
A. Details of the directors’ service contracts, letters of appointment, emoluments, personal interests and beneficial interests in Company shares and share options are found in the remuneration report on pages 73 to 75.

Q. Does the Company maintain directors’ and officers’ liability insurance?

A. Yes, this insurance covers the directors and officers against the costs of defending themselves in civil proceedings taken against them in their capacity as a director or officer of the Company and in respect of damages resulting from the unsuccessful defence of any proceedings.

Q. How does the Board allocate its time?

A. Below is a chart which summarises the approximate time the Board has spent discussing agenda items at scheduled Board meetings during the year to 31 December 2011:



Governance Focus: UK Bribery Act 2010

Q. How has compliance with the UK Bribery Act 2010 been dealt with by the Group?

A. During 2011 we undertook a full scale review of practices to ensure compliance with the Bribery Act 2010. Before its implementation the Board was presented with a paper from the General Counsel and Company Secretary on the possible impact this legislation may have on the Group. It was agreed that an Anti-Corruption Policy would be introduced and an employee training programme rolled out.

The Corporate Policy Group approved the policy and with the support of the Board and members of the Group Executive, management were trained and asked to disseminate this information to their teams. Employees were communicated with by our internal intranet site *PremierNet* and subsequently asked to confirm their acceptance of the policy when logging onto their computers. Additionally, departments with a high level of risk received bespoke face-to-face training.

Corporate governance report continued

Q. What commitment has the Company made to diversity and inclusion at Board level?

A. The Board announced via the Group's website its intention to adopt as policy an aim to have at least two female Board directors by 2015. The Board believes in the importance of diversity (in its widest sense) and the benefits that it can bring to the operation of an effective Board. This is taken into account whenever a new appointment is undertaken with the aim to have individuals with a broad range of skills, backgrounds and experience reflecting both the type of industry and the geographical locations in which we operate.

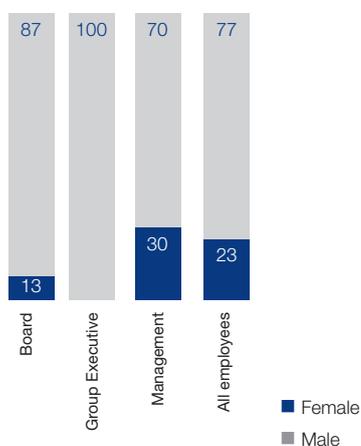
Go online

www.premierfoods.co.uk/about-us/corporate-governance/gender-diversity.cfm

Q. How are we driving the diversity agenda below Board level?

A. We believe there are further opportunities to drive gender diversity at levels below the Board, both within the organisation as a whole and particularly within senior management. We intend to focus on understanding how best to develop and retain women through all levels of the organisation and to identify and understand where potential blocks exist. Below is a graph illustrating gender diversity across the Group.

% Female workforce as at 31 December 2011 at Premier Foods



Q. How does the Board keep up-to-date on key governance issues?

A. The Board believes that keeping up-to-date with developments in corporate governance is important and therefore a standing item on the Board agenda is corporate governance. The General Counsel and Company Secretary prepares a Board paper each meeting and presents updates on recent legal, regulatory and governance issues including relevant case law. During the year this has included updates on: BIS's Future of Narrative Reporting and Executive Remuneration; FRC's Effective Company Stewardship; Lord Davies Report — Women on Boards; and the Bribery Act 2010.

EFFECTIVENESS

Q. What is the mix between executive and non-executive directors on the Board?

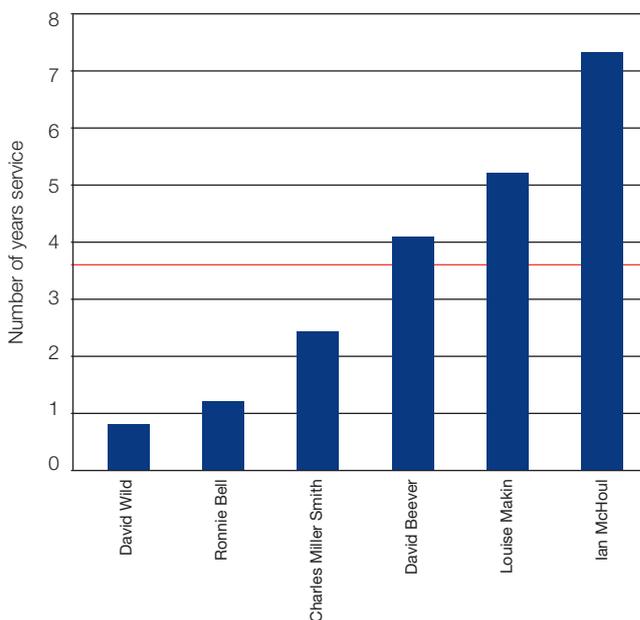
A. The directors believe that there should be an appropriate combination of executive and non-executive directors on the Board. The Company complies with the Code which states that at least half the Board (excluding the Chairman) should comprise of non-executive directors. The current mix of directors is shown on page 43.

Q. Does the Chairman meet with the non-executive directors in the absence of the executive directors?

A. Yes, this is one of the Chairman's responsibilities and is essential to maintain good corporate governance.

Q. What is the average length of time directors are appointed to the Board?

A. The Board believes it is important to maintain an appropriate balance between length of service, to ensure independent judgement, and an appropriate level of experience and skill. The Board regularly undertakes a review of succession plans for both executive and non-executive directors. The length of service of the current non-executive directors is shown in the graph below against the average length of service, which currently stands at three years seven months.



Details of all directors' appointment terms are set out on page 72.

Q. Does the Company offer the directors access to independent professional advice?

A. Yes, procedures are in place which allow directors to take independent professional advice in the course of their duties. In addition, all directors have access to the advice and services of the General Counsel and Company Secretary. If any director were to have a concern over any unresolved business issue following professional advice, they are entitled to require the General Counsel and Company Secretary to minute that concern. Should they later resign over a concern non-executive directors are asked to provide a written statement to the Chairman for circulation to the Board.

Governance Focus: Board and Individual Performance Reviews

Q. How do we make sure our Board and its committees are effective?

A. Annually a Board performance review is carried out which measures its performance and that of its committees. Alongside this review each director receives an appraisal. Appraisals are conducted by the Chairman for the CEO and by the Senior Independent Director (following discussions with the other non-executive directors) for the Chairman.

The Board has for many years maintained a policy to conduct an external Board evaluation every three years. The last independent external review was conducted in 2009 by Boardroom Review.

In 2010 a questionnaire was used for the review, however, it was agreed that in 2011 face-to-face interviews would be undertaken by the General Counsel and Company Secretary to allow more open communications. The Board evaluation was completed and feedback from the evaluation was provided in the form of a written report to the Board in December 2011, which was then debated and actions agreed.

Q. What did the 2011 Board evaluation cover?

A. Key areas for the review were agreed with the Chairman at the outset and covered eight categories:

- Strategy;
- Risk management;
- Committees;
- Board culture;
- Performance;
- Board process, information and support;
- Chairman; and
- Director development.

Q. What were the outcomes of the 2011 evaluation?

A. Board members are very supportive of the need to be transparent and are committed to good corporate governance. As a result of the review an action plan was implemented which is set out below:

Action plan for 2012 resulting from the Board effectiveness review

Strategy	<ul style="list-style-type: none"> • Deepen knowledge with additional quarterly half-day strategy reviews prior to scheduled Board meetings with a particular focus on the external environment.
Performance – Management & NED interaction	<ul style="list-style-type: none"> • Strengthen contact between NEDs and management by inviting management to attend and present at all Board meetings.
Performance – Information to NEDs	<ul style="list-style-type: none"> • Increase the number of site visits during 2012. • Enhance flow of information from management by resuming monthly in-depth brand and customer reviews.
Board process, information and support	<ul style="list-style-type: none"> • Continue to develop Board portal to ensure timely, cost-effective provision of Board materials. • Management to review the optimum level of detail in presentations and papers to the Board.
Committees	<ul style="list-style-type: none"> • Finance Committee – Review the need for this committee post completion of re-financing. • Nomination Committee – Talent development and management succession planning. • Nomination Committee – Consider 2015 diversity target with all Board appointments.

Corporate governance report continued

Q. How frequently did the Board and committees meet in 2011?

A. The Board held 10 scheduled meetings in the year and in addition six meetings were convened for specific business. In addition to the scheduled committee meetings detailed in the table below an additional two finance committee meetings, an audit committee meeting and a nomination committee meeting were held.

Meetings are usually held at the Company's head office in St Albans; however, twice a year the Board visits the Group's sites to see the business in action and hold their meetings. Details of the attendance at scheduled Board and committee meetings are set out below:

	Group Board (10)	Audit Committee (4)	Finance Committee (3)	Nomination Committee (2)	Remuneration Committee (4)
Current directors					
Michael Clarke ¹	3(3)	1 ⁵	—	1 ⁵	1 ⁵
Mark Moran ²	1(1)	1 ⁵	—	—	—
Ronnie Bell	10	4 ⁵	3	2	4
Charles Miller Smith	9	4 ⁵	3	2	4 ⁵
David Beever	9	3	3	2	3
Ian McHoul	10	4	2	2	3 ⁵
Louise Makin	10	4 ⁵	—	2	4
David Wild ³	9(9)	3(3)	—	1(1)	3(3)
Past directors					
Robert Schofield ¹	7(7)	3 ⁵	2	1 ⁵	2 ⁵
Jim Smart ²	10	4 ⁵	3	—	1 ⁵
Tim Kelly ²	9(9)	3 ⁵	1(1)	—	—
David Felwick ⁴	3(3)	1 ⁵	1 ⁵	1(1)	2(2)

¹ Michael Clarke was appointed CEO on 16 August 2011 and Robert Schofield retired as a director on 13 September 2011.

² Mark Moran was appointed as CFO on 8 December 2011 and Jim Smart resigned, Tim Kelly resigned on 25 November 2011.

³ Appointed as a director on 7 March 2011.

⁴ Retired as a director on 28 April 2011.

⁵ Attendance by invitation.

Figures in brackets indicate the maximum number of meetings that could have been attended by that director. David Beever missed one Board meeting and two committee meetings, which were held on the same day, owing to a prior work commitment known to the Board in advance. Ian McHoul missed one committee meeting due to the rescheduling of a meeting by the Company and Charles Miller Smith missed one Board meeting due to a prior work commitment known to the Board in advance.

Q. How does the Board keep up-to-date with business developments?

A. The Board:

- Meets regularly with the Group Executive;
- Receives extensive business presentations; and
- Conducts an annual strategy review.

As detailed above each year two site visits are arranged for the Board to meet with senior operational management and to undertake a site visit before its planned Board meetings. Due to director changes during the year the Board only completed one visit to the Bury St Edmunds' site where *Loyd Grossman*, *Branston* and *Haywards* products are manufactured.

Q. What committees does the Board have?

A. The Board has four committees which assist in the discharge of its responsibilities:

- Audit Committee;
- Finance Committee;
- Nomination Committee; and
- Remuneration Committee.

Q. Does the Group have any other committees?

A. Michael Clarke is assisted by the work of the Group Executive and its subcommittees. Together these form part of the Company’s corporate governance framework, but are not formally appointed committees of the Board.

- **Group Executive** — Responsible under the leadership of Michael Clarke for the day-to-day management of the business, setting performance targets and implementing the Group’s strategy and direction as determined by the Board. Members of the Committee include Michael Clarke, Mark Moran and members of the Group Executive.

Other management committees

- **Corporate Policy Group** — Responsible for the effective implementation of policies taking into account changes in regulations and other business risks. Members of the committee include members of the Group Executive and senior operational management.
- **Sustainability Steering Group** — Responsible for providing direction to, and oversight of, the implementation of the Group’s sustainability programme which is built around the four core themes of Marketplace, Environment, Workplace and Community. Its objective is to identify and mitigate, both environmental and social risks in order to protect and enhance the Group’s reputation and build trust amongst its many stakeholders. Members of the committee include the CEO, members of the Group Executive, and senior operational management.
- **Risk Review Group** — Responsible for sponsoring and driving effective risk management throughout the business and making recommendations to the Audit Committee as appropriate; monitoring and reporting on all material business risks which might impact the delivery of the Group’s strategic goals and objectives; and agreeing with management appropriate mitigating actions. Members of the committee include the CFO, members of the Group Executive and senior operational management.
- **Treasury Risk Management Committee** — Responsible for the oversight of designated material foreign currency and commodity exposures and agreeing with senior management appropriate mitigating actions. Members of the committee include members of the Group Executive and senior operational management.



AUDIT COMMITTEE

The Committee has responsibility for reviewing the effectiveness of the Group’s financial reporting systems and the internal control policies and procedures for the identification, assessment and reporting of risk. The Committee also keeps under review the relationship with the external auditors, including the terms of their engagement and fees, their independence and expertise, resources and qualification, and the effectiveness of the audit process.

The Committee’s terms of reference are available on the Group’s website:



Q. Who is on the Committee?

A.

Committee member	Position	Comments
Ian McHoul	Chairman	Independent NED
David Beever	Member	SID
David Wild	Member	Independent NED

Both Ian McHoul and David Beever have recent and relevant financial experience, Ian McHoul as the CFO of Amec plc and David Beever as a member of the KPMG Advisory Board.

Q. How many meetings were held during the year?

A. The Committee held four scheduled meetings in the year and in addition one meeting was convened for specific business. The Committee met with the internal and external auditors on four occasions in the year without the presence of management. Attendance at the scheduled meetings is shown in the table on page 48.

Q. What is the role of the Committee?

- A.** The Committee has been delegated authority by the Board to:
- Monitor financial reporting, including the annual and interim reports, preliminary results announcements and formal announcements relating to financial performance and reporting;
 - Ensure the effectiveness of the Group’s internal controls and risk management systems;
 - Review and update the whistleblowing arrangements;
 - Monitor and review the effectiveness of the Group’s internal audit function, including the approval of any appointment or removal of the head of the internal audit and risk function;

Corporate governance report continued

- Consider and make recommendations to the Board on the appointment, reappointment and removal of external auditors including the setting of their remuneration;
- Review the external auditors' independence and objectivity and the effectiveness of the audit processes; and
- Develop and implement a policy on the engagement of the external auditors to supply non-audit services and report to the Board matters identified where action or improvement is required.

Q. Who are the Group's auditors?

A. Since the Company was listed on the London Stock Exchange in July 2004 PricewaterhouseCoopers LLP ("PwC") have been the Group's auditors. Annually the Committee reviews the relationship the Group has with PwC and for the year ended 31 December 2011 the Committee was satisfied with the independence, objectivity and effectiveness of the relationship with the external auditor. Accordingly, the Committee does not consider it necessary to require PwC to tender for the Group's audit work.

The external auditors are required to rotate the audit partners responsible for the Group and subsidiary audits every five years with the next rotation occurring in 2012. There are no contractual obligations restricting the Group's choice of external auditors. At the 2012 AGM the re-election of PwC as the Group's auditors will be proposed to shareholders.

Q. What non-audit services were provided by the Group's auditors during the year?

A. There is an established policy governing the engagement of PwC for non-audit services designed to ensure that any services provided do not impair the objectivity of the external auditors. The policy includes a fee limit for the provision of non-audit services, above which a formal tender process must normally be undertaken. During the year PwC was engaged to advise on the Group's financing arrangements, in particular reviewing and assessing the Group's strategy, operations and performance forecasts for the purposes of the Group re-financing. Fees incurred in relation to this work were £2.1m.

Before commissioning PwC to undertake this work the Committee reviewed the proposal in detail with both management and PwC to assess any potential threat to their independence. The Committee is aware of, and sensitive to, investor body guidelines on non-audit fees. However, given the nature of work required in connection with the re-financing of the Group in 2011/2012 it was assessed that PwC were best placed to perform these additional services in view of their knowledge of the business, the time constraints in completing the work and the likely cost.

Following the unanimous consent from the Group's banking syndicate, swap counterparties and pension schemes to the terms of a re-financing package, which is expected to be signed by the end of March 2012, the Committee expects that the level of non-audit fees will be significantly lower going forward.

Q. What key issues did the Committee discuss during the year?

A. During the year the Committee:

- Received regular reports from the internal audit function, ensured it was adequately resourced, monitored its activities and effectiveness, and agreed the annual audit plan;
- Conducted a review of the effectiveness of the internal audit function including Internal Control Self Assessments;
- Conducted an internal review of the Group's external auditors which included a review of the auditors' independence, objectivity and the effectiveness of the audit process;
- Considered the external auditors' report for the year ended 31 December 2010 and recommended the reappointment of the external auditors;
- Considered the impact of key accounting issues, which included the impact on accounting for changes in the Group's pension scheme;
- Reviewed the non-audit services spend policy and approved the engagement of PwC as an adviser in relation to certain internal projects;
- Rolled out the new Anti-Corruption policy and Group-wide awareness programme;
- Approved the Group's risk management policy and key business risks; and
- Received updates on the Group's whistleblowing arrangements.

Ian McHoul

Chairman of the Audit Committee



FINANCE COMMITTEE

The Committee is responsible for reviewing the Group's financial strategy, approving any changes to this strategy and overseeing the Group's treasury operations and policies including the use of financial instruments such as interest rate swaps. The Committee also reviews the investment strategy and performance of the Group's pension schemes.

The Committee's terms of reference are available on the Group's website:

Go online
www.premierfoods.co.uk/about-us/corporate-governance/board-committees.cfm

Q. Who is on the Committee?

A.

Committee member	Position	Comments
David Beever	Chairman	SID
Michael Clarke	Member	CEO
Mark Moran	Member	CFO
Ronnie Bell	Member	Chairman (NED)
Charles Miller Smith	Member	Deputy Chairman (NED)
Ian McHoul	Member	Independent NED
Paul Leach	Member	Group Treasurer

Q. How many meetings were held during the year?

A. The Committee held three scheduled meetings in the year and in addition two meetings were convened for specific business. Attendance at the meetings is shown in the table on page 48.

Q. What is the role of the Committee?

- A.** The Committee has been delegated authority by the Board to:
- Review and make recommendations to the Board on matters relating to the Group's capital structure, financing and pensions strategy;
 - Oversee the governance and activities of the Treasury Risk Management Committee;
 - Review the investment strategy and funding levels of the Group's pension schemes in order to reduce risk;
 - Review the Group's financial policy and strategy; and
 - Monitor the Group's liquidity, covenant and going concern positions.

Q. What key issues did the Committee discuss during the year?

A. During the year the Committee:

- Reviewed the Group's financial strategy including the Group's swap arrangements and sources of funding;
- Reviewed and recommended a new re-financing structure for approval by the Board;
- Reviewed the investments strategy of the Group's pension schemes in order to reduce risk;
- Approved amendments to the Group's Treasury Policy;
- Reviewed the Group's directors' and officers' insurance cover; and
- Conducted a comprehensive review of corporate advisers.

David Beever

Chairman of the Finance Committee



NOMINATION COMMITTEE

The Committee is responsible for considering the size, structure and composition of the Board, retirement and appointment of additional and replacement directors and making appropriate recommendations so as to maintain an appropriate balance of skills and experience on the Board.

The Committee's terms of reference are available on the Group's website:

Go online
www.premierfoods.co.uk/about-us/corporate-governance/board-committees.cfm

Q. Who is on the Committee?

A.

Committee member	Position	Comments
Ronnie Bell	Chairman	Chairman (NED)
Charles Miller Smith	Member	Deputy Chairman (NED)
David Beever	Member	SID
Ian McHoul	Member	Independent NED
Louise Makin	Member	Independent NED
David Wild	Member	Independent NED

Corporate governance report continued

Q. How many meetings were held during the year?

A. The Committee held two scheduled meetings in the year and additionally was convened on a further occasion for specific business. Attendance at the meetings is shown in the table on page 48.

Q. What is the role of the Committee?

A The Committee has been delegated authority by the Board to:

- Lead the formal, rigorous and transparent process for Board appointments including a review of the skills, experience and knowledge of the existing directors to ensure any potential shortlisted candidates will benefit the balance of the Board;
- Give full consideration to succession planning taking into account the challenges and opportunities facing the Group and what skills and expertise would benefit the Board in the future;
- Regularly review the structure, size and composition (including independence and knowledge) of the Board and make recommendations to the Board regarding changes; and
- Agree the job specification for the Chairman, including an assessment of the time commitment expected, recognising the need for availability in the event of a crisis.

Q. What key issues did the Committee discuss during the year?

A. During the year the Committee:

- Undertook an extensive recruitment process and recommended the appointment of a new CEO using an external search agency;
- Recommended the approval of Mark Moran as CFO;
- Recommended the appointment of David Wild as a non-executive director;
- Undertook an annual review of the composition and expertise of the Board;
- Recommended the directors for reappointment at the 2011 AGM; and
- Reviewed performance appraisals for members of the Group Executive.

Q. What processes are in place for succession planning?

A. The Committee reviews the succession requirements of the Board (including the need for diversity) on an annual basis and makes recommendations to the Board as appropriate.

Ronnie Bell

Chairman of the Nomination Committee

Governance Focus: **Director Induction Programme**

Q. Does the Company have a director induction programme?

A. Yes, all directors receive a tailored induction on joining the Board covering their duties and responsibilities as directors. Non-executive directors also receive a full briefing document on all areas of the Group's business and they may request further information as they consider necessary. A typical non-executive director induction would include:

Stage one	Matters covered
Provision of documents	Duties of a director, Board procedures, corporate governance including provision of an ICSA compliant governance manual.
Stage two	Matters covered
Meeting with CEO & CFO	Business overview, current trading, key commercial issues.
Meetings with non-executive directors	Open discussion forums.
Meeting with General Counsel and Company Secretary	Board process and governance issues/updates, key legal, risk and internal audit matters.
Meetings with each of the Group Executive	Commercial issues and projects as applicable for Operations, Sales, Supply Chain, Corporate Affairs, HR, Procurement, Marketing, Technology and Innovation, and ISC.
Meeting with Investor Relations	Investor relations matters and any updates.
Meeting with Treasury	Treasury and insurance matters and any updates.
Stage three	Matters covered
Site visits	Understanding of the business and operations.

REMUNERATION



REMUNERATION COMMITTEE

The Committee is responsible for determining and agreeing the overall remuneration strategy for executive directors and senior management, determining the individual remuneration packages for the Chairman, executive directors, General Counsel and Company Secretary and senior management and approving the design of all share incentive plans.

The Committee's terms of reference are available on the Group's website:



Further details on the Remuneration Committee including a list of its members can be found in the directors' remuneration report on pages 64 to 76.

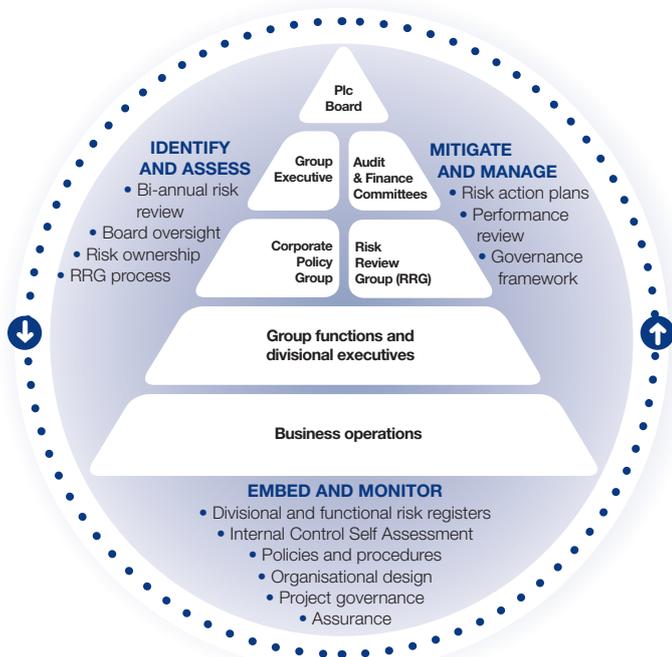
Louise Makin

Chairman of the Remuneration Committee

ACCOUNTABILITY

Risk management

Our risk control framework operates as follows:



Q. What are the Board's responsibilities for risk management?

A. Managing risk effectively is integral to the achievement of the Group's strategic objectives. We have an established governance structure, which has continued throughout 2011, this supports the early identification and mitigation of key business risks.

The Board has ultimate responsibility for ensuring that business risks are effectively managed. The Board has considered and approved the risk management policy, risk appetite of the Group and has delegated the regular review of the risk management process to the Audit Committee. The Audit Committee receives regular reports from the internal and external auditors and monitors progress against agreed action plans arising from control reviews. It also reviews the results of the Internal Control Self Assessment process which is conducted annually across the business. Details of this process are given below.

Day-to-day risk management is the responsibility of senior management as part of their everyday business processes and is underpinned by the Group's policies and procedures to ensure that it is fully embedded. There is a structured business review process that operates across all business areas and this, along with the corporate governance framework, further underpins the ongoing management of risk.

Q. What are the aims of the internal control system?

A. The internal control system principally provides an ongoing process that identifies, evaluates and manages the risks that are significant in relation to the fulfilment of the Group's business objectives. The system is designed to manage rather than to eliminate risk and provides reasonable but not absolute assurance against material misstatement or loss. The system also supports senior management's decision-making, improves the reliability of business performance, and assists in the preparation of the Group's consolidated accounts.

Q. How is the Group's internal audit programme decided?

A. Each year the Audit Committee meets to discuss and approve the nature and scope of the internal audit programme for the year. The Audit Committee then instructs the internal audit function to undertake the agreed schedule of audits during which the effectiveness of the controls operating within the business are reviewed. Additional internal audits are added to the schedule in circumstances such as the acquisition or disposal of a business or any other significant business development.

Q. How are internal controls monitored?

A. Annually, comprehensive Internal Control Self Assessment questionnaires are required from senior management from business areas across the Group. These self assessment questionnaires are designed to ensure that any material control breakdowns are highlighted and the operation of internal controls are addressed. To ensure their accuracy, these assessments are tested as part of the internal audit process. The results are initially reviewed by the divisional units and then by member of the Group Executive prior to formal review by the Audit Committee.

Corporate governance report continued

Following each independent internal audit, a report is produced showing the findings which are reported to the Group Executive and any corrective action is agreed. Summaries of these reports and details of progress against action plans are presented to the Audit Committee for discussion and review.

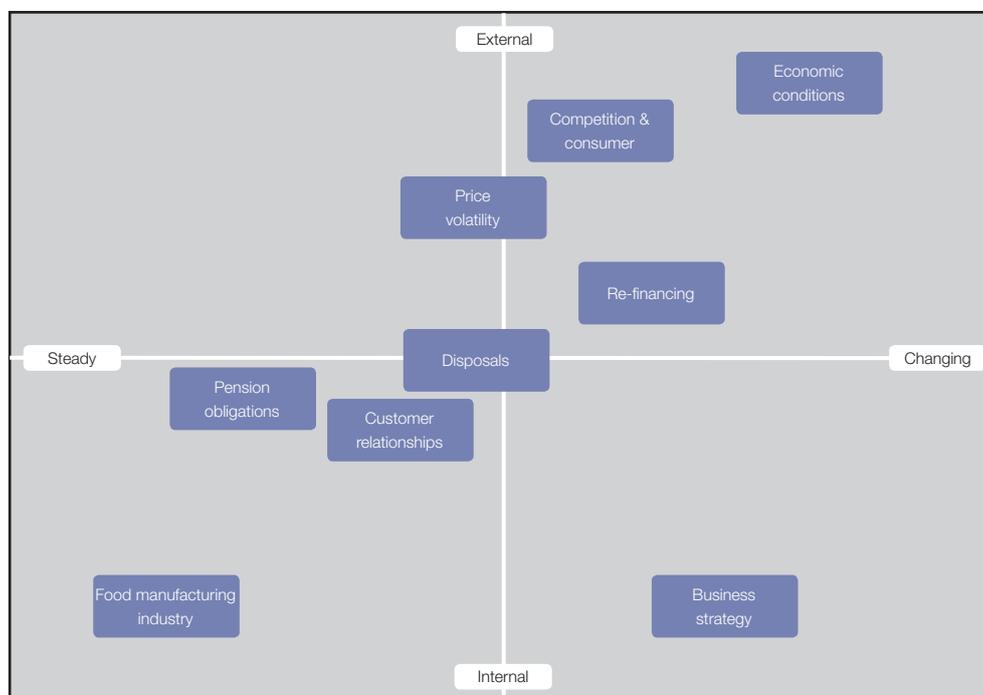
Q. Does the Board conduct an annual review of internal controls?

A. Yes, in accordance with the Turnbull Guidance an annual review is conducted. The Board has delegated authority to the Audit Committee to regularly monitor internal controls and conduct the annual review. This review covers all material controls such as financial, operational and compliance, and also risk management systems in place throughout the year under review up to the date of this annual report. Processes underpinning the financial reporting systems are managed and monitored by line and financial management. Following the Audit Committee's review the Board receives a report of their findings for discussion and to implement the necessary actions to remedy any control weaknesses.

Q. What financial reporting controls are in place?

A. Data in the Group's financial statements is reconciled to the underlying financial systems. A review of the data is undertaken to ensure that the true position and results of the Group are reflected, through compliance with approved accounting practices.

The 'risk radar' below sets out our key risk factors:



Q. Does the Group maintain a risk register?

A. Each member of the Group Executive is required to maintain a risk register which includes the key risks that have been identified, their potential impact and probability of occurrence, the risk owner, action, and action owner along with timescales for effective mitigation.

Every six months, the Group Executive reviews the overall Corporate Risk Register and assesses progress on the implementation of mitigation strategies along with consideration of new and emerging risks.

Once reviewed by the Group Executive, the Corporate Risk Register is presented to the Audit Committee for consideration. Additionally, once a year, a separate risk meeting is held with the non-executive directors without the presence of management. The purpose of this session is to provide additional challenge to the internal risk process by considering risk in its widest context, in particular taking account of the following:

- The world in which we operate;
- Our marketplace; and
- The Group's specific risks.

The results of the non-executive directors' risk meeting forms part of the overall process for reviewing the Corporate Risk Register at the end of the financial year.

Q. What are the Group's key risk factors?

A.

Business strategy and reliance on business recovery	Competition and consumer risk
<p>Risk</p> <p>The Group suffered a significant deterioration in its trading performance during 2011. In order to achieve the Group's recovery plan and address unsatisfactory trading performance, management's strategic focus and investment is on its eight Power Brands, which management believes have the strongest potential for long-term sustainable growth. This strategic focus is likely to result in further selective divestments of non-core businesses and significant cost saving initiatives to improve the underlying performance of the business. All or any of these initiatives may fail to improve performance or fail to occur and consequently have adverse consequences on the Group's financial position.</p> <p>Mitigation</p> <p>In the summer of 2011 the Board appointed Michael Clarke as CEO. Michael Clarke has conducted a strategic review of the business and is now executing a clear and focused strategy. Michael Clarke has moved quickly to strengthen the senior management structure. There is regular review of progress against key milestones, and to ensure the strategy is communicated and understood, the Group regularly engages with a wide range of stakeholders including shareholders, colleagues, customers and suppliers.</p>	<p>Risk</p> <p>The Group operates in a highly competitive environment and in fast moving sectors of the food industry. If we are unable to respond to competitor actions or to deliver products that meet consumer demand and preferences this could adversely impact the Group's results. Furthermore, there is currently excess supply in the bread market, resulting in intense competition between suppliers, and customers regularly transferring business between suppliers. In response to a changing competitive environment and the actions of competitors, the Group may make pricing, service or marketing decisions that could have a material impact on revenues and results.</p> <p>Mitigation</p> <p>The Group has a strategy to invest in new product development, packaging innovation and marketing. We regularly monitor consumer trends and consumption habits and have a good track record of new product development. During the year we further developed our innovation process and increased resources for innovation and marketing and plan to continue this further in 2012. Additionally, the Board has approved investment for a number of capital expenditure projects related to new product development.</p>
Debt burden	Changes in the cost and availability of raw materials
<p>Risk</p> <p>The Group has bank borrowings of £1.4bn and supports three defined benefit pension schemes in the UK. All three pension schemes have significant funding deficits which could have a significant adverse impact on the financial condition of the Group. The Company does not pay dividends and is restricted from paying dividends under the terms of its financing arrangements. The Group is also restricted from raising additional forms of debt finance and is not able to use free cash flow for acquisitions.</p> <p>Mitigation</p> <p>The Group obtained unanimous consent to its new re-financing arrangements which will provide funding until June 2016. The re-financing package is subject to final documentation being put in place. The directors are confident this will be achieved and signed by the end of March 2012. In addition, the Group has agreed deficit recovery plans with its three pension schemes and is actively exploring liability containment strategies. During the year the Group closed its final salary pension schemes and replaced them with career average schemes which were closed to new entrants. New employees are now provided with pensions on a defined contribution basis.</p>	<p>Risk</p> <p>The Group purchases its raw materials, many of which are commodities, from numerous suppliers and many of these raw materials are subject to potentially significant price fluctuations. If the costs of raw materials were to rise and the Group was unable to absorb/mitigate or pass such increases on to its customers in full or in a timely manner, then its operating profits and cash flow would be adversely affected. If the supply of any of the Group's raw materials is constrained for any reason this could also have an adverse impact on the business.</p> <p>Mitigation</p> <p>We have continued to experience significant inflation both within raw materials and packaging costs and we expect this to continue in 2012. However, we have a centralised procurement function with significant category expertise and we seek to mitigate the position by the targeted forward buying of products, value engineering, innovation and through our relationships with suppliers and customers.</p>

Corporate governance report continued

Customer relationship risk	Economic conditions
<p>Risk</p> <p>The Group's top five customers are all major UK retailers and account for approximately 56% of the Group's revenue. In line with industry practice, the majority of the Group's sales are by means of short-term standard purchase orders rather than long-term contracts. In recent years, the major multiple retailers have increased their share of the UK grocery market and price competition between these retailers has intensified. This price competition has led the major multiple retailers to seek lower prices and increased promotions from their suppliers. There can be no assurance that the Group's customers will continue to purchase its products at current volumes, at current pricing or on current terms. In addition, if any major customer reduced or ceased its business with the Group or were to experience a decline in the marketplace, there could be a significant adverse effect on the Group's financial condition and prospects.</p> <p>Mitigation</p> <p>A key element of the Group's strategy is to develop long-term sustainable relationships with its customers. The Group invests significant resources to maintain strong multi-level commercial relationships with its customers. These relationships can provide the Group with a deep understanding of its customers' needs which means the Group is well placed to derive competitive advantage to increase its share of its customers' business and benefit from their growth in the market.</p>	<p>Risk</p> <p>During 2011 the risks and uncertainties around the UK's general economic conditions and volatility of international markets have continued to impact the Group, our suppliers, customers and consumers. A deeper and/or more prolonged downturn or a 'double-dip' recession may lead to an overall decline in the volume of the Group's sales and 'down trading' may also continue, whereby consumers move away from the Group's branded products to more value orientated non-branded products.</p> <p>Mitigation</p> <p>The Group has a broad portfolio of well known and much loved products and operates over a large number of categories, which allows it to actively respond to changing market conditions. Given the uncertain outlook in the general economic environment, the Group continues to closely manage its costs and cash flows.</p>
Risks relating to business restructuring	Food manufacturing industry risk
<p>Risk</p> <p>The Group has sold a number of businesses over the last 12 months and under various disposal agreements, has given certain representations, warranties and indemnities in favour of the purchasers which, if breached, may result in financial claims against the Group. The Group is part way through its divestment programme and further disposal agreements with representations, warranties and indemnities will be entered in to.</p> <p>Mitigation</p> <p>In each sale process the Group has undertaken an appropriately thorough disclosure process and has achieved limitation of liability provisions in the sale documentation. The Group has an experienced deal team with a good track record of managing post completion risk.</p>	<p>Risk</p> <p>As a food manufacturer, the Group is subject to legislation and regulations in the UK, the EU and elsewhere in relation to food and its production, to health, to employees and their safety, and to the environment and its preservation. Violations of any laws could result in fines and sanctions as well as reputational risk. Should any product contamination occur, it could lead to product recalls or liabilities to customers or consumers. Health scares can impact demand for certain food.</p> <p>Mitigation</p> <p>It is the Group's policy to require that its entire business comply with relevant laws and regulations. The Group has an excellent food safety record and the Group continues to focus on high levels of operational control and continued improvement in all of the above areas. The Group has a leading technical function which sets high standards for hygiene and product quality, which is subject to regular internal and external monitoring. During the year we were awarded Manufacturer of the Year at the European Manufacturing Summit which recognised the Group's significant achievements in supply chain management. The Group maintains crisis management and business continuity plans which are subject to periodic testing. Additionally, the Group has insurance cover in place to mitigate the financial impact of these risks.</p>

RELATIONS WITH SHAREHOLDERS

Q. How does the Company engage with shareholders?

A. An important role of the Board is to represent and promote the interests of its shareholders as well as being accountable to them for the performance and activities of the Group.

The Board believes it is very important to engage with its shareholders and does this in a number of ways through presentations, conference calls, face-to-face meetings and the AGM. Following the announcement of the Group's half year and year-end results, presentations are made to analysts and major shareholders to update them on the progress the Group has made towards its goals and invite them to ask questions.

Following the announcement of the Group's trading updates and interim management statements, conference calls take place with analysts and major shareholders to update them on the Group's progress. Full details on results presentations, RNS releases, interim management statements and conference calls are available on the Group's website:



The Company held an Investor Seminar on 13 May 2011, for investors and analysts, presenting strategic plans and providing an opportunity for attendees to ask questions of directors and the Group Executive. A webcast of the event and presentation materials are available to view on the Group's website:



The main channel of communication to institutional investors is through the CEO, CFO and Head of Investor Relations. The CEO and CFO are available to meet with shareholders during the year; the Chairman, Deputy Chairman and Senior Independent Director are also available to discuss any issues and concerns of shareholders and welcome questions posed to the Board and committees.

Additionally, key senior management may host ad hoc meetings and events for institutional shareholders. Currently around 12 sell-side research analysts publish research on the Group; their details are published on the Group's website:



In 2011 the Remuneration Committee Chairman consulted with shareholders to discuss proposed changes in long-term incentive arrangements and other remuneration issues.

Q. How is the Board updated on the latest shareholder information?

A. The Board receive a detailed investor relations update at each Board meeting which covers (amongst other things) share price movements, shareholder register movements, analyst reports, a summary of investor meetings and other recent activity. The Board also receives comprehensive feedback from the Company's brokers, following investor roadshows after half year and year-end results.

Ronnie Bell

Chairman

Other statutory information

Pages 1 to 76 (together with the sections of the annual report incorporated by reference) constitute the Directors' Report. The financial statements are presented on pages 77 to 135.

Principal activities

Premier Foods plc (the "Company") is the holding company of the Premier Foods Group of companies (the "Group"). The Group manufactures, processes and distributes some of Britain's favourite food brands. We employ around 12,000 people and operate from over 40 sites in the UK.

GENERAL

Articles of Association

The Company's Articles may only be amended by a special resolution at a general meeting. The Articles are available on the Group's website:



Employees

Disclosures on employee policies and the employment of disabled people are set out on pages 18 to 19.

Profit and dividends

The loss on continuing operations before tax for the financial year was £259.1m (2010: £28.5m profit). The directors do not recommend the payment of a dividend for 2011 (2010: £nil).

Research and development

Applied research and development work continues to be directed towards the introduction of new and improved products; the application of new technology to reduce unit and operating costs; and to improve service to customers. Research and development costs of £8.4m (2010: £10.6m) were incurred in continuing operations during the year.

Significant agreements

The following significant agreements contain provisions that take effect, alter or terminate upon a change of control of the Company following a takeover bid.

- The Group has a term and revolving facilities agreement originally for £2.1bn entered into in 2006 and a receivables purchase agreement and guarantee dated 30 December 2007. Recent unanimous consent from the Company's banking syndicate, swap counterparties and pension schemes will lead to a restated re-financing package, which is expected to be signed by the end of March 2012. The current and new facilities agreements contain customary change of control provisions which allow the lenders or an individual lender to demand repayment of the facilities in full on a change of control. The new receivables purchase agreement contains change of control provisions which allow the provider of the funding to terminate or suspend the operation of the agreement and demand payment of all amounts outstanding under the agreement on a change of control.
 - The Group entered into a Relationship Agreement with Warburg Pincus LLC in March 2009 setting out the terms and conditions under which Warburg Pincus have the right to appoint a director to the Board and also governing the retention of its shareholding in the Company and the purchase of further shares. Under the Relationship Agreement, Charles Miller Smith was appointed to the Board on 16 June 2009. In the event of a change of control or if the shareholding of Warburg Pincus falls below 239,802,158 shares the Company may give notice to terminate the appointment of Charles Miller Smith.
- The Company does not have agreements with any director or employee that would provide compensation for loss of office or employment as a result of a successful takeover bid except that provisions of the Company's share schemes may cause options and awards granted under such schemes to vest.

Business disposals

The Group entered into the following agreements to dispose of certain businesses in 2011:

- On 15 December 2011, the Group entered into an agreement with The Boyne Valley Group for the sale of four Irish brands comprising *Chivers*, *Gateaux*, *McDonnells* and the *Erin* licence for a gross cash consideration of €41.4m. This disposal completed on 23 January 2012. As part of the disposal the Group and The Boyne Valley Group entered in to an agreement for certain transitional services provided by the Group to The Boyne Valley Group, and vice versa, for a period following closing.
- On 8 December 2011, the Group entered into an agreement with 2 Sisters Food Group for the disposal of the Brookes Avana business comprising of RF Brookes chilled foods and Avana Bakeries for a cash consideration of £30.3m on a debt free and cash free basis. This disposal completed on 30 December 2011. As part of the disposal the Group and 2 Sisters Food Group entered in to an agreement for certain transitional services provided by the Group to the 2 Sisters Food Group, and vice versa, for a period following closing.
- On 7 February 2011, the Group entered into an agreement with Princes Ltd (a wholly owned subsidiary of Mitsubishi Corporate of Japan) for the sale of the East Anglian canned grocery operations and related assets for an aggregate consideration of £182.2m payable in cash on closing. This disposal completed on 23 July 2011. As part of the disposal the Group and Princes Ltd entered into an agreement for certain transitional services to be provided by the Group to the Princes Group, and vice versa; these arrangements will end by 31 March 2012.
- On 24 January 2011, the Group entered into an agreement with Exponent Private Equity LLP for the sale of the entire issued share capital of Marlow Foods Ltd, the owner of the Meat-free business, for an aggregate consideration of £205.0m, on a cash and debt free basis. This disposal was approved by shareholders on 3 March and completed on 7 March 2011. As part of the disposal the Group and Exponent Private Equity LLP entered into an agreement for certain transitional services provided by the Group to the Exponent Group, and vice versa; these arrangements ended in October 2011.

FINANCIAL

Charitable and political donations

During the year the Group made charitable donations to the following charities: the Royal British Legion (£3,760), the Caldecott Foundation (£5,000), Red Nose Day (£6,000), Scottish Sports Futures (£6,000) and the Irish Bakers Benevolent Society (£8,827). Total charitable donations during the year amounted to £85,097 (2010: £166,555). In line with Group policy no political donations were made during the year (2010: £nil).

Financial instruments

The financial risk management objectives and policies of the Group, and its exposure to price, credit, liquidity and cash flow risk are set out in note 22 to the Group financial statements.

Going concern

The Group has obtained consent from its banking syndicate, swap counterparties and pension schemes on a re-financing package subject to the formalities of final documents being signed, expected by the end of March 2012.

The directors are confident that the necessary documentation will be finalised and signed by the end of March 2012 and that all conditions precedent will be met. The directors therefore have a reasonable expectation that the Group has adequate resources to operate in the ordinary course of business and to meet its obligations as they fall due. Thus the financial statements have been prepared on a going concern basis.

Supplier payment policy

The Company had no amounts owing to trade creditors at 31 December 2011 (2010: £nil). The Group's creditor days outstanding at 31 December 2011 were 72.7 days (2010: 68.8 days) of purchases, based on the ratio of Group trade creditors at the end of the year to the amounts invoiced during the year. The Group has standard payment terms of end of the month plus 60 days. Our terms and conditions are available on the Group's website:



Payment terms for purchases under major contracts are agreed as part of the contract negotiations.

Statement of directors' responsibilities for the annual report

The directors are responsible for preparing the annual report, the directors' remuneration report and the Group and Company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the Group financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the EU, and the parent company financial statements in accordance with UK Generally Accepted Accounting Practice (UK Accounting Standards and applicable law). Under company law the directors must not approve the Group or Company financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss for that period. In preparing these financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and accounting estimates that are reasonable and prudent;
- State whether IFRSs as adopted by the EU and applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Group and parent company financial statements respectively; and
- Prepare the Group and Company financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements and the directors' remuneration report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Other statutory information continued

The directors are responsible for the maintenance and integrity of the Group's website: www.premierfoods.co.uk. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Information made available on the website does not constitute part of this annual report. The information has been prepared under the relevant accounting standards and legislation.

Each of the directors, whose names and functions are listed on pages 38 to 39, confirm that, to the best of their knowledge:

- The Group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and loss of the Group; and
- The Directors' Report contained on pages 1 to 76 includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

Subsequent events

Since the balance sheet date the Group has continued to progress its strategy. In line with this, details of post-balance sheet events are set out in note 31 of the Group financial statements.

AUDITORS

Independent auditors

The Audit Committee has recommended PricewaterhouseCoopers LLP's ("PwC") reappointment and PwC has indicated its willingness to continue as auditors. The reappointment of PwC and the setting of their remuneration will be proposed at the 2012 AGM.

Auditors and the disclosure of information to auditors

The Companies Act requires directors to provide the Group's auditors with every opportunity to take whatever steps and undertake whatever inspections they consider to be appropriate for the purpose of enabling them to give their audit report. The directors, having made appropriate enquiries, confirm that:

- So far as each director is aware, there is no relevant audit information of which the Group's auditors are unaware; and
- Each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Group's auditors are aware of that information.

Approved by the Board and signed on its behalf by:

Andrew McDonald

General Counsel and Company Secretary
18 March 2012

Shareholder information

Share capital information

The Company's issued share capital at 31 December 2011 comprised 2,398,058,019 ordinary 1p shares. During the period 36,438 ordinary shares were issued; details of the movements can be found in note 25. All of the ordinary shares rank equally with respect to voting rights, the rights to receive dividends and distributions on a winding up.

Analysis of share register

As at 31 December 2011, there were 8,352 registered holders of the 2,398,058,019 ordinary 1p shares in issue. The Company's shareholdings are analysed below:

Number of shares	Number of holdings	% of total shareholders	Number of ordinary shares	% of ordinary shares
1-500	830	9.94	242,206	0.01
501-1,000	997	11.94	838,159	0.03
1,001-2,000	1,357	16.25	2,131,578	0.09
2,001-5,000	1,979	23.69	6,775,340	0.28
5,001-10,000	1,094	13.10	8,413,755	0.35
10,001-100,000	1,621	19.41	50,625,889	2.11
100,001-highest	474	5.67	2,329,031,092	97.13
TOTAL	8,352	100	2,398,058,019	100

Holders	Number of holdings	% of total shareholders	Number of ordinary shares	% of ordinary shares
Private	6,331	75.8	76,724,254	3.2
Institutional and corporate	2,021	24.2	2,321,333,765	96.8
TOTAL	8,352	100	2,398,058,019	100

Substantial shareholdings

Information provided to the Company pursuant to the Financial Services Authority's ("FSA") Disclosure and Transparency Rules ("DTRs") is published on a Regulatory Information Service and on the Group's website. As at 18 March 2012, the Company is aware of the following interests of 3% or more in the Company:

Shareholder	Ordinary shares	% of capital	Nature of holding
Warburg Pincus LLC	380,853,510	15.88	Direct
Paulson & Co. Inc.	262,927,422	10.96	Direct
Templeton Investment Counsel, LLC	179,962,642	7.50	Direct
TD Waterhouse (Europe) Ltd	121,841,921	5.08	Indirect
Barclays Private Bank (UK)	110,263,698	4.60	Indirect
Norges Bank Investment Management	96,798,824	4.04	Direct
Legal & General Investment Management Ltd	84,634,534	3.53	Direct
Dimensional Fund Advisors LP	79,615,779	3.32	Direct

Restrictions on transfer of securities

In accordance with the Articles there are no restrictions on share transfers, limitations on the holding of any class of shares or any requirement for prior approval of any transfer other than as disclosed in significant agreements on page 58.

Powers of the Company to issue or buy back its own shares

At the 2011 AGM over 99% of shareholders voted in favour of the directors being granted authority to allot shares up to a predetermined amount and for the directors to make market purchases of ordinary shares. Any ordinary shares purchased in the market may be cancelled or held in treasury. These authorities will expire at the conclusion of the 2012 AGM when authority to allot shares only will be sought. Shares acquired through Company share schemes rank *pari passu* with the shares in issue and have no special rights. No share purchases were made in 2011.

Shareholder information continued

SHAREHOLDER FAQs

Many of the information requests received by our shareholder helpline can be found in the investor section of our website. Shareholders can also sign up for regulatory news alerts to receive an email when news on the Group is released. These include additional financial news releases throughout the year, which are not mailed to shareholders.



Managing your shares

The Company's Register of Members is maintained by our registrar, Equiniti. Shareholders with queries relating to their shareholding should contact Equiniti directly using the details given in key contacts below.

Duplicate documents

Many shareholders still receive duplicate documentation from having more than one account on the share register. If you think you fall into this category and would like to combine your accounts, please contact Equiniti.

Notifying the Company of a change of address

Shareholders should notify Equiniti in writing of any change. If shares are held in joint names, the notification must be signed by the first named shareholder.

Notifying the Company of a change of name

To notify the Company of a change of name please inform Equiniti in writing. A copy of any marriage certificate or change of name deed should be provided as evidence of the name change.

Transferring Premier Foods plc shares

Transferring shares to someone else requires the completion of a stock transfer form. These forms are available by calling Equiniti.

Lost Premier Foods plc share certificate(s)

Shareholders who have lost their share certificate(s) or have had their certificate(s) stolen should inform Equiniti immediately by phone.

Found an old share certificate for Premier Foods plc

Shareholders who find they have an old share certificate and wish to find out its value should contact Equiniti directly using the details below.

ShareGift

Shareholders with a small number of shares, the value of which makes it uneconomic to sell them, may wish to consider donating them to charity through ShareGift, a registered charity administered by The Orr Mackintosh Foundation. Find out more at www.sharegift.org or call +44 (0)20 7930 3737.

Viewing the Articles of the Company

The Articles and other documents referred to in this annual report are available for inspection at the registered office. The Articles are available on the Group's website:



CORRESPONDENCE WITH SHAREHOLDERS DURING THE YEAR

Electronic communications with shareholders

In January 2012 shareholders were consulted and encouraged to sign up to receive electronic communications instead of paper copies. This enables the Group to operate in a more environmentally friendly and cost-effective way.

Shareholder security

In November 2011 shareholders were reminded via an update to the website to remain vigilant regarding share scams and fraud. For further details refer to the Group's website.

Go online

www.premierfoods.co.uk/investors/shareholder-information/share-scams-and-fraud.cfm

ANNUAL GENERAL MEETING (AGM)

The AGM usually takes place in London and is an opportunity for all shareholders to ask questions and vote on the resolutions put forward by the Board. At least 20 working days before the AGM the Notice of AGM, a copy of this annual report (if they request a copy in writing) and a Form of Proxy are issued to shareholders. All documents relating to the AGM are available on the Group's website.

Go online

www.premierfoods.co.uk/investors/shareholder-information/

The Notice of AGM sets out the proposed resolutions and a brief synopsis of each of them. Shareholders are invited to either attend the AGM in person or appoint a proxy to vote on their behalf. Voting at the AGM is by poll as this gives a more democratic outcome given that the proxy votes are added to the votes cast in person. Details of the proxy votes for, against and withheld are made available on the Group's website after the AGM.

The Chairmen of the Audit, Finance, Nomination and Remuneration committees are normally available at the AGM to take any relevant questions and all other directors are expected to attend. All directors attended the 2011 AGM.

2012 AGM – 3 May 2012 at 10.00 am

The 2012 AGM will be held at the Holiday Inn – Bloomsbury, Coram Street, London, WC1N 1HT.

KEY CONTACTS

Registered office and head office

Premier Foods plc, Premier House, Centrium Business Park, Griffiths Way, St Albans, Hertfordshire, AL1 2RE.

Registered in England and Wales (5160050).

Tel: +44 (0)1727 815850.

General Counsel and Company Secretary

Andrew McDonald

email: company.secretary@premierfoods.co.uk

Tel: +44 (0)1727 815850.

Investor Relations

Richard Godden

email: investor.relations@premierfoods.co.uk

Tel: +44 (0)1727 815850.

Registrar

Equiniti, Aspect House, Spencer Road, Lancing, West Sussex, BN99 6DA.

Tel: 0871 384 2030 or +44 (0)121 415 7047.

Textphone: 0871 384 2255 or +44 (0)121 415 7028.

Directors' remuneration report

Contents

Part 1: Unaudited information		Details of appointment	
Remuneration Committee Chairman's letter	65	Executive director service agreements and notice periods	72
The Committee		Director termination payments	72
Remuneration Committee membership	66	Executive director's external NED appointments	72
Committee advisers	66	Non-executive directors	
Role of the Committee	66	Non-executive director appointment terms and notice periods	72
Key issues discussed in the year	66	NED fee structure	72
Appointment payment – Michael Clarke	67	Shareholdings	
Recruitment Awards – Michael Clarke	67 & 71	Director shareholdings	73
Retirement payment – Robert Schofield	67	Total shareholder return graph	73
Resignation payment – Jim Smart	67	Part 2: Audited information	
Resignation payment – Tim Kelly	67	Total director remuneration	74
Remuneration policy		Executive director interests in share schemes:	
Remuneration policy	68	ESOS	74
Director shareholding policy	68	SAYE	74
Fixed vs. variable remuneration	68	LTIP	75
Director remuneration: Fixed pay		CIP	75
Executive director's salaries	69	Pension benefits	75–76
Pay across the Group	69	Director remuneration: Variable pay	
Director remuneration: Variable pay		Structure of variable remuneration	69
Short and medium-term incentives		Executive director's other benefits	69
Annual cash bonus	70	Long-term incentives	
Deferred Share Bonus Plan (DSB)	70	Long-Term Incentive Plan (LTIP)	70–71 & 75
Long-term incentives		Clawback provisions	70
Long-Term Incentive Plan (LTIP)	70–71 & 75	Awards in 2012	70
Clawback provisions	70	LTIP Performance conditions 2011 and 2012	71
Awards in 2012	70	Co-Investment Plan (CIP)	71 & 75
LTIP Performance conditions 2011 and 2012	71	Executive Share Option Scheme (ESOS)	71 & 74
Co-Investment Plan (CIP)	71 & 75	Save As You Earn Scheme (SAYE)	71 & 74
Executive Share Option Scheme (ESOS)	71 & 74	Dilution of share capital	72
Save As You Earn Scheme (SAYE)	71 & 74		
Dilution of share capital	72		

Part 1: Unaudited information

The directors' remuneration report provides information on the Group's overall remuneration strategy as well as detailed disclosure of directors' remuneration and long-term incentive arrangements. A resolution will be put to shareholders at the Company's 2012 AGM inviting them to approve this report.

Dear Shareholders

2011 has been a challenging year for the Remuneration Committee. The first half of the year saw the successful introduction of the Long Term Incentive Plan with the first awards made in May 2011. The second half of the year has focused on the significant management changes within the Group and determining the remuneration arrangements that should be in place for 2012 taking in to account the Group's underperformance in 2011 but also recognising that the new management team should be fairly rewarded and incentivised for delivering a turnaround in business performance.

As covered in detail in the earlier sections of this annual report the Group was impacted by a number of challenges during the year which have led to the results for the year being significantly below expectation. This in turn led the Group to enter into discussions with its banks to put in place a new re-financing facility.

Following the announcement of Robert Schofield's intention to retire, the Board moved quickly to identify a successor with the experience and track record to stem the decline in profitability and stabilise the business. Michael Clarke has extensive experience within the branded food industry and proven ability in managing and growing brands which we believe will be essential in returning the Group to profitable growth.

In order to achieve Michael Clarke's successful appointment in extremely challenging circumstances it was deemed necessary to compensate Michael Clarke for his forfeited 2011 bonus entitlement and outstanding share awards from his previous employer. Full details of these arrangements are set on page 67 of this report.

Following Michael Clarke's appointment as CEO in August 2011 a new senior management structure was introduced. In addition, Mark Moran was appointed as the Group's new CFO in December 2011.

Payments to Robert Schofield, Jim Smart and Tim Kelly who left during the year were in line with the terms of their employment contracts and full details are set out on page 67 of this report.

The challenge for the Committee has been consideration of the 2012 remuneration arrangements while the re-financing discussions were still being concluded. The Committee was conscious that the 2012 variable pay arrangements should be closely aligned with the delivery of the strategic plan to restore profitable growth in line with the growth strategy as outlined in the Chief Executive's Statement on pages 8 to 11.

The annual bonus arrangements for 2012 reflect the focus on turnover, branded sales, profit and cash flow, and for Michael Clarke this includes targets associated with the successful re-financing, a key objective for the Group.

The Committee has determined that awards under the 2012 LTIP will be solely in the form of Performance Shares. The performance targets will be based on a combination of EPS and absolute TSR which are closely aligned with improving the profitability of the Group and delivering shareholder returns.

Louise Makin

Chairman of the Remuneration Committee



Directors' remuneration report continued

THE COMMITTEE:

Q. Who is on the Committee?

A. The table below identifies the Committee members and attendees. In accordance with the Committee's terms of reference, no one attending a Committee meeting may participate in discussions relating to his/her own terms and conditions of service or remuneration. Only independent, non-executive directors may become members of the Committee. The chairman of the Board may also serve on the Committee if he was considered independent on appointment.

Committee member ¹	Position	Comments
Louise Makin	Chairman	Independent NED
Ronnie Bell	Member	Chairman (NED)
David Beever	Member	SID
David Wild	Member	Independent NED
David Felwick	Member	Former SID

Committee attendee ²	Position	Comments
Michael Clarke	CEO	Attends by invitation
Brian Carlton	Group HR Director	Attends by invitation
Andrew McDonald	General Counsel & Company Secretary	Secretary to the Committee
New Bridge Street (NBS)	—	Attend by invitation
Robert Schofield	CEO	Former CEO
Suzanne Wise	General Counsel & Company Secretary	Former Secretary to the Committee

¹ David Wild was appointed to the Committee on 7 March 2011 and David Felwick resigned on 28 April 2011.

² Michael Clarke was appointed CEO on 16 August 2011 and Robert Schofield retired from the Board on 13 September 2011; and Andrew McDonald replaced Suzanne Wise as Secretary to the Committee on 1 November 2011.

Over the course of the year the Committee held four meetings. Details of attendance at the meetings are shown in the attendance table on page 48.

Q. Who advises the Committee?

A. The Committee invites individuals to attend meetings to provide advice so as to ensure that the Committee's decisions are informed and take account of pay and conditions across the Group. These individuals include the Group HR director.

During the year the Committee considered the role of the remuneration advisors and it decided that New Bridge Street (NBS) should advise the Committee.

During the year NBS provided advice in connection with executive remuneration arrangements and the Company's share incentive arrangements. Aon Hewitt (the parent company of NBS) provided advice to the Group in relation to pension contribution salary exchange, administration of our pension schemes and investment advice to our trustees.

Q. What is the role of the Committee?

A. The Committee adheres to principles of accountability and transparency to ensure that remuneration arrangements demonstrate a clear link between reward and performance. In its work, the Committee considers fully the relevant legal and regulatory requirements, provisions and recommendations of the UK Corporate Governance Code (the "Code") and associated guidance.

The Committee has delegated authority from the Board to:

- Determine and agree the remuneration strategy for executive directors and senior management;
- Review and approve the remuneration packages for the Chairman, executive directors, General Counsel and Company Secretary and senior management;
- Agree the terms of employment including recruitment and termination terms of executive directors, ensuring any payments on departure are fair to the individual and the Company, whilst avoiding payment for failure and recognising the departing individual's duty to mitigate loss;
- Approve the design of all share incentive plans including all-employee share schemes and where appropriate oversee any subsequent changes; and
- Recommend appropriate performance conditions and targets for the variable element of remuneration packages and determine the extent to which performance targets have been achieved.

The Committee terms of reference are available on the Group's website:

Go online

www.premierfoods.co.uk/about-us/corporate-governance/board-committees.cfm

Q. What key issues did the Committee discuss during the year?

A. In addition to the issues discussed in the letter from the Remuneration Committee Chairman on page 65 the Committee also:

- Agreed the remuneration arrangements for the new CEO and CFO on appointment in 2011;
- Performed an annual review in April 2011 of executive directors' and senior managers' base salaries;
- Reviewed and recommended executive directors' and senior managers' annual bonuses in respect of 2010 and set the targets for the annual bonus in respect of 2011;
- Reviewed the performance outcome for CIP and LTIP awards granted in 2008;
- Granted 2011 awards under the LTIP;
- Granted 2011 awards under the SAYE scheme for all eligible employees in the UK and Ireland; and
- Undertook a review of remuneration advisers.

Q. What was paid to Michael Clarke on joining?

A. Michael Clarke's appointment was announced on 14 July 2011 and he joined the Group on 16 August 2011. In order to achieve his successful appointment in extraordinary circumstances the Committee agreed to the following compensatory payments:

- In recognition of forfeited 2011 bonus entitlement from his previous employer Michael Clarke was eligible to receive an annual bonus of £400,000 (to be paid entirely in cash) in respect of 2011. The payment of this bonus was dependent on the formulation of a recovery plan for the Group. The Committee considered that this condition was satisfied and the bonus should be payable in full;
- As compensation for forfeited equity awards from his previous employer that would have vested in January/February 2012, a cash bonus of £1.5m was paid immediately on acceptance of the appointment, the net proceeds of which were to be (and have been) invested in Company shares; and
- In recognition of the forfeiture of long term incentive awards from his previous employer, due to vest in February 2013 and February 2014, the Company agreed with Michael Clarke that, as soon as possible following the commencement of his employment, he would be awarded shares to compensate for the expected value of these forfeited LTIP awards (£1.49m in aggregate). The expected value of those forfeited awards was determined based on a prudent assessment of the extent to which the performance conditions had been achieved up to the date of cessation of employment with his previous employer.

Since Michael Clarke's appointment the Company has been in a prohibited period and therefore unable to make the long-term incentive awards. In light of the recent share price volatility the Committee decided that although it was important that there should be a significant share-based element to these awards, an award solely in the form of shares could result in excessive share usage and could make the level of gearing in the award too high. Accordingly, the Committee determined to deliver the value (i.e. £1.49m) by way of a mix of 8.75 million shares, comprising two awards over a maximum of 5 million shares (the "2013 Award") and a maximum of 3.75 million shares (the "2014 Award", and together with the 2013 Award the "Recruitment Awards") plus the right to receive two conditional cash payments for the balance of the value determined at the date of grant. The Recruitment Awards are due to vest in line with the original vesting dates, after the announcement of the 2012 results (2013 Award) and after the announcement of the 2013 results (2014 Award). The cash payment (if any) will only be paid when and to the extent the Recruitment Awards are exercised. If the Recruitment Awards lapse any cash payment due will be scaled back to take account of the number of shares that have lapsed. In accordance with Listing Rule 9.4.3 a summary of the principal terms of the Recruitment Awards is set out on page 71.

Q. What was paid to the executive directors on leaving?

A. Details of these payments are given below:

Robert Schofield

At the 2011 AGM Robert Schofield gave notice of his intention to retire on 28 April 2012 but remain in post until a successor was appointed. Following the successful recruitment of Michael Clarke it was agreed that he step down as CEO on 16 August 2011 and retire as a director of the Company with effect from 13 September 2011.

The Committee determined he should be paid the remainder of his notice and accordingly he will receive salary payments, benefits in kind and a cash allowance in lieu of pension at the rates applicable at the time of the announcement on a monthly basis for the period to 28 April 2012, amounting to a payment of £419,205.

Jim Smart

Jim Smart was entitled to receive 12 months' notice under the terms of his employment contract and received a payment amounting to £509,350. This included his pension supplement above the Premier Foods Pension Scheme "earnings cap", pension opt-out allowance and compensation for loss of accrued holiday entitlement. In addition, he will continue to be provided with health insurance for a period of 12 months or such earlier date alternative employment is secured.

The Committee noted that he had a contractual right to receive a payment in respect of an on-target bonus, however, it was determined that this would not be paid.

Tim Kelly

Tim Kelly was entitled to receive 12 months' notice under the terms of his employment contract and received a payment amounting to £492,050. This included his pension supplement above the RHM Pension Scheme "earnings cap", pension opt-out allowance and location supplement. In addition, he will continue to be provided with a company car and health insurance for a period of 12 months or such earlier date alternative employment is secured.

Directors' remuneration report continued

REMUNERATION POLICY

Q. What is the overall remuneration policy?

A. Our policy is set out below:

Broad policy	To set remuneration levels so as to attract and retain high calibre executives and to encourage and reward superior business performance which is linked to the delivery of our business strategy.
How do we seek to apply our policy in the boardroom?	<p>Remuneration for executive directors is intended to reward against criteria that are relevant and realistic but also challenging, so that superior performance is encouraged.</p> <p>Executive directors should have sufficient focus on the long-term performance of the Group and be aligned with the interests of shareholders, we are therefore committed to the use of equity-based performance-related schemes and encourage executives to build up meaningful shareholdings in the Company. A significant proportion of remuneration is performance linked, see below. Details of executive director share ownership guidelines are set out below.</p>
When is the policy reviewed?	<p>During 2011 the remuneration committee reviewed the policy to ensure performance-related incentives, as well as annual salary, are supportive of operating objectives and conducive to the delivery of shareholder value. It is considered that the policy continues to remain appropriate.</p> <p>The policy will continue to be reviewed annually.</p> <p>In March every year the Committee reviews the remuneration of senior management to ensure it remains competitive and challenging.</p>
What are we doing for 2012?	<p>The Committee believes that the remuneration structure will continue to support the Group, however, given the new strategic priorities of the Group (as set out in the Chief Executive's Statement on pages 8 to 11) the Committee will keep under review the current remuneration structure to ensure it is adequately aligned with these priorities.</p> <p>The Committee will ensure that the remuneration arrangements for 2012 are affordable without excessive share dilution and that the performance conditions used in our plans are consistent with delivering strong returns to shareholders.</p>

Q. Are there share ownership guidelines for executive directors?

A. Since 2006 all executive directors have been expected to build a holding of shares within three years of appointment at least equal to their annual salary (valued at the time of purchase). The Committee believes that these shareholding guidelines can be an effective means of aligning directors' interests with those of our shareholders. As at the year end Michael Clarke and Mark Moran were in compliance with this policy and details of all directors' shareholdings are set out on pages 73 to 75.

Q. What is the balance between the fixed and variable elements of executive remuneration?

A. Michael Clarke and Mark Moran are remunerated through a combination of base salary, annual bonus, pension, benefits and share-based performance-related awards. The Committee believes that it is important for a significant proportion of their remuneration package to be performance-related. At maximum award levels (excluding share price movements) 74% of the remuneration package for Michael Clarke and 70% of the remuneration package for Mark Moran is based on variable elements.

DIRECTOR REMUNERATION: FIXED PAY

Q. What salaries do the executive directors receive?

A. Salary levels are set with reference to the relevant marketplace, and incorporate an assessment by the Committee of the responsibilities and performance of the individual.

The Committee continues to rigorously test, review and set salaries at levels not normally exceeding market rates against relevant comparator companies taking into account factors such as revenue, market share and complexity. However, the Committee is mindful that it may be necessary to set salaries outside of the stated policy, for instance in circumstances where it is necessary to hire an individual of exceptional calibre.

Michael Clarke was appointed CEO on 16 August 2011 on an annual salary of £750,000 and Mark Moran was appointed CFO on 8 December 2011 on an annual salary of £425,000. These salaries will not be subject to review until the first anniversary of appointment and 1 April 2013 respectively.

Q. Does the Committee consider pay conditions for all employees within the Group when agreeing arrangements for executive directors?

A. In determining the remuneration arrangements for executive directors, the Committee is sensitive to the pay and employment conditions elsewhere in the Group, especially when determining base salary increases (if any) and reviews the proposed pay awards for the Group at large with the CEO.

Q. What are the performance criteria to be used in 2012 for each of these three elements?

A. Variable elements of executive directors' remuneration in 2012:

	Targets	Underpins	Reasons
Annual cash bonus	Range of measures including revenue, trading profit, recurring cash flow and personal performance.	Quality of profit review; target recurring cash flow; bonuses will have an affordability test; and personal bonuses require threshold profit to be attained.	Trading profit is driven by sales and margin; cash flow repays debt.
Deferred Share Bonus (DSB)	Branded sales value growth and trading profit.	Growth in market share for total brands must be achieved for the bonus to become payable and the Group trading profit target must be met.	Clear link to the strategy of continuous improvement in the sale of branded products emphasising the importance of profitability through the use of sales value and the inclusion of trading profit for 2012.
LTIP Performance Shares	EPS and absolute TSR.	The Committee considers that the achievement of both the EPS and absolute TSR targets will be fully reflective of the Group's underlying financial performance.	The targets capture improvements in trading profit and are also aligned with shareholder return.

Q. What additional benefits do the executive directors' receive?

A. Each executive director is entitled to a car allowance and fuel cost, private health insurance, life insurance, telecommunication services and an allowance for personal tax and financial planning.

DIRECTOR REMUNERATION: VARIABLE PAY

Q. How is executive variable remuneration structured and how does it align with the Group's strategy?

A. The structure of incentives for the executive directors comprise of four elements:

1. Annual cash bonus;
2. Deferred Share Bonus Plan ("DSB");
3. LTIP Performance Shares; and
4. LTIP Matching Shares.

In 2012 while the business is in recovery the Company will only use elements one, two and three. The Committee determined that at a time of share price volatility the use of matching shares was inappropriate.

When determining the structure of variable pay the Committee is mindful of the need to maintain a good line of sight so that executive directors can clearly see how their actions lead to their reward and to have incentives that have specific and clear goals which are clearly linked to business strategy and the key priorities that have been outlined.

Directors' remuneration report continued

SHORT AND MEDIUM-TERM INCENTIVES

Q. What annual cash bonuses do the executive directors receive?

A. Each year the Committee sets individual performance targets and bonus potentials for each of the executive directors. Annually the Committee reviews the level of achievement against the performance targets set and based on the Committee's judgement approves the bonus of each executive director. Annual bonus payments are not pensionable. The performance targets for 2011 were not met and no annual cash bonuses will be paid out in respect of 2011.

For 2012 Mark Moran's bonus will be dependent on performance against four key performance indicators: revenue, gross profit (after sales, marketing and distribution), trading profit and recurring cash flow. The bonus outcome from these four indicators will be adjusted to take account of his performance rating. The maximum bonus that Mark Moran can receive is capped at 75% of salary.

For 2012 Michael Clarke has the opportunity to earn a bonus of 150% of salary. The Committee considers that given the particular challenges that face the Group for 2012 it is necessary to operate a specific bonus plan for Michael Clarke that focuses on our key priorities and the steps that need to be taken to improve our trading performance.

- 1) Half of the bonus will be dependent on the achievement of financial targets, (focused on turnover, branded sales value growth, trading profit and cash flow) and in addition a range of other measures aligned with our strategic priorities as set out on pages 8 to 11. Payment of a bonus against these measures will be underpinned by the requirement to deliver a threshold level of trading profit.
- 2) The other half of the bonus will be dependent on the delivery of a successful re-financing agreement this is a key priority for 2012 and aligned with the interests of shareholders. The level of bonus paid against this measure will be dependent on the achievement of the re-financing and will take account of whether the new arrangement is judged to have been a success and in the best interests of shareholders. The assessment of the quality of the re-financing will be performed at the end of the 2012 financial year taking account of the views of the Finance Committee.

Q. How does the DSB operate?

A. The DSB operates alongside the annual cash bonus. Executive directors can earn an award based on the achievement of a Group-wide strategic target which will be set at the start of each financial year. If the objective is met, the bonus will be paid at the end of the financial year in shares deferred for a period of two years. These shares will be subject to forfeiture over the period of deferral. All shares for these awards will be sourced in the market.

For 2011 a target based on total volume sales of branded product growth was used, as it provided a clear link to the strategy of continuous improvement in the sale of branded products. For a deferred bonus to be payable the Group trading profit target must also have been met. For above target payout the Committee had discretion to reduce the payouts for reasons of affordability. The 2011 targets were not met and accordingly no awards will be made under the DSB in respect of 2011.

The Committee has reviewed the targets to apply for the 2012 performance period and has determined that these awards should continue to be subject to a condition based on branded sales subject to a trading profit underpin but that this should be reduced to 50% of the award and that the measure should be based on sales value growth and not sales volume. It is felt that this measure emphasises the importance of profitability and margin performance. The remaining 50% of the award will be dependent on trading profit.

In respect of 2012 performance the maximum award that can be earned by Mark Moran is 30% of salary. Michael Clarke will not participate in the DSB in 2012.

LONG-TERM INCENTIVES

Q. How are the long-term incentives structured?

A. The awards under the LTIP approved by shareholders in 2011 have two elements:

- Performance Shares
- Matching Shares

The Matching Shares require participants to make an investment into Company shares in order to receive a match of up to 2:1 on shares invested into the scheme. The maximum grant of Performance Shares and Matching Shares is 200% of salary.

In 2011 executives directors and senior management were awarded both Performance Shares and Matching Shares. The Committee has decided that for 2012 at least, while the business is in recovery and the share price may continue to fluctuate, awards will take the form of Performance Shares only.

Q. Are clawback provisions in place for the DSB and LTIP awards?

A. Yes. In relation to awards granted under the LTIP the Committee may reduce unvested awards and seek repayment of vested awards if, by the second anniversary of vesting, the Committee forms the view that the vesting was determined based on materially misstated financial results or in the event of misconduct.

In relation to DSB awards the Committee may reduce unvested awards if, prior to vesting, the Committee forms the view that the number of shares over which awards were granted was higher than the number that should have been granted because of materially misstated financial results for the relevant bonus year, or the Committee relied on inaccurate or misleading information.

Q. What awards will be made in 2012?

A. As mentioned, it is intended that for 2012 only Performance Share awards will be made. For 2012 it is the Committee's intention to award Michael Clarke and Mark Moran Performance Shares with a face value of 200% and 150% of salary respectively.

Q. What performance conditions were used for awards made under the LTIP in 2011?

A. For the 2011 grant, the Performance Share element of the LTIP was linked to growth in adjusted earnings per share ("EPS") targets over a period of three years. EPS captures both improvements in the trading performance and the generation of cash to pay down debt, thus reducing the interest charge. The Matching Share element of the LTIP was linked to achieving growth targets in absolute share price (plus reinvested dividends) by 2014.

These measures were selected as they ultimately capture improvements in the Group's trading performance as well as measuring the returns to shareholders. The specific targets are set out in the notes to the LTIP table on page 75.

Q. What performance conditions will be used for awards to be made under the LTIP in 2012?

A. The Committee strongly believes that the performance conditions attached to the 2012 LTIP awards should be aligned with the strategy of the Group, its plan to restore profitable growth and with shareholders interests, by focusing on absolute share price performance. Awards will only vest following the achievement of stretching performance targets.

Accordingly, it is the Committee's current intention that the 2012 award will be subject to an EPS condition (two thirds of the award) and an absolute TSR condition (one third of the award). The proposed targets are set out in the table below:

% of relevant portion of award vesting	EPS for the year ended 31 December 2014	
	Absolute TSR	
0%	Below 4.5p	Below 30p
20% up to 50%	4.5p up to 5.1p	30p up to 35p
50% up to 100%	5.1p up to 6.5p	35p up to 50p
100%	6.5p or greater	50p or greater

Q. What were the terms of Michael Clarke's Recruitment Awards?

A. As set out on page 67 it was agreed to make certain Recruitment Awards to Michael Clarke on appointment as CEO in recognition of awards forfeited from his previous employer. In accordance with Listing Rule 9.4.3 a summary of the principal terms of the Recruitment Awards are set out below:

- The Recruitment Awards shall be satisfied using shares purchased in the market by the trustees of the Company's Employee Benefit Trust;
- The Recruitment Awards will be structured as nil-cost options and no consideration is payable by Michael Clarke for the grant;
- The Recruitment Awards are non-transferable and shall not be pensionable;
- The Recruitment Awards will normally vest and become exercisable on the date of the announcement of the Group's results for the 2012 financial year and 2013 financial year respectively, subject to remaining employed by the Group and the Committee being satisfied with Michael Clarke's and the Group's performance up to the relevant date of announcement;
- The Recruitment Awards will only become exercisable to the extent that the Committee is satisfied that the performance

conditions have been satisfied. To the extent that the Committee determines that the performance conditions have not been satisfied in full, that part of the Recruitment Awards (including any cash payment) that the Committee determines shall not vest;

- Once vested the Recruitment Awards may normally be exercised by Michael Clarke during a period of 12 months commencing on the date of vesting, provided that he is employed by the Group on the date of exercise;
- The Recruitment Awards will lapse if Michael Clarke ceases employment before the relevant announcement date. However, if he ceases employment by reason of death, injury, disability, redundancy or any other reason the Committee may, in its discretion, permit some or all of the Recruitment Awards and any associated cash payment to vest and become payable early subject to the satisfaction of the performance conditions and a time pro rata adjustment, unless the Committee determines otherwise;
- In the event of a change of control of the Company (excluding certain internal reorganisations or restructurings) whether by way of a general offer or scheme of arrangement the Recruitment Awards and any associated cash payment will vest and become payable early, subject to Michael Clarke remaining employed at the time of the relevant event and a time pro rata adjustment unless the Committee determines otherwise;
- If there is a variation in the share capital of the Company or a demerger or special dividend or in such other circumstances the Committee considers appropriate the Committee may adjust the Recruitment Awards as deemed appropriate to ensure that the Recruitment Awards remain at the same value;
- The Company may change the terms of the Recruitment Awards to get or keep favourable tax, exchange control or regulatory treatment for Michael Clarke or the Company and may make minor changes to ease its administration. No change can be made to Michael Clarke's advantage without the prior approval of shareholders; and
- The draft Deed of Grant is available for inspection at the Company's registered office.

Q. Will further awards be made under the Co-Investment Plan ("CIP") and Executive Share Option Scheme ("ESOS")?

A. It is not envisaged that any further awards will be made under either scheme.

Q. Does the Company operate any all-employee share plans?

A. Yes, the Company operates an all-employee Save As You Earn ("SAYE") scheme which executive directors can join on the same terms as other participants.

The SAYE scheme is government approved and is available to all employees who meet certain basic eligibility criteria and is not subject to any performance conditions. The SAYE scheme offers employees the opportunity to join a regular monthly savings contract for a period of three years at the end of which the employees have the opportunity to purchase shares in the Company with their savings at the share price set at the beginning of their savings contract.

The 2011 SAYE scheme offered employees an opportunity to join the scheme at an option price of 9.55p.

Directors' remuneration report continued

Q. What is the policy on dilution of share capital by employee share plans?

A. Awards under all Group share plans may be satisfied using either newly issued shares or shares purchased in the market and held in the Company's Employee Benefit Trust. The Group's policy is to comply with the Association of British Insurers ("ABI") guidelines in respect of new share issues in all share plans.

DETAILS OF APPOINTMENT

Q. What are the terms of the executive directors' service agreements?

A. Details of the service agreements of the executive directors appear below:

Executive director	Contract date ¹	Notice period
Michael Clarke	16 August 2011	12 months
Mark Moran	8 December 2011	12 months

¹ Rolling contract.

Q. What are the terms of the past executive directors' service agreements?

A. Details of the service agreements of the past executive directors appear below:

Past executive director	Contract date ¹	Notice period
Robert Schofield	20 July 2004	12 months
Jim Smart	11 February 2009	12 months
Tim Kelly	5 October 2009	12 months

¹ Rolling contract.

Q. How are the executive directors compensated in the event of the termination of their contract?

A. In the event of termination (other than for a reason justifying summary termination in accordance with the terms of the service agreement) the Company may pay to the executive directors, in lieu of notice: salary, benefits and pension contributions during the notice period (calculated on a pro rata daily basis). Termination payments may be made in instalments and to the extent that the executive director receives any sums as a result of alternative employment or provision of services while they are receiving such termination payments, the payments shall be reduced by the amount of such sums.

In line with market practice there is no entitlement to a bonus payment in lieu of notice in the service agreements for Michael Clarke or Mark Moran. Service agreements do not provide for any enhanced payments in the event of a change of control of the Company.

Q. What is the Group's policy on executive directors holding external appointments?

A. The Group is supportive of executive directors who wish to take on a non-executive directorship with a publicly quoted company in order to broaden their experience and they are entitled to retain any fees they may receive. Michael Clarke is currently a non-executive director of Wolseley plc and receives fees of £63,000 p.a. for this role.

NON-EXECUTIVE DIRECTORS

Q. What are the appointment terms and notice periods for non-executive directors?

A. All non-executive directors have entered into letters of appointment as detailed in the table below. The appointments are subject to the provisions of the Companies Act 2006 and the Company's Articles.

Non-executive director	Date of appointment	Date of current appointment	Notice period
Ronnie Bell	1 October 2010	1 October 2010	3 months
Charles Miller Smith	16 June 2009	16 June 2009	1 month ¹
David Beever	22 January 2008	21 January 2011	3 months
Ian McHoul	19 July 2004	19 July 2010	3 months
Louise Makin	13 October 2006	1 October 2009	3 months
David Wild	7 March 2011	7 March 2011	3 months

¹ The appointment of Charles Miller Smith is governed by the Relationship Agreement between the Company and Warburg Pincus LLC under which he may terminate his appointment as a director by giving one months notice in writing (see page 44 for further information).

Non-executive directors' continued appointments are evaluated annually, based on their contributions and satisfactory performance. There are no provisions for compensation being payable upon early termination of an appointment of a non-executive director.

Q. What is the policy on non-executive directors' fees?

A. The remuneration of the non-executive directors is determined by the Chairman and executive directors. The remuneration of the Chairman is determined by the Committee. There were no changes to the fees for the Chairman and other non-executive directors for 2011 with the exception that David Beever was appointed Senior Independent Director in April 2011 and received an increase in total fees of £5,000 in recognition of the additional responsibilities.

Non executive directors fees

Chairman – pay is independent of basic NED fee	£325,000
Deputy Chairman – pay is independent of basic NED fee	£90,000
Basic non-executive (NED) fee	£57,000
Additional remuneration;	
Audit Committee Chairman	£13,000
Finance Committee Chairman	£13,000
Remuneration Committee Chairman	£10,500
Senior Independent Director	£5,000

To maintain independence and comply with the Code the Chairman and the other non-executive directors are not eligible to participate in the Group's bonus arrangements, share option schemes, long term incentive plans or pension arrangements.

SHAREHOLDINGS

Q. What interests did the directors have in the Company's shares on 31 December 2011?

A. The beneficial interest in shares of the Board and connected persons as at 31 December 2011 are presented below:

Director	Ordinary shares as at 31 Dec 2011	Ordinary shares as at 31 Dec 2010
Michael Clarke ¹	3,740,785	—
Mark Moran ²	17,540,000	—
Ronnie Bell	854,700	—
Charles Miller Smith	680,272	680,272
David Beever	319,000	169,000
Ian McHoul	100,000	100,000
Louise Makin	58,636	58,636
David Wild ³	50,000	—

¹ Appointed CEO on 16 August 2011.

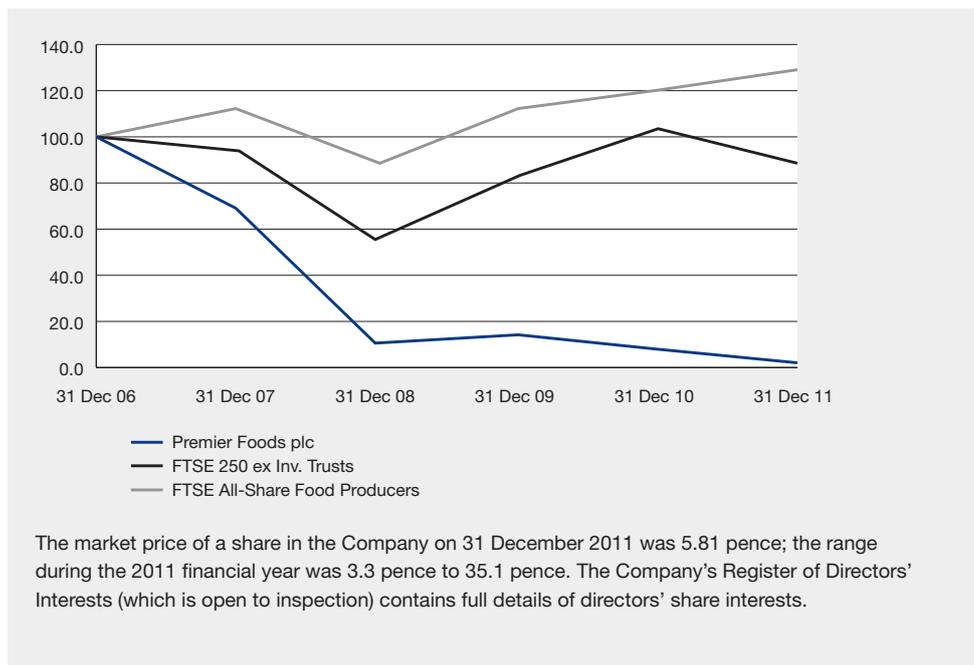
² Appointed CFO on 8 December 2011.

³ Appointed as a director on 7 March 2011.

Between 31 December 2011 and 18 March 2012 no Company shares were purchased by directors.

Total shareholder return graph

The graph illustrates the performance of the Company against the FTSE 250 index and the FTSE Food Producers and Processors Index over the past five years. The FTSE 250 index was chosen as the Company was a member of the FTSE 250 during the year, and the FTSE Food Producers and Processors Index, was chosen as it contains the Company's key comparators.



Directors' remuneration report continued

PART 2: AUDITED INFORMATION

Directors' emoluments

The remuneration of each director, excluding long-term share-based incentive schemes during the year ended 31 December 2011 is shown below:

Directors' emoluments	Salary/fee ² (£)	Annual bonus (£)	Taxable benefits ³ (£)	Other payments (£)	Total 2011 (£)	Total 2010 (£)
Executive directors¹						
Michael Clarke	339,130	—	440	1,937,500 ⁴	2,277,070	—
Mark Moran	34,060	—	50	—	34,110	—
Robert Schofield	466,780	—	9,500	419,205 ⁵	895,485	715,052
Jim Smart	494,905	—	1,050	509,350 ⁶	1,005,305	545,463
Tim Kelly	418,618	—	40,500	492,050 ⁶	951,168	450,707
Non-executive directors¹						
Ronnie Bell	325,000	—	580	—	325,580	81,250
Charles Miller Smith	90,000	—	—	—	90,000	65,250
David Beever	73,480 ⁷	—	—	—	73,480	70,000
Ian McHoul	70,000	—	—	—	70,000	70,000
Louise Makin	67,500	—	—	—	67,500	67,500
David Wild	46,700	—	—	—	46,700	—
David Felwick	20,420	—	—	250	20,670	62,000

¹ In 2011 the following Board changes took place: Michael Clarke was appointed CEO on 16 August 2011 and Robert Schofield resigned but continued as a director until 13 September 2011. Mark Moran was appointed CFO and a director on 8 December 2011 and Jim Smart resigned; Tim Kelly resigned as COO and as a director on 25 November 2011. David Wild was appointed non-executive director on 7 March 2011 and David Felwick resigned on 28 April 2011.

² Includes a supplement in lieu of pension of £56,520 (2010: £nil), £2,280 (2010: £nil), £27,220 (2010: £37,080), £38,430 (2010: £37,080) and £53,400 (2010: £38,813) in respect of Michael Clarke, Mark Moran, Robert Schofield, Jim Smart and Tim Kelly.

³ Benefits include payments made in relation to car and fuel cost, private health insurance, tax advice, relocation and memberships.

⁴ Includes all payments made on appointment.

⁵ Includes all payments made until retirement on 28 April 2012.

⁶ Includes all payments made on leaving.

⁷ Includes a pro-rated £5,000 p.a. uplift in salary following his appointment as SID on 28 April 2011.

No director waived emoluments in respect of the year ended 31 December 2011 or 31 December 2010.

Other payments

Details of payments made to executive directors who were appointed, retired or resigned during the year are set out on pages 67 and 71.

Directors' interest in share options — ESOS and SAYE

The ESOS was adopted in 2004 at the time of Admission. Outstanding vested options held by executive directors under this plan would require the share price to reach 161.38p prior to exercise.

At 31 December 2011, the following executive directors had options to subscribe for shares granted under the ESOS and SAYE Schemes:

	Options as at 31 Dec 2010	Options granted during the year	Options exercised during the year	Options forfeited during the year	Options as at 31 Dec 2011 ¹	Option price (p)	Option period
Robert Schofield							
ESOS 2004	1,165,686	—	—	—	1,165,686	161.38	23 Jul 2007 to 22 Jul 2014
SAYE 2010	23,210	—	—	—	23,210	15.20	1 Dec 2013 to 31 May 2014 ²
Tim Kelly							
SAYE 2010	23,210	—	—	—	23,210	15.20	1 Dec 2013 to 31 May 2014 ²

In 2011 the following Board changes took place: Robert Schofield retired from the Board on 13 September 2011 and Tim Kelly resigned as COO and as a director on 25 November 2011. During the year no awards vested.

¹ Or at date of cessation of employment.

² Option period effective for six months from date of leaving.

Directors' interests in long term incentive plans

At the 2011 AGM the shareholders approved a LTIP, the following table shows the awards made under this scheme:

	Awards Grant Date	Performance Shares granted in the year ²	Matching Shares granted in the year ³	Shares lapsed during the year	As at 31 Dec 2011 ¹	Share price at date of award	Performance period
Robert Schofield	23 May 2011	1,407,475	1,407,474	–	2,814,949	33.3p	23 May 2014 to 23 May 2016
Jim Smart	23 May 2011	997,223	997,220	(1,994,443)	–	33.3p	23 May 2014 to 23 May 2016
Tim Kelly	23 May 2011	899,180	899,176	(1,798,356)	–	33.3p	23 May 2014 to 23 May 2016

¹ Or at date of cessation of employment.

² Subject to growth in adjusted EPS in excess of inflation over the three year period ending 31 December 2013: 100% of the award vests for RPI + 19% p.a., reducing on a straight-line basis to 25% of the award vesting for RPI + 4% p.a. No awards vest for EPS growth of less than RPI + 4% p.a.

³ Subject to achievement of share price targets (plus dividends reinvested) measured over the three months following the announcement of the 2013 preliminary results: 100% vests for share price (plus dividends reinvested) of 80p, reducing on a straight-line basis to no award vesting for share price (plus dividends reinvested) of 37p or less.

During the year no awards vested.

Directors' interests in co-investment plans

The CIP is a three year share matching plan based on the achievement of performance conditions. Participants pledge or purchase shares in the Company which the Company can choose to match to reward achievement of performance targets. The maximum share match ratio is 3:1; which is only given for the achievement of exceptionally stretching targets. For awards granted in 2009 and 2010, the matching award was subject to EPS and relative TSR performance. Details of the CIP award were set out in full in the 2009 directors' remuneration report.

The following table shows the executive directors' interests in shares awarded under the CIP:

	Award grant date	As at 31 Dec 2010	Granted in the year	Shares lapsed during the year	As at 31 Dec 2011 ¹	Share price on date of award (p)	Vesting date
Robert Schofield							
CIP 2008	15 Apr 2008	3,187,741	–	(3,187,741) ²	–	125.50	15 Apr 2011
CIP 2009	9 Jun 2009	3,187,740	–	–	3,187,740⁴	40.50	9 Jun 2012
CIP 2010	30 Mar 2010	3,187,740	–	–	3,187,740⁴	32.16	30 Mar 2013
Jim Smart							
CIP 2009	13 Nov 2009	2,250,000	–	(2,250,000) ³	–	34.63	13 Nov 2012
CIP 2010	30 Mar 2010	2,032,671	–	(2,032,671) ³	–	32.16	30 Mar 2013
Tim Kelly							
CIP 2008	15 Apr 2008	841,056	–	(841,056) ²	–	125.50	15 Apr 2011
CIP 2009	9 Jun 2009	1,665,284	–	(1,665,284) ³	–	40.50	9 Jun 2012
CIP 2010	30 Mar 2010	1,665,285	–	(1,665,285) ³	–	32.16	30 Mar 2013

In 2011 the following Board changes took place: Robert Schofield retired from the Board on 13 September 2011, Jim Smart resigned as CFO and as a director on 8 December 2011 and Tim Kelly resigned as COO and as a director on 25 November 2011. During the year no awards vested. The opening balance is the potential maximum matching award under each plan.

¹ Or at date of cessation of employment.

² Lapsed during the year as vesting conditions were not met.

³ Lapsed following resignation as a director.

⁴ Pro-rated award to 28 April 2012, subject to meeting the vesting criteria this award will vest on the original vesting date.

Pension benefits

For each executive director, the total accrued benefit at 31 December 2011 represents the annual pension that is expected to be payable on eventual retirement of each director. The additional pension earned during the year represents the increase in this expected pension (including the effect of inflation) when compared with the position at 31 December 2010.

All transfer values have been calculated in accordance with Regulation 7 to 7E of the Occupational Pensions Schemes (Transfer Values) Regulations 1996 and subsequent amendments. The transfer values of the accrued pension entitlement represent the value of assets that the pension scheme would need to transfer to another pension provider on transferring the scheme's liability in respect of the directors' pension benefits; they do not represent sums payable to the director and therefore cannot be added meaningfully to annual director emoluments.

The increase in transfer value during the year is the increase in the transfer value of the accrued benefits at 31 December 2011 after deducting directors' pension contributions to the scheme. The transfer value of the increase in accrued benefits under the Listing Rules is the transfer value at 31 December 2011 of the increase in accrued benefits during the period (excluding inflation) less contributions made by the directors during the period.

Directors' remuneration report continued

Q. What pension benefits do the executive directors receive?

A. All pension figures are set out below and in the footnotes on page 74. A brief overview of each director's benefits is detailed below:

Michael Clarke

Michael Clarke receives an allowance of 20% of salary in lieu of pension provision.

Mark Moran

Mark Moran receives an allowance in lieu of pension provision of £20,000 per annum (which increases in line with RPI to a maximum of 5%) plus 9% of the Notional Earnings Cap (which increases in line with the increases in the Premier Foods Pension Scheme ("PFPS") "earnings cap").

Robert Schofield

Robert Schofield elected for enhanced protection under the Finance Act 2004 with effect from 6 April 2006 and thus opted out of the PFPS for future service accrual. Instead he received an allowance in lieu of pension accrual, which increases in line with the increases in the PFPS "earnings cap". His pension accrued up to 6 April 2006 continued to be linked to his final salary, subject to the PFPS "earnings cap".

Jim Smart

Jim Smart received an allowance in lieu of pension accrual, which increases in line with the PFPS "earnings cap".

Tim Kelly

Tim Kelly was a member of the RHM Pension Scheme ("RHMPs") which is a funded, registered scheme that provides benefits on a defined benefits basis. Up to 30 June 2011 he was entitled to a pension at the rate of 1/25th of pensionable salary for each year of pensionable service. The accrued pension at 30 June 2011 is linked to the rise in the RPI up to a maximum of 5% in any year. From 1 July 2011 he became entitled to a defined benefit on a Career Average Revalued Earnings basis building up pension at 1% of pensionable salary. Under both the pre and post 1 July 2011 pension terms pensionable salary was subject to the RHMPs "earnings cap". He received a salary supplement in lieu of receiving no pension in respect of earnings above the "earnings cap".

The following table sets out the executive directors' pension benefits as members of the Group's defined benefit pension schemes as at 31 December 2011:

	Age at 31 Dec 2011	Accrued pension entitlement at 31 Dec 2010 (£)	Accrued pension entitlement at 31 Dec 2011 (£)	Additional pension earned during the year (£)	Additional pension earned during the year, excluding inflation (£)	Transfer value of accrued pension at 31 Dec 2010 (£)	Transfer value of accrued pension at 31 Dec 2011 ¹ (£)	Increase in transfer value of accrued pension during the year ² (£)	Transfer value of the increase in accrued pension, excluding inflation (£)
Robert Schofield	60	10,000	10,300	300	–	150,700	272,000	121,300 ³	–
Tim Kelly	54	30,100	33,400	3,300	1,400	494,400	684,400	183,600 ³	20,300 ⁴

In 2011 the following Board changes took place: Robert Schofield retired from the Board on 13 September 2011 and Tim Kelly resigned as COO and as a director on 25 November 2011.

¹ Or at date of cessation of employment.

² Net of contributions paid by contributing member.

³ Increase in 2011 is due to reduced interest rates.

⁴ At date of cessation of employment.

Louise Makin

Chairman of the Committee
18 March 2012

Financial Statements

Contents

Contents

Independent auditors' report — Group	78	Trade and other payables	108
Independent auditors' report — Company	79	Bank and other borrowings	108
Consolidated income statement	80	Financial instruments	109
Consolidated statement of comprehensive income	81	Provisions for liabilities and charges	117
Consolidated balance sheet	82	Retirement benefit schemes	118
Consolidated statement of cash flows	83	Reserves and share capital	124
Consolidated statement of changes in equity	84	Notes to the cash flow statement	128
Notes to the financial statements		Operating lease commitments	129
		Capital commitments	129
		Contingencies	129
		Related party transactions	130
		Subsequent events	130
		Company financial statements	132
		Notes to the Company financial statements	133
		Note	
Note		Accounting policies	133
General information	85	Operating profit	133
Accounting policies	85	Investments	134
Critical accounting policies, estimates and judgements	91	Debtors	134
Segmental analysis	92	Creditors	134
Net other operating (expense)/income	94	Deferred tax	134
Operating (loss)/profit for continuing operations	94	Share capital and other reserves	135
Employees	95	Operating lease commitments	135
Finance income and expense	96	Contingencies and guarantees	135
Taxation	97	Subsequent events	135
(Loss)/earnings per share	100		
Discontinued operations	102		
Disposal of businesses	102		
Assets and liabilities held for sale	103		
Property, plant and equipment	104		
Goodwill	105		
Other intangible assets	106		
Investments	107		
Inventories	108		
Trade and other receivables	108		

Independent auditors' report to the members of Premier Foods plc

We have audited the Group financial statements of Premier Foods plc for the year ended 31 December 2011 which comprise the consolidated income statement, consolidated statement of comprehensive income, consolidated balance sheet, consolidated statement of cash flows, consolidated statement of changes in equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 59, the directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the Group financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 December 2011 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the information given in the directors' report for the financial year for which the Group financial statements are prepared is consistent with the Group financial statements

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 59, in relation to going concern;
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance code specified for our review; and
- certain elements of the report to shareholders by the Board on directors' remuneration.

Other matter

We have reported separately on the Parent Company financial statements of Premier Foods plc for the year ended 31 December 2011 and on the information in the Directors' Remuneration Report that is described as having been audited.

Ranjan Sriskandan

(Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

London

18 March 2012

Independent auditors' report to the members of Premier Foods plc

We have audited the Parent Company financial statements of Premier Foods plc for the year ended 31 December 2011 which comprise of the Parent Company Balance Sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of directors and auditors

As explained more fully in the directors' responsibilities set out on pages 59, the directors are responsible for the preparation of the Parent Company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Parent Company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the Parent Company financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2011;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the Parent Company financial statements are prepared is consistent with the Parent Company financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Other matter

We have reported separately on the Group financial statements of Premier Foods plc for the year ended 31 December 2011.

Ranjan Sriskandan

(Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

London

18 March 2012

Consolidated income statement

		Year ended 31 Dec 2011	Year ended 31 Dec 2010 (Restated) ¹
	Note	£m	£m
Continuing operations			
Revenue	4	1,999.5	2,234.4
Cost of sales		(1,436.1)	(1,522.7)
Gross profit		563.4	711.7
Selling, marketing and distribution costs		(272.2)	(300.8)
Administrative costs		(466.8)	(192.9)
Net other operating (expense)/income	5	(0.7)	1.9
Operating (loss)/profit	6	(176.3)	219.9
Before impairment and loss on disposal of operations		116.9	219.9
Impairment of goodwill and intangible assets	15	(282.0)	–
Loss on disposal of operations	12	(11.2)	–
Finance expense	8	(126.9)	(160.1)
Finance income	8	7.2	12.0
Net movement on fair valuation of interest rate financial instruments	8	36.9	(43.3)
(Loss)/profit before taxation from continuing operations		(259.1)	28.5
Taxation credit/(charge)	9	29.1	(24.4)
(Loss)/profit after taxation from continuing operations		(230.0)	4.1
Loss from discontinued operations	11	(109.0)	(103.4)
Loss for the year attributable to equity shareholders of the Parent Company		(339.0)	(99.3)
Basic and diluted loss per share (pence)	10	(14.1)	(4.1)
Basic and diluted (loss)/earnings per share (pence) — continuing	10	(9.6)	0.2
Basic and diluted loss per share (pence) — discontinued	10	(4.5)	(4.3)
Adjusted earnings per share (pence) — continuing ²	10	2.2	4.2

¹ Comparatives have been restated to reflect the reclassification of the Retailer Branded Chilled business as a discontinued operation.

² Adjusted earnings per share is defined as trading profit less net regular interest payable, less a notional tax charge at 26.5% (2010: 28.0%) divided by the weighted average number of ordinary shares of the Company.

The notes on pages 85 to 131 form an integral part of the consolidated financial statements.

Consolidated statement of comprehensive income

	Note	Year ended 31 Dec 2011 £m	Year ended 31 Dec 2010 £m
Loss for the year		(339.0)	(99.3)
Other comprehensive (losses)/income			
Actuarial (losses)/gains on pensions	24	(79.3)	46.4
Deferred tax charge	9	(4.1)	(29.9)
Exchange differences on translation		0.4	(0.3)
Fair value movement on net investment hedge		–	0.8
Total other comprehensive (losses)/income for the year, net of tax		(83.0)	17.0
Total comprehensive losses attributable to owners of the Company		(422.0)	(82.3)

The notes on pages 85 to 131 form an integral part of the consolidated financial statements.

Consolidated balance sheet

	Note	As at 31 Dec 2011 £m	As at 31 Dec 2010 £m
ASSETS:			
Non-current assets			
Property, plant and equipment	14	417.3	485.1
Goodwill	15	856.2	1,096.1
Other intangible assets	16	822.7	1,017.2
		2,096.2	2,598.4
Current assets			
Assets held for sale	13	33.8	406.3
Inventories	18	136.8	135.2
Trade and other receivables	19	297.4	356.3
Financial assets — derivative financial instruments	22	0.5	1.4
Current income tax assets		0.5	—
Cash and bank deposits	26	45.8	1.9
		514.8	901.1
Total assets		2,611.0	3,499.5
LIABILITIES:			
Current liabilities			
Trade and other payables	20	(434.8)	(496.2)
Financial liabilities			
— short-term borrowings	21	(113.6)	(190.1)
— derivative financial instruments	22	(12.6)	(29.6)
— other financial liabilities at fair value through profit or loss	22	(187.0)	(206.3)
Accrued interest payable		(0.9)	(12.3)
Provisions	23	(8.3)	(10.5)
Current income tax liabilities		—	(2.0)
Liabilities held for sale	13	—	(48.8)
		(757.2)	(995.8)
Non-current liabilities			
Financial liabilities			
— long-term borrowings	21	(927.3)	(1,091.8)
Retirement benefit obligations	24	(282.4)	(320.9)
Provisions	23	(38.6)	(28.4)
Other liabilities		(21.9)	(17.0)
Deferred tax liabilities	9	(10.9)	(56.1)
		(1,281.1)	(1,514.2)
Total liabilities		(2,038.3)	(2,510.0)
Net assets		572.7	989.5
EQUITY:			
Capital and reserves			
Share capital	25	24.0	24.0
Share premium	25	1,124.7	1,124.7
Merger reserve	25	606.0	890.7
Other reserves	25	(9.3)	(9.3)
Profit and loss reserve	25	(1,172.8)	(1,040.7)
Capital and reserves attributable to the Company's equity shareholders		572.6	989.4
Non-controlling interest	25	0.1	0.1
Total shareholders' funds		572.7	989.5

The notes on pages 85 to 131 form an integral part of the consolidated financial statements.

The financial statements on pages 80 to 131 were approved by the Board of directors on 18 March 2012 and signed on its behalf by:

Michael Clarke
Chief Executive Officer

Mark Moran
Chief Financial Officer

Consolidated statement of cash flows

	Note	Year ended 31 Dec 2011 £m	Year ended 31 Dec 2010 £m
Cash generated from operating activities	26	86.7	313.2
Interest paid		(120.9)	(143.5)
Interest received		7.5	12.5
Taxation paid		(2.4)	(1.7)
Cash (outflow)/inflow from operating activities		(29.1)	180.5
Sale of subsidiaries/businesses		394.8	–
Purchase of property, plant and equipment		(58.0)	(51.1)
Purchase of intangible assets		(20.9)	(16.6)
Sale of property, plant and equipment		5.4	5.2
Sale of intangible assets		–	3.9
Cash inflow/(outflow) from investing activities		321.3	(58.6)
Repayment of borrowings		(363.6)	(116.2)
Proceeds from borrowings		124.1	–
Financing fees and other costs of finance		(1.6)	(18.8)
Cash outflow from financing activities		(241.1)	(135.0)
Net inflow/(outflow) of cash and cash equivalents		51.1	(13.1)
Cash and cash equivalents at beginning of year		(28.7)	(15.1)
Effect of movement in foreign exchange		(0.3)	(0.5)
Cash and cash equivalents at end of year	26	22.1	(28.7)

The notes on pages 85 to 131 form an integral part of the consolidated financial statements.

Consolidated statement of changes in equity

	Share capital £m	Share premium £m	Merger reserve £m	Other reserves £m	Profit and loss reserve £m	Non- controlling interest £m	Total £m
At 1 January 2011	24.0	1,124.7	890.7	(9.3)	(1,040.7)	0.1	989.5
Loss for the year	-	-	-	-	(339.0)	-	(339.0)
Actuarial losses on pensions	-	-	-	-	(79.3)	-	(79.3)
Deferred tax charge	-	-	-	-	(4.1)	-	(4.1)
Exchange differences on translation	-	-	-	-	0.4	-	0.4
Other comprehensive losses	-	-	-	-	(83.0)	-	(83.0)
Total comprehensive losses	-	-	-	-	(422.0)	-	(422.0)
Share-based payments	-	-	-	-	5.2	-	5.2
Realisation of merger reserve	-	-	(284.7)	-	284.7	-	-
At 31 December 2011	24.0	1,124.7	606.0	(9.3)	(1,172.8)	0.1	572.7
At 1 January 2010	24.0	1,124.7	890.7	(10.1)	(964.5)	0.1	1,064.9
Loss for the year	-	-	-	-	(99.3)	-	(99.3)
Actuarial gains on pensions	-	-	-	-	46.4	-	46.4
Deferred tax charge	-	-	-	-	(29.9)	-	(29.9)
Exchange differences on translation	-	-	-	-	(0.3)	-	(0.3)
Fair value movement on net investment hedge	-	-	-	0.8	-	-	0.8
Other comprehensive income	-	-	-	0.8	16.2	-	17.0
Total comprehensive income/(losses)	-	-	-	0.8	(83.1)	-	(82.3)
Share-based payments	-	-	-	-	6.9	-	6.9
At 31 December 2010	24.0	1,124.7	890.7	(9.3)	(1,040.7)	0.1	989.5

The notes on pages 85 to 131 form an integral part of the consolidated financial statements.

Notes to the financial statements

1. General information

Premier Foods plc (the "Company") is a public limited company incorporated and domiciled in England and Wales, registered number 5160050, with its registered office at Premier House, Centrium Business Park, Griffiths Way, St Albans, Hertfordshire AL1 2RE. The principal activities of the Company and its subsidiaries (the "Group") are food manufacturing, processing and distribution. Further information about the Group's activities can be found in the Group at a Glance section of this annual report on pages 6 to 7. Copies of the annual report and accounts are available from this address.

These Group consolidated financial statements were authorised for issue by the Board of directors on 18 March 2012.

2. Accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of Premier Foods plc have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union (EU) ("adopted IFRS") in response to IAS regulation (EC1606/2002), related interpretations and the Companies Act 2006 applicable to companies reporting under IFRS, and on the historical cost basis, with the exception of derivative financial instruments which are incorporated using fair value. Amounts are presented to the nearest £0.1m.

The preparation of financial statements in conformity with adopted IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 3.

The following accounting standards and interpretations, issued by the International Accounting Standards Board ("IASB") or IFRIC (as endorsed by the EU), are effective for the first time in the current financial year and have been adopted by the Group:

International Financial Reporting Standards

IAS 24 (Amendment)	'Related party disclosures'
IAS 32 (Amendment)	'Financial Instruments: Presentation', on classification of rights issues
IFRS 1 (Amendment)	'First-time adoption', on financial instrument disclosures, interim information, deemed cost exemption and rate regulated entities
IFRIC 14 (Amendment)	'IAS 19 — The limit on a defined benefit asset, minimum funding requirements and their interaction'
IFRIC 19	'Extinguishing financial liabilities with equity instruments'

The following accounting standards and interpretations have had amendments made as part of the 2010 annual improvements project, are effective for annual periods beginning on or after 1 January 2011, and have been adopted by the Group:

International Financial Reporting Standards

IAS 1	'Presentation of financial statements'
IAS 27	'Consolidated and separate financial statements'
IAS 34	'Interim financial reporting'
IFRS 1	'First-time adoption of IFRS'
IFRS 3	'Business combinations' — contingent consideration, share-based payment transactions and non-controlling interests
IFRS 7	'Financial Instruments: Disclosures' — nature and extent of risks arising from financial instruments
IFRIC 13	'Customer loyalty programmes' — fair value

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

New standards and interpretations not applied

The following standard has been endorsed by the EU but has not been applied. It is effective for financial years beginning on or after 1 July 2011:

International Financial Reporting Standards

IFRS 7 (Amendment)	'Financial Instruments: Disclosures' on derecognition
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Notes to the financial statements

2. Accounting policies continued

The following standards and amendments to published standards have not been endorsed by the EU:

International Financial Reporting Standards

IAS 1 (Amendment)	'Presentation of financial statements' regarding other comprehensive income
IAS 12 (Amendment)	'Income taxes' on deferred tax
IAS 19 (Amendment)	'Employee benefits'. These amendments eliminate the corridor approach and calculate finance costs on a net funding basis
IAS 27	'Consolidated and separate financial statements'
IAS 28	'Investments in associates and joint ventures'
IFRS 1 (Amendment)	'First time adoption' on hyperinflation and fixed dates
IFRS 9	'Financial instruments'
IFRS 10	'Consolidated financial statements'
IFRS 11	'Joint arrangements'
IFRS 12	'Disclosure of interests in other entities'
IFRS 13	'Fair value measurement'

It is not expected that any of the new standards will have a material impact on the results of net assets of the Group other than the amendment to IAS 19. This changes the basis on which the financing charge is calculated by applying the discount rate to the net defined benefit obligation. It is expected that the amended standard (which is effective for year ending 31 December 2013) will increase the Group's pension financing charge.

Basis for preparation of financial statements on a going concern basis

The Group has obtained consent from its banking syndicate, swap counterparties and pension schemes on a re-financing package subject to the formalities of final documents being signed, expected by the end of March.

As a result of the consent obtained for re-financing the Group will extend the maturity of its current Term loan and Revolving Credit facilities from 31 December 2013 to 30 June 2016. The existing term loan (£733m) and revolving credit facility (£500m), previously due to mature on 31 December 2013, will be extended to a new maturity date of 30 June 2016. The current applicable bank margin of 2.25% will increase to 3.25% with effect from 1 January 2014.

Banking covenants of Net debt/EBITDA and EBITDA/interest remain in place; they are tested bi-annually and have been reset to reflect the Group's strategic plan.

The total interest rate swap portfolio, including previously restructured swaps, will be restructured into additional term loan totalling approximately £199m. The result of this conversion from swaps to additional term loan will significantly reduce the Group's interest expense in 2012 and 2013 and the previously agreed swap settlements of £35m in 2012 and £82m in 2013 are no longer applicable.

The Group has negotiated and obtained a commitment to a new securitisation programme relating to certain receivable balances available up to an amount of £120m, subject to sufficient receivables being capable of being sold into the programme. These balances will be included as part of net debt, reflecting their recognition on the balance sheet, and attract an interest margin of 3.5%.

Planned future disposal proceeds will be shared between the banking syndicate and swap counterparties.

Subject to implementation of the new re-financing arrangements, the Trustees of the Group's pension schemes have agreed to defer deficit contribution payments (c.£47m p.a.) until 1 January 2014. Additionally, there will be no increase in the agreed deficit contributions before 2016.

As a result of the consent to this re-financing package, the directors believe that the Company is well placed to manage its business risks successfully despite the current uncertain economic outlook.

The directors are confident that the necessary documentation will be finalised and signed by the end of March and that all conditions precedent will be met. The directors therefore have a reasonable expectation that the Group has adequate resources to operate in the ordinary course of business and to meet its obligations as they fall due. Thus the financial statements have been prepared on a going concern basis.

2.2 Basis of consolidation

The consolidated financial statements include the financial statements of Premier Foods plc and entities controlled by the Company (its subsidiaries) up to 31 December each year. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. In addition, comparatives are also restated to reclassify material disposed businesses into discontinued operations.

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

2. Accounting policies continued

All intra-Group transactions, balances, income and expenses are eliminated on consolidation.

2.3 Revenue

Revenue comprises the invoiced value for the sale of goods net of sales rebates, discounts, value added tax and other taxes directly attributable to revenue and after eliminating sales within the Group. Revenue is recognised when the outcome of a transaction can be measured reliably and when it is probable that the economic benefits associated with the transaction will flow to the Group. Revenue is recognised on the following basis:

(i) Sale of goods

Sales of goods are recognised as revenue on transfer of the risks and rewards of ownership, which generally coincides with the time when the merchandise is delivered to customers and title passes.

(ii) Sales rebates and discounts

Sales rebates and discount reserves are established at the time of sale based on management's best estimate of the amounts necessary to meet claims by the Group's customers in respect of these rebates and discounts. A provision is made at the time of sale and released, if unutilised, after assessment that the likelihood of such a claim being made has become remote.

2.4 Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision Maker. The Chief Operating Decision Maker is responsible for allocating resources and assessing performance of the operating segments. See note 4 for further details.

2.5 Share-based payments

The Company operates a number of equity-settled share-based compensation plans. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense over the vesting period. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each balance sheet date, the entity revises its estimates of the number of options that are expected to vest and recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

2.6 Foreign currency translation

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into sterling, the Group's presentational currency, at rates of exchange ruling at the end of the financial year.

The results of overseas subsidiaries with functional currencies other than in sterling are translated into sterling at the average rate of exchange ruling in the year. The balance sheets of overseas subsidiaries are translated into sterling at the closing rate. Exchange differences arising from retranslation at year end exchange rates of the net investment in foreign subsidiaries are recorded as a separate component of equity in other reserves. When a foreign operation is sold exchange differences previously taken to equity are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

All other exchange gains or losses are recorded in the income statement.

2.7 Property, plant and equipment ("PPE")

Property, plant and equipment is initially recorded at cost. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. Subsequent expenditure is added to the carrying value of the asset when it is probable that incremental future economic benefits will transfer to the Group. All other subsequent expenditure is expensed in the period it is incurred.

Differences between the cost of each item of PPE and its residual value are written off over the estimated useful life of the asset using the straight-line method. Reviews of the estimated remaining useful lives and residual values of individual productive assets are performed annually, taking account of commercial and technological obsolescence as well as normal wear and tear. Freehold land is not depreciated. The useful economic lives of owned assets range from 20 to 50 years for buildings, and 3 to 35 years for vehicles, plant and equipment.

All items of PPE are reviewed for impairment when there are indications that the carrying value may not be fully recoverable.

2.8 Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the acquisition date fair values of assets given, liabilities incurred or assumed and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition related costs are recognised in profit or loss as incurred.

On the acquisition of a business, fair values are attributed to the identifiable assets, liabilities and contingent liabilities acquired. Goodwill arises when the fair value of the consideration for a business exceeds the fair value of the net assets acquired. Goodwill arising on acquisitions is capitalised and subject to impairment review, both annually and when there are indications that the carrying value may not be recoverable.

Notes to the financial statements

2. Accounting policies continued

The Group has applied IFRS 3 (Revised) 'Business Combinations' to business combinations after 1 July 2009. The accounting for business combinations transacted prior to this date has not been restated.

2.9 Intangible assets

In addition to goodwill the Group recognises the following intangible assets:

Acquired intangible assets

Acquired trademarks, brands, customer relationships, licences, recipes and similar assets that are controlled through custody or legal rights and that could be sold separately from the rest of the business are capitalised, where fair value can be reliably measured. All of these assets are considered to have finite lives and are amortised on a straight-line basis over their estimated useful economic lives that range from 7 to 40 years.

Research and development

Research expenditure is charged to the income statement in the year in which it is incurred.

Costs incurred in developing a product, typically its recipe or packaging, are charged to income in the year in which they are incurred unless the product or process is technically and commercially feasible in which case they are capitalised and amortised over the useful economic lives in accordance with IAS 38 'Intangible Assets'.

Software development costs

Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognised as intangible assets when the project or process is technically and commercially feasible. Directly attributable costs that are capitalised as part of the software product include the software development employee costs and an appropriate portion of relevant overheads.

Software development costs are amortised over their estimated useful lives on a straight-line basis over a range of 3 to 10 years.

The useful economic lives of intangible assets are determined based on a review of a combination of factors including the asset ownership rights acquired and the nature of the overall product life cycle.

2.10 Impairment

The carrying value of non-financial assets, other than goodwill and inventories, is reviewed at least annually to determine whether there is an indication of impairment. Where such indication exists, the recoverable amount is estimated based on the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows, adjusted for the risks specific to each asset, are discounted to their present value using a discount rate that reflects current market assessment of the time value of money and the general risks affecting the food manufacturing industry.

Impairment losses are recognised in the income statement in the year in which they occur.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash flows of other assets.

2.11 Financing cost

(i) Finance expense

Borrowing costs are accounted for on an accruals basis in the income statement using the effective interest method.

(ii) Finance income

Finance income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable, taking into consideration the interest element of derivatives.

2.12 Leases

Assets held under finance leases, where substantially all the risks and rewards of ownership are transferred to the Group, are capitalised and included in property, plant and equipment at the lower of the present value of future minimum lease payments or fair value. Each asset is depreciated over the shorter of the lease term or its estimated useful life on a straight-line basis. Obligations relating to finance leases, net of finance charges in respect of future periods, are included within borrowings. The interest element of the rental obligation is allocated to accounting periods during the lease term to reflect a constant rate of interest on the remaining balance of the obligation for each accounting period.

Leases in which a significant portion of risks and rewards of ownership are retained by the lessor are classified as operating leases. Rental costs under operating leases, net of any incentives received from the lessors, are charged to the income statement on a straight-line basis over the lease period.

2.13 Inventories

Inventory is valued at the lower of cost and net realisable value. Where appropriate, cost includes production and other attributable overhead expenses as described in IAS 2 'Inventories'. Cost is calculated on a first-in, first-out basis by reference to the invoiced value of supplies and attributable costs of bringing the inventory to its present location and condition. Net realisable value is the estimated selling price in the ordinary course of business less estimated costs of completion and the estimated costs necessary to make the sale.

2. Accounting policies continued

All inventories are reduced to net realisable value where the estimated selling price is lower than cost.

Provision is made for slow moving, obsolete and defective inventory where appropriate.

2.14 Taxation

Income tax on the profit or loss for the year comprises current and deferred tax.

Current tax

Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity in which case it is recognised in equity. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax

Deferred taxation is accounted for in respect of temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in computation of taxable profit. Deferred taxation is not provided on the initial recognition of an asset or liability in a transaction, other than in a business combination, if at the time of the transaction there is no effect on either accounting or taxable profit or loss.

Deferred tax is measured at the tax rates that are expected to apply in the periods in which the asset or liability is settled based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date. It is recognised in the income statement except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary difference can be utilised. Their carrying amount is reviewed at each balance sheet date on the same basis.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and when the Group intends to settle its current tax assets and liabilities on a net basis.

2.15 Employee benefits

Group companies provide a number of long-term employee benefit arrangements, primarily through pension schemes. The schemes are generally funded through payments to insurance companies or trustee-administered funds determined by periodic independent actuarial calculations. The Group has both defined benefit and defined contribution plans.

Defined benefit plans

A defined benefit plan is a pension plan that defines the amount of pension benefit that an employee will receive on retirement, usually dependent on factors such as age, years of service and compensation.

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for actuarial gains or losses and past service costs. Defined benefit obligations are calculated using assumptions determined by the Group with the assistance of independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using yields of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to the statement of comprehensive income in the year in which they arise.

Current service costs, past service costs, administration costs, expected return on assets and interest costs are recognised immediately in the income statement, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortised on a straight-line basis over the vesting period.

Defined contribution plans

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity, which then invests the contributions to buy annuities for the pension liabilities as they become due based on the value of the fund. The Group has no legal or constructive obligations to pay further contributions.

Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as they fall due. Differences between contributions payable in the year and contributions actually paid are recognised as either accruals or prepayments in the balance sheet.

2.16 Provisions

Provisions are recognised when the Group has present legal or constructive obligations as a result of past events, it is probable that an outflow of resources will be required to settle the obligations and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset when the reimbursement is virtually certain. Where material, the Group discounts its provisions using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance expense.

Notes to the financial statements

2. Accounting policies continued

2.17 Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and the existence of which will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group or the amount of obligation cannot be measured reliably. A contingent liability is not recognised but is disclosed in the notes to the financial statements. When an outflow becomes probable, it is recognised as a provision.

A contingent asset is a possible asset that arises from past events and the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group. Contingent assets are not recognised but are disclosed in the notes to the financial statements when an inflow of economic benefits is probable. When inflow is virtually certain an asset is recognised.

2.18 Financial instruments

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Trade and other receivables

Trade and other receivables are initially measured at fair value and subsequently measured at amortised cost less any provision for impairment. A provision is made for impairment when there is objective evidence that the Group will not be able to collect all amounts due according to the terms of the receivables. Trade and other receivables are discounted when the time value of money is considered material.

The rights and obligations relating to those trade receivables that have been sold to third parties are derecognised from the balance sheet where the risks and rewards of ownership are considered to have transferred. Cash received from third parties in exchange for the transfer of ownership is recorded within cash and cash equivalents with the cost of financing prior to settlement by the customer recorded as interest on an accruals basis. Amounts received from customers for receivables in respect of which title has transferred, for example under the debtors securitisation programme, represent amounts owed to the transferee and are recorded as short-term borrowings.

Cash and cash equivalents

Cash and cash equivalents, with original maturities at inception of less than 90 days, comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash at bank, cash in hand, short-term deposits with an original maturity of three months or less held for the purpose of meeting short-term cash commitments and bank overdrafts.

Financial liabilities and equity

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

Bank borrowings

Interest-bearing bank loans and overdrafts are measured initially at fair value and subsequently at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs and inclusive of debt issuance costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the Group's accounting policy for borrowing costs.

Trade and other payables

Trade and other payables are initially measured at fair value and subsequently measured at amortised cost. Trade payables and other liabilities are discounted when the time value of money is considered material.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received net of directly attributable issue costs.

Derivative financial instruments

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risk and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value, with unrealised gains or losses reported in the income statement. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. Movements in fair value of foreign exchange derivatives are recognised within other operating income and expense and those relating to interest rate swaps are recorded within the net movement on fair valuation of interest rate financial instruments.

Other items at fair value through profit or loss

Other items at fair value through profit or loss are initially recognised at fair value on the date the contract is entered into and are subsequently remeasured at their fair value. Movements in fair value are recorded within the net movement on fair valuation of interest rate financial instruments. See notes 8 and 22 for further details.

2. Accounting policies continued

Net investment hedge

Any gain or loss on the hedging instrument relating to the effective portion of changes in the fair value of derivatives that are designated and qualify as net investment hedges is recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement within other operating income and expense.

2.19 Non-current assets held for sale

Non-current assets and associated liabilities that are expected to be recovered primarily through sale rather than continuing use are classified as held for sale. Immediately before classification as held for sale, the assets and associated liabilities are remeasured in accordance with the Group's accounting policies. Thereafter the assets are measured at the lower of their carrying amount and fair value less costs to sell. Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

3. Critical accounting policies, estimates and judgements

The following are areas of particular significance to the Group's financial statements and include the use of estimates and the application of judgement, which is fundamental to the compilation of a set of financial statements.

3.1 Employee benefits

The present value of the Group's defined benefit pension obligations depends on a number of actuarial assumptions. The primary assumptions used include the discount rate applicable to scheme liabilities, the long-term rate of inflation and estimates of the mortality applicable to scheme members.

At each reporting date, and on a continuous basis, the Group reviews the macro-economic, Company and scheme specific factors influencing each of these assumptions, using professional advice, in order to record the Group's ongoing commitment and obligation to defined benefit schemes in accordance with IAS 19. Key assumptions used are mortality rates, discount rates and inflation set with reference to bond yields. If the Group's assumption on the mortality of its members was amended to assume an increase of a further one year improvement in mortality, total liabilities would increase by approximately 3.3%. Each 0.1% decrease/increase in bond yields would increase/decrease the deficit by a further £58m/£56m. Each 0.1% increase/decrease in the assumed inflation rate would increase/decrease the deficit by a further £24m. Each of the underlying assumptions is set out in more detail in note 24.

3.2 Goodwill and other intangible assets

Impairment reviews in respect of goodwill are performed annually unless an event indicates that an impairment review is necessary. Impairment reviews in respect of intangible assets are performed when an event indicates that an impairment review is necessary. Examples of such triggering events include a significant planned restructuring, a major change in market conditions or technology, expectations of future operating losses, or a significant reduction in cash flows. The recoverable amounts of cash-generating units ("CGUs") are determined based on the higher of realisable value and value in use calculations. These calculations require the use of estimates.

The Group has considered the impact of the assumptions used on the calculations and has conducted sensitivity analysis on the impairment tests of the CGUs carrying values. See note 15 for further details.

Acquired trademarks, brands, customer relationships, recipes and similar assets are considered to have finite lives that range from 7 to 40 years. The determination of the useful lives takes into account certain quantitative factors such as sales expectations and growth prospects, and also many qualitative factors such as history and heritage, and market positioning, hence the determination of useful lives are subject to estimates and judgement. For further details see note 16.

3.3 Advertising and promotion costs

Trade spend and promotional activity is dependent on market conditions and negotiations with customers. Trade spend is charged to the income statement according to the substance of the agreements with customers and the terms of any contractual relationship. Promotional support is generally charged to the income statement at the time of the relevant promotion. These costs are accrued on best estimates; the actual costs may not be known until subsequent years when negotiations with customers are concluded. Such adjustments are recognised in the year when final agreement is reached.

Expenditure on advertising is charged to the income statement when incurred, except in the case of airtime costs when a particular campaign is used more than once. In this case they are charged in line with the airtime profile.

3.4 Securitisation

The Group has sold the rights and obligations relating to certain of its trade receivable balances under a receivables purchasing agreement in order to achieve an overall lower cost of funding and permanently accelerate the generation of cash from working capital. Accounting for a sale of this nature is judgemental and dependent on evidence of the substantive transfer of risk and reward from the Group to a third party. In this instance, transference of the two primary risks, those of late payment and credit default was achieved at the balance sheet date.

3.5 Financial instruments

The Group uses a variety of derivative financial instruments to manage the risks arising from adverse movements in interest rates, commodity prices and foreign currency.

The Group has a policy of not applying hedge accounting to these derivatives (other than in the case of a net investment hedge against Euro denominated assets) and taking any gain or loss on the movement of the fair values of derivatives to the income statement.

Notes to the financial statements

4. Segmental analysis

IFRS 8 requires operating segments to be determined based on the Group's internal reporting to the Chief Operating Decision Maker ("CODM"). The CODM has been determined to be the Chief Executive Officer and Chief Financial Officer as they are primarily responsible for the allocation of resources to segments and the assessment of performance of the segments.

The CODM uses trading profit, as reviewed at monthly business review meetings, as the key measure of the segments' results as it reflects the segments' underlying trading performance for the period under evaluation. Trading profit is a consistent measure within the Group and the reporting of this measure at the monthly business review meetings, which are organised according to product types, has been used to identify and determine the Group's operating segments. Trading profit is defined as operating profit before re-financing costs, restructuring costs and losses associated with divestment activity, amortisation and impairment of intangible assets, the revaluation of foreign exchange and other derivative contracts under IAS 39 and pension credits or charges in relation to the difference between the expected return on pension assets, administration costs and interest costs on pension liabilities.

The Group's operating and reporting segments are "Grocery", "Bread" and "Disposed of Canning Operations". In 2010 the Group reported the Retailer Branded Chilled business as a separate operating segment and the results of the Meat-free operation within discontinued operations. As a result of the Group's disposal of the Retailer Branded Chilled business in December 2011 and the completion of the disposal of the Meat-free business in March 2011, results previously shown for these operating segments are presented as discontinued operations in both the current year and the prior year.

In July 2011 the Group disposed of its East Anglian canned grocery operations, which was previously part of the Grocery segment. The results of the East Anglian canned grocery operations for the year ended 31 December 2011 were reported separately to the CODM throughout the year and therefore have been recognised as a separate operating segment for both the current year and the prior year. During the year, the Hovis operating segment was renamed "Bread".

The Grocery segment sells ambient food products. The Bread segment sells bread, morning goods, flour products and frozen pizza bases and the Disposed of Canning Operations segment sold canned goods.

The segment results for the year ended 31 December 2011 and for the year ended 31 December 2010 and the reconciliation of the segment measures to the respective statutory items included in the consolidated financial statements are as follows:

	Year ended 31 Dec 2011			
	Grocery £m	Bread £m	Disposed of Canning Operations £m	Total for Group £m
Revenue from continuing operations				
External	1,121.5	711.3	166.7	1,999.5
Inter-segment	2.5	26.6	–	29.1
Result				
Trading profit	179.5	3.4	5.4	188.3
Amortisation of intangible assets				(72.0)
Fair value movements on foreign exchange and other derivative contracts				(1.7)
Restructuring costs relating to disposal activities				(10.5)
Re-financing costs				(4.2)
Pension financing credit				17.0
Operating profit before impairment and loss on disposal of operations				116.9
Impairment of goodwill and intangible assets				(282.0)
Loss on disposal of operations				(11.2)
Operating loss				(176.3)
Finance expense				(126.9)
Finance income				7.2
Net movement on fair valuation of interest rate financial instruments				36.9
Loss before taxation for continuing operations				(259.1)
Depreciation	24.2	17.6	–	41.8
Amortisation	53.9	18.1	–	72.0
Impairment of goodwill and other intangibles	–	282.0	–	282.0
Balance sheet				
Segment assets	2,042.2	412.2	–	2,454.4
Unallocated assets				156.6
Consolidated total assets				2,611.0

4. Segmental analysis continued

	Year ended 31 Dec 2010 (Restated) ^{1,2}			
	Grocery £m	Bread £m	Disposed of Canning Operations £m	Total for Group £m
Revenue from continuing operations				
External	1,212.6	687.6	334.2	2,234.4
Inter-segment	3.9	27.7	–	31.6
Result				
Trading profit	220.5	35.3	27.8	283.6
Amortisation of intangible assets				(65.8)
Fair value movements on foreign exchange and other derivative contracts				(2.0)
Pension financing credit				4.1
Operating profit				219.9
Finance expense				(160.1)
Finance income				12.0
Net movement on fair valuation of interest rate financial instruments				(43.3)
Profit before taxation from continuing operations				28.5
Depreciation	22.0	17.3	3.9	43.2
Amortisation	47.3	18.3	0.2	65.8
Impairment of property, plant and equipment	0.7	–	–	0.7
Balance sheet				
Segment assets	2,146.1	663.1	151.1	2,960.3
Unallocated assets				539.2
Consolidated total assets				3,499.5

¹ Comparatives have been restated to reflect the reclassification of the Retailer Branded Chilled business as a discontinued operation.

² Comparatives have been restated to reflect the separation of the Canning business which was previously reported within Grocery.

Revenues, on a continuing basis, of approximately £345.6m and £285.7m (2010: £454.0m and £336.9m) are derived from two external customers. These revenues are attributable across the three segments above.

Inter-segment transfers or transactions are entered into under the same terms and conditions that would be available to unrelated third parties. As a consequence of extensive integration of the business, certain operating costs have been incurred centrally. These costs are allocated to reporting segments on an appropriate basis depending on the various cost drivers and therefore the total segment result is equal to the Group's total trading profit.

Segment assets comprise property, plant and equipment, goodwill and intangible assets, inventories and receivables and exclude cash and cash equivalents, derivative assets and certain Corporate assets that are not able to be allocated to the Group's reporting segments.

Unallocated assets comprise cash and cash equivalents, taxation balances, retirement benefit assets, derivative financial assets, Group-wide software and hardware and head office assets.

The Group primarily supplies the UK market, although it also supplies certain products to other European countries and a number of other countries. The following table provides an analysis of the Group's revenue, which is allocated on the basis of geographical market destination, and an analysis of the Group's non-current assets (excluding retirement benefit assets) by geographical location.

Continuing operations – revenue

	Year ended 31 Dec 2011 £m	Year ended 31 Dec 2010 (Restated) ¹ £m
United Kingdom	1,880.8	2,111.6
Other Europe	87.4	100.1
Rest of world	31.3	22.7
Total	1,999.5	2,234.4

¹ Comparatives have been restated to reflect the reclassification of the Retailer Branded Chilled business as a discontinued operation.

Notes to the financial statements

4. Segmental analysis continued

Non-current assets

	As at 31 Dec 2011 £m	As at 31 Dec 2010 £m
United Kingdom	2,066.1	2,534.8
Other Europe	30.1	63.6
Total for Group	2,096.2	2,598.4

5. Net other operating (expense)/income

	Year ended 31 Dec 2011 £m	Year ended 31 Dec 2010 £m
Fair value movements on foreign exchange contracts and other derivatives	(1.7)	(2.0)
Gain on disposal of non-current assets	0.9	4.7
Net other operating income/(expense)	0.1	(0.8)
Total net other operating (expense)/income	(0.7)	1.9

6. Operating (loss)/profit for continuing operations

6a. Analysis of costs by nature

	Year ended 31 Dec 2011 £m	Year ended 31 Dec 2010 (Restated) ¹ £m
Cost of inventories sold	1,249.8	1,292.1
Employee benefits expense (note 7)	402.5	434.5
Depreciation of property, plant and equipment:		
— owned assets	40.4	40.8
— under finance leases	1.4	2.4
Amortisation of intangible assets:		
— software and licences	17.4	13.3
— brands and trademarks	33.0	31.0
— customer relationships	21.6	21.5
Impairment of property, plant and equipment (note 14)	–	0.7
Impairment of goodwill (note 15)	185.4	–
Impairment of intangible assets (note 15)	96.6	–
Operating lease rental payments:		
— plant and machinery	8.4	12.4
— land and buildings	11.2	14.8
Repairs and maintenance expenditure	52.0	45.8
Research and development costs	8.4	10.6
Gain on disposal of non-current assets	(0.9)	(4.7)
Net foreign exchange loss/(gain)	0.4	(0.4)
Past service credits relating to defined benefit schemes	(41.3)	(11.0)
Impact of one-off aged receivable and commercial provision review	37.4	–
Re-financing costs	4.2	–
Auditor remuneration	1.4	1.2

¹ Comparatives have been restated to reflect the reclassification of the Retailer Branded Chilled business as a discontinued operation.

Operating lease obligations are further disclosed in note 27.

6b. Auditor remuneration

	Year ended 31 Dec 2011 £m	Year ended 31 Dec 2010 £m
Fees payable to the Company's auditor for the audit of the Parent Company and consolidated financial statements	0.4	0.6
Fees payable to the Company's auditor and its associates for other services:		
— The audit of the Company's subsidiaries, pursuant to legislation	0.4	0.5
— Services relating to corporate finance transactions	2.1	1.2
— Other services	0.1	0.1
Total auditor remuneration	3.0	2.4

Included within total fees paid to the auditors of £3.0m (2010: £2.4m) were £2.1m of costs directly attributable to co-ordination support and advice on corporate finance transactions principally related to the Group's re-financing. In 2011, £1.6m of the £2.1m relating to corporate finance transactions was capitalised resulting in a total of £2.6m of auditor remuneration held on the balance sheet at 31 December 2011. The remaining £0.5m was charged to operating profit. The total operating profit charge for auditors remuneration was £1.4m (2010: £1.2m).

In 2010, included within total fees paid to the auditors of £2.4m of costs were £1.2m of costs which were directly attributable to the coordination support and advice on corporate finance transactions such as restructuring of the Group's interest rate swaps, financing negotiations and obtaining a credit rating.

7. Employees

	Year ended 31 Dec 2011 £m	Year ended 31 Dec 2010 (Restated) ¹ £m
Staff costs for the Group during the year – continuing operations		
Wages and salaries	(380.1)	(384.2)
Social security costs	(31.5)	(32.4)
Termination benefits	(11.2)	(2.9)
Share options granted to directors and employees	(3.9)	(6.9)
Contributions to defined contribution schemes (note 24)	(0.1)	–
Credit/(charge) for defined benefit schemes (note 24)	24.3	(8.1)
Total	(402.5)	(434.5)
Staff costs for the Group during the year – discontinued operations		
Wages and salaries	(45.9)	(60.2)
Social security costs	(4.1)	(5.4)
Termination benefits	(2.5)	(0.3)
Share options granted to directors and employees	(0.9)	–
Contributions to defined contribution schemes (note 24)	(0.2)	(1.1)
Charge for defined benefit schemes (note 24)	(2.1)	(1.1)
Total	(55.7)	(68.1)
Total – continuing and discontinued	(458.2)	(502.6)

¹ Comparatives have been restated to reflect the reclassification of the Retailer Branded Chilled business as a discontinued operation.

Average monthly number of people employed (including executive directors):

	2011 Number	2010 Number
Management	1,769	1,907
Administration	1,116	1,285
Production, distribution and other	10,916	12,385
Total	13,801	15,577

2010 average employee numbers have been restated to include both continuing and discontinued operations and to align classifications with revised internal definitions. Within the employee numbers above 2,081 (2010: 2,856) relate to discontinued operations.

Directors' remuneration (including retirement benefits accruing to the directors under defined benefit schemes) is disclosed in the audited sections of the directors' remuneration report on pages 65 to 76 which form part of these financial statements.

Notes to the financial statements

8. Finance income and expense

	Year ended 31 Dec 2011 £m	Year ended 31 Dec 2010 £m
Interest payable on bank loans and overdrafts	(13.6)	(20.2)
Interest payable on term facility	(28.6)	(45.2)
Interest payable on revolving facility	(7.6)	(6.0)
Interest payable on interest rate derivatives	(19.1)	(59.5)
Interest payable on interest rate financial liabilities designated as other financial liabilities at fair value through profit or loss	(40.6)	(11.9)
Unwind of discount on provisions	(2.4)	(1.3)
Amortisation of debt issuance costs and deferred fees	(13.4)	(14.4)
	(125.3)	(158.5)
Write-off of financing costs	(1.6)	(1.6)
Total finance expense	(126.9)	(160.1)
Interest receivable on bank deposits	7.2	12.0
Total finance income	7.2	12.0
Movement on fair valuation of interest rate derivatives	17.6	133.7
Movement on fair valuation of interest rate financial liabilities designated as other financial liabilities at fair value through profit or loss	19.3	(177.0)
Net movement on fair valuation of interest rate financial instruments	36.9	(43.3)
Net finance expense	(82.8)	(191.4)

The fair value of interest rate swaps and other financial liabilities at fair value through profit or loss has decreased from a £234.5m liability at 31 December 2010 to a £197.6m liability at 31 December 2011 resulting in a net movement of £36.9m for the year. The change in fair value in the year is due to a change in the yield curve offset by amortisation (refer to note 22). The liability at 31 December 2011 represents the net present value of the interest cash flows calculated using the contracted fixed rates compared to the net present value of interest cash flows that would arise if the interest was calculated on a floating basis.

The total facility as at 31 December 2011 was £1,233m.

2010

In October 2010, the Group restructured all of its five long dated swaps and its two "other" callable swaps into six new fixed rate swaps. These fixed rate swaps are hybrid instruments comprising an underlying host with embedded derivatives and have been reclassified as "Other financial liabilities at fair value through profit or loss".

The total facility as at 31 December 2010 was £1,680m.

Subsequent events

For details of amendments to the Group's financing arrangements please see note 31.

9. Taxation

Current tax

Analysis of the credit/(charge) for the year:

	Continuing operations £m	Discontinued operations £m	Total £m
2011			
Current tax			
– Current year	–	–	–
– Prior years	1.5	–	1.5
Overseas current tax			
– Current year	(1.2)	–	(1.2)
– Prior years	–	–	–
Deferred tax			
– Current year	20.6	11.5	32.1
– Prior years	0.3	–	0.3
– Adjustment to restate opening deferred tax at 25.0%	7.9	0.7	8.6
Income tax credit for the year	29.1	12.2	41.3
2010			
Current tax			
– Current year	(36.2)	36.1	(0.1)
– Prior years	–	(1.2)	(1.2)
Overseas current tax			
– Current year	(1.3)	–	(1.3)
– Prior years	–	1.4	1.4
Deferred tax			
– Current year	(5.4)	(3.9)	(9.3)
– Prior years	14.3	2.2	16.5
– Adjustment to restate opening deferred tax at 27.0%	4.2	1.3	5.5
Income tax (charge)/credit for the year	(24.4)	35.9	11.5

Tax relating to items recorded in equity for continuing operations was:

	Year ended 31 Dec 2011 £m	Year ended 31 Dec 2010 £m
Deferred tax charge on reduction of corporate tax rate	(4.5)	(3.6)
Deferred tax credit/(charge) on pension movements	0.4	(12.4)
Deferred tax charge on losses relating to pensions	–	(13.9)
	(4.1)	(29.9)

Notes to the financial statements

9. Taxation continued

The tax charge for the year differs from the standard rate of corporation tax in the United Kingdom of 26.5% (2010: 28.0%). The reasons for this are explained below:

	Year ended 31 Dec 2011 £m	Year ended 31 Dec 2010 £m
(Loss)/profit before taxation for continuing operations	(259.1)	28.5
Tax credit/(charge) at the domestic income tax rate of 26.5% (2010: 28.0%)	68.7	(8.0)
Tax effect of:		
Non-deductible items	(47.8)	(34.9)
Other disallowable items	(0.5)	0.7
Adjustment for overseas results taxed at different rates	1.4	1.0
Adjustment for share-based payments	(1.3)	(1.9)
Previously unrecognised losses utilised	16.3	–
Capital gain on disposal of business	(16.3)	–
Adjustment due to current year deferred tax being provided at 25.0% (2010: 27.0%)	(1.1)	0.2
Adjustment to restate opening deferred tax at 25.0% (2010: 27.0%)	7.9	4.2
Adjustments to prior years	1.8	14.3
Income tax credit/(charge)	29.1	(24.4)

The Finance Bill 2011, which was published on 31 March 2011, includes legislation reducing the main rate of corporation tax from 28% to 26% from 1 April 2011. This gives rise to an effective rate of corporation tax for the year of 26.5%.

Deferred tax balances at 31 December 2010 were calculated at 27%, the rate which was substantively enacted to apply from 1 April 2011. The Finance (No. 3) Act 2011, substantively enacted on 5 July 2011, reduces the main rate of corporation tax to 25% from 1 April 2012. This 2% reduction for the 2011 financial year has been reflected in the financial statements by restating the deferred tax liability at 31 December 2010 giving a credit of £7.9m to continuing operations. This is offset by a charge to equity of £4.5m to reflect where the credits were originally made. In addition, the deferred tax movements in the period have been reflected at 25%, being the rate at which the liabilities are expected to reverse, which has resulted in a £1.1m decrease to the income tax credit.

Further reductions to the main rate of corporation tax are proposed to reduce the rate by 1% per annum to 23% by 1 April 2014. However, as these further reductions in the main rate of corporation tax have not been substantively enacted at the balance sheet date they are not reflected in the deferred tax recognised on the balance sheet.

Deferred tax

Deferred tax is calculated in full on temporary differences using the tax rate appropriate to the jurisdiction in which the asset/(liability) arises and the tax rates that are expected to apply in the periods in which the asset or liability is settled. In all cases this is 25.0% (2010: 27.0%) except for a liability relating to Irish retirement benefit obligations where the local rate of 12.5% has been used.

	2011 £m	2010 £m
At 1 January	(56.1)	(64.7)
Credited to the income statement	41.0	12.7
Charged to equity	(4.1)	(29.9)
Transferred to held for sale	–	25.8
Disposal of subsidiaries/businesses	8.3	–
At 31 December	(10.9)	(56.1)

Due to the unpredictability of future profit streams the Group has not recognised deferred tax assets of £27.6m (2010: £48.1m) relating to capital losses, £23.4m (2010: £9.3m) relating to UK corporation tax losses and £31.1m (2010: £34.8m) relating to ACT. Under current legislation these losses can generally be carried forward indefinitely.

9. Taxation continued

Deferred tax liabilities	Intangibles £m	Other £m	Total £m
At 1 January 2010	(233.4)	(1.7)	(235.1)
Prior year restatement of opening balances			
— To income statement	8.3	0.1	8.4
— To equity	–	(0.4)	(0.4)
Current year credit/(charge)	16.9	(0.2)	16.7
Deferred tax charge on discontinued activities	(2.7)	–	(2.7)
Prior year charge			
— To income statement	–	(1.5)	(1.5)
Transferred to held for sale	20.3	(0.9)	19.4
At 31 December 2010	(190.6)	(4.6)	(195.2)
Prior year restatement of opening balances	14.2	0.3	14.5
Disposal of subsidiaries/businesses	7.0	–	7.0
Current year credit	36.5	–	36.5
At 31 December 2011	(132.9)	(4.3)	(137.2)

Deferred tax assets	Accelerated tax depreciation £m	Retirement benefit obligation £m	Share-based payments £m	Financial instruments £m	Losses £m	Total £m
At 1 January 2010	(31.1)	118.6	0.5	54.8	27.6	170.4
Prior year restatement of opening balances						
— To income statement	1.1	(1.5)	–	(1.9)	(0.5)	(2.8)
— To equity	–	(2.7)	–	–	(0.5)	(3.2)
Current year (charge)/credit	(17.6)	(16.2)	0.1	12.2	(0.6)	(22.1)
Prior year credit/(charge)						
— To income statement	29.9	–	(0.3)	(1.4)	(12.4)	15.8
— To equity	–	–	–	–	(13.9)	(13.9)
Charged to equity	–	(12.4)	–	–	–	(12.4)
Deferred tax credit on discontinued activities	0.9	–	–	–	–	0.9
Transferred to held for sale	6.4	–	–	–	–	6.4
At 31 December 2010	(10.4)	85.8	0.3	63.7	(0.3)	139.1
Prior year restatement of opening balances						
— To income statement	0.7	(1.8)	(0.1)	(4.7)	–	(5.9)
— To equity	–	(4.5)	–	–	–	(4.5)
Current year credit/(charge)	3.2	(9.9)	(0.3)	(8.9)	–	(15.9)
Prior year credit						
— To income statement	–	–	–	–	0.3	0.3
— To equity	–	0.4	–	–	–	0.4
Deferred tax credit on discontinued activities	11.5	–	–	–	–	11.5
Disposal of subsidiaries/businesses	1.3	–	–	–	–	1.3
At 31 December 2011	6.3	70.0	(0.1)	50.1	–	126.3
Net deferred tax liability						£m
At 31 December 2011						(10.9)
At 31 December 2010						(56.1)

Where there is a legal right of offset and an intention to settle as such, deferred tax assets and liabilities may be presented on a net basis. This is the case for most of the Group's deferred tax balances and therefore they have been offset in the tables above. Substantial elements of the Group's deferred tax assets and liabilities, primarily relating to the defined benefit pension obligation, are greater than one year in nature.

Deferred tax assets in respect of losses are only recognised to the extent that it is anticipated they will be utilised in the foreseeable future.

Notes to the financial statements

10. (Loss)/earnings per share

Basic loss per share has been calculated by dividing the loss attributable to ordinary shareholders of £339.0m loss (2010: £99.3m loss) by the weighted average number of ordinary shares of the Company.

	Year ended 31 Dec 2011			Year ended 31 Dec 2010 (Restated) ¹		
	Basic	Dilutive effect of share options	Diluted	Basic	Dilutive effect of share options	Diluted
Continuing operations						
(Loss)/profit after tax (£m)	(230.0)	–	(230.0)	4.1	–	4.1
Weighted average number of shares (m)	2,398.1	–	2,398.1	2,398.0	–	2,398.0
(Loss)/earnings per share (pence)	(9.6)	–	(9.6)	0.2	–	0.2
Discontinued operations						
Loss after tax (£m)	(109.0)	–	(109.0)	(103.4)	–	(103.4)
Weighted average number of shares (m)	2,398.1	–	2,398.1	2,398.0	–	2,398.0
Loss per share (pence)	(4.5)	–	(4.5)	(4.3)	–	(4.3)
Total						
Loss after tax (£m)	(339.0)	–	(339.0)	(99.3)	–	(99.3)
Weighted average number of shares (m)	2,398.1	–	2,398.1	2,398.0	–	2,398.0
Loss per share (pence)	(14.1)	–	(14.1)	(4.1)	–	(4.1)

¹ Comparatives have been restated to reflect the reclassification of the Retailer Branded Chilled business as a discontinued operation.

Dilutive effect of share options

The dilutive effect of share options is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The only dilutive potential ordinary shares of the Company are share options. A calculation is performed to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to the outstanding share options.

For the years ended 31 December 2011 and 31 December 2010, there is no dilutive effect as the outstanding share options that could have been acquired at fair value is less than the monetary value of the subscription rights attached to these options.

No adjustment is made to the profit or loss in calculating basic and diluted (loss)/earnings per share.

	2011 Number	2010 Number
Weighted average number of ordinary shares for the purpose of basic (loss)/earnings per share	2,398,058,019	2,398,021,581
Effect of dilutive potential ordinary shares:		
– Share options	–	–
Weighted average number of ordinary shares for the purpose of diluted (loss)/earnings per share	2,398,058,019	2,398,021,581

Adjusted earnings per share ("Adjusted EPS")

Adjusted earnings per share is defined as trading profit less net regular interest payable, less a notional tax charge at 26.5% (2010: 28.0%) divided by the weighted average number of ordinary shares of the Company.

Trading profit is defined as operating profit before re-financing costs, restructuring costs and losses associated with divestment activity, amortisation and impairment of intangible assets, the revaluation of foreign exchange and other derivative contracts under IAS 39 and pension credits or charges in relation to the difference between the expected return on pension assets, administration costs and interest costs on pension liabilities.

Net regular interest payable is defined as net interest after excluding the following non-cash items: write-off of financing costs, accelerated amortisation of debt issuance costs, fair value adjustments on interest rate financial instruments and the unwind of the discount on provisions.

Trading profit and Adjusted EPS have been reported as the directors believe these provide an alternative measure by which the shareholders can assess the Group's underlying trading performance.

10. (Loss)/earnings per share continued

	Year ended 31 Dec 2011		
	Continuing £m	Discontinued £m	Total £m
Operating loss	(176.3)	(106.5)	(282.8)
Impairment of goodwill and intangible assets	282.0	80.4	362.4
Loss on disposal of operations	11.2	-	11.2
Operating profit/(loss) before impairment and loss on disposal of operations	116.9	(26.1)	90.8
Pension financing credit	(17.0)	-	(17.0)
Fair value movements on foreign exchange and other derivative contracts	1.7	-	1.7
Amortisation of intangible assets	72.0	11.9	83.9
Restructuring costs relating to disposal activities	10.5	-	10.5
Re-financing costs	4.2	-	4.2
Trading profit/(loss)	188.3	(14.2)	174.1
Less net regular interest payable	(115.7)	(0.1)	(115.8)
Adjusted profit/(loss) before tax	72.6	(14.3)	58.3
Notional tax at 26.5%	(19.2)	3.8	(15.4)
Adjusted profit/(loss) after tax	53.4	(10.5)	42.9
Average shares in issue (m)	2,398.1	2,398.1	2,398.1
Adjusted EPS (pence)	2.2	(0.4)	1.8
Net regular interest payable			
Net interest payable	(82.8)	(0.1)	(82.9)
Exclude write-off of financing costs	1.6	-	1.6
Exclude fair value adjustments on interest rate financial instruments	(36.9)	-	(36.9)
Exclude unwind of discount on provisions	2.4	-	2.4
Net regular interest payable	(115.7)	(0.1)	(115.8)

	Year ended 31 Dec 2010 (Restated) ¹		
	Continuing £m	Discontinued £m	Total £m
Operating profit/(loss)	219.9	(139.1)	80.8
Impairment	-	150.0	150.0
Operating profit before impairment	219.9	10.9	230.8
Pension financing credit	(4.1)	-	(4.1)
Fair value movements on foreign exchange and other derivative contracts	2.0	-	2.0
Amortisation of intangible assets	65.8	16.4	82.2
Trading profit	283.6	27.3	310.9
Less net regular interest payable	(145.2)	(0.2)	(145.4)
Adjusted profit before tax	138.4	27.1	165.5
Notional tax at 28.0%	(38.7)	(7.6)	(46.3)
Adjusted profit after tax	99.7	19.5	119.2
Average shares in issue (m)	2,398.0	2,398.0	2,398.0
Adjusted EPS (pence)	4.2	0.8	5.0
Net regular interest payable			
Net interest payable	(191.4)	(0.2)	(191.6)
Exclude write-off of financing costs	1.6	-	1.6
Exclude fair value adjustments on interest rate financial instruments	43.3	-	43.3
Exclude unwind of discount on provisions	1.3	-	1.3
Net regular interest payable	(145.2)	(0.2)	(145.4)

¹ Comparatives have been restated to reflect the reclassification of the Retailer Branded Chilled business as a discontinued operation.

Notes to the financial statements

11. Discontinued operations

Discontinued operations for the year comprise the Meat-free and the Retailer Branded Chilled businesses.

On 7 March 2011, the Group completed the sale of its Meat-free business to Exponent Private Equity and Intermediate Capital Group.

The results of the Meat-free business for the period to 7 March 2011 and the prior year comparatives are included in discontinued operations in the Group's consolidated income statement.

On 30 December 2011, the Group completed the sale of its Retailer Branded Chilled business to Solway Foods Limited (part of the 2 Sisters Food Group).

The results of the Retailer Branded Chilled business for the period to 30 December 2011 are included in discontinued operations in the Group's consolidated income statement. Comparatives have been restated to include the results of the Retailer Branded Chilled business.

	Year ended 31 Dec 2011	Year ended 31 Dec 2010 (Restated) ¹
	£m	£m
Revenue	218.6	335.0
Operating expenses	(325.1)	(474.1)
Operating loss before loss on disposal	(106.5)	(139.1)
Interest payable	(0.1)	(0.6)
Interest receivable	–	0.4
Loss before taxation	(106.6)	(139.3)
Taxation credit	12.2	35.9
Loss after taxation on discontinued operations for the year	(94.4)	(103.4)
Loss on disposal before taxation	(14.6)	–
Tax credit on loss on disposal	–	–
Loss on disposal after taxation	(14.6)	–
Total loss arising from discontinued operations	(109.0)	(103.4)

¹ Comparatives have been restated to reflect the reclassification of the Retailer Branded Chilled business as a discontinued operation.

Included in the operating expenses for the year-end 31 December 2011 above is an impairment charge of £80.4m, recognised against the assets allocated to the Retailer Branded Chilled CGU.

Included in the operating expenses for the year-end 31 December 2010 above is an impairment charge of £25.0m, recognised against the goodwill allocated to the Meat-free CGU and £125.0m recognised against the goodwill allocated to the Retailer Branded Chilled CGU.

During the year, discontinued operations contributed a net outflow of £47.9m (2010: £37.6m inflow) to the Group's net operating cash flows, and a £6.9m outflow to investing activities (2010: £5.7m outflow).

12. Disposal of businesses

Meat-free

On 7 March 2011, the Group completed the sale of its Meat-free business to Exponent Private Equity and Intermediate Capital Group for £205.0m, before disposal costs and working capital adjustments. The impact on the results of the Group is disclosed in note 11.

Canning

On 23 July 2011, the Group completed the sale of its East Anglian canned grocery operations to Princes Limited for £182.2m, before disposal costs and working capital adjustments.

Retailer Branded Chilled

On 30 December 2011, the Group completed the sale of its Brookes Avana business to Solway Foods Limited (part of the 2 Sisters Food Group) for £30.3m, before disposal costs and working capital adjustments. The impact on the results of the Group is disclosed in note 11.

12. Disposal of businesses continued

On the relevant dates of disposal, the net assets of the businesses, the consideration and the losses on disposal were as follows:

	Meat-free £m	Canning £m	Brookes Avana £m
Property, plant and equipment	68.4	58.7	31.0
Intangible assets and goodwill	139.7	62.9	–
Inventories	23.6	54.6	9.6
Trade and other receivables	24.9	0.3	26.9
Trade and other payables	(21.4)	–	(26.2)
Provisions and lease obligations	(26.2)	–	(7.5)
Net assets disposed	209.0	176.5	33.8
Less net consideration	(196.6)	(165.3)	(31.6)
Loss on disposal	12.4	11.2	2.2
Net cash inflow arising on disposal:			
Initial consideration	205.0	182.2	30.3
Working capital adjustments and disposal costs	(8.4)	(16.9)	1.3
Net cash inflow	196.6	165.3	31.6

13. Assets and liabilities held for sale

	2011 £m	2010 £m
Non-current assets:		
Property, plant and equipment	–	114.2
Goodwill	31.2	125.2
Other intangible assets	0.9	77.4
Current assets:		
Inventories	1.7	68.1
Trade and other receivables	–	21.4
Total assets held for sale	33.8	406.3
Current liabilities:		
Trade and other payables	–	(23.0)
Non-current liabilities:		
Deferred tax liabilities	–	(25.8)
Total liabilities held for sale	–	(48.8)
Net assets and liabilities held for sale	33.8	357.5

As at 31 December 2011, the assets and associated liabilities relating to certain Irish brands were held for sale in light of the decision to sell these brands. The disposal completed on 23 January 2012.

As at 31 December 2010, the assets and associated liabilities relating to the Meat-free and the East Anglian canned grocery operations were held for sale in light of the decision to sell these businesses.

Notes to the financial statements

14. Property, plant and equipment

	Freehold land and buildings £m	Long leasehold land and buildings £m	Short leasehold land and buildings £m	Vehicles, plant and equipment £m	Assets under construction £m	Total £m
Cost						
At 1 January 2010	146.9	8.8	31.1	482.5	77.1	746.4
Additions	–	–	–	27.6	38.4	66.0
Disposals	(1.3)	–	(0.5)	(1.6)	–	(3.4)
Reclassifications	12.2	2.3	0.4	(12.9)	–	2.0
Transferred from intangible assets	–	–	–	3.8	–	3.8
Transfer of assets into use	3.5	–	–	67.2	(70.7)	–
Transferred to held for sale	(27.9)	–	(2.7)	(122.3)	–	(152.9)
At 31 December 2010	133.4	11.1	28.3	444.3	44.8	661.9
Additions	0.5	–	–	6.1	47.5	54.1
Disposals	(36.4)	–	–	(66.4)	–	(102.8)
Reclassifications	–	–	–	0.2	–	0.2
Transfer of assets into use	3.8	–	–	20.1	(23.9)	–
Transferred from held for sale	–	–	2.5	–	–	2.5
At 31 December 2011	101.3	11.1	30.8	404.3	68.4	615.9
Aggregate depreciation and impairment						
At 1 January 2010	(14.0)	(1.1)	(5.1)	(142.0)	–	(162.2)
Depreciation charge for the year	(4.0)	(0.2)	(0.8)	(45.7)	–	(50.7)
Disposals	0.3	–	0.1	0.5	–	0.9
Impairment charge	–	–	–	(0.7)	–	(0.7)
Reclassifications	(0.5)	(2.8)	1.3	–	–	(2.0)
Transferred from intangible assets	–	–	–	(0.8)	–	(0.8)
Transferred to held for sale	6.2	–	0.5	32.0	–	38.7
At 31 December 2010	(12.0)	(4.1)	(4.0)	(156.7)	–	(176.8)
Depreciation charge for the year	(5.0)	(0.5)	(0.7)	(40.1)	–	(46.3)
Disposals	7.3	–	–	45.1	–	52.4
Impairment charge	–	–	–	(27.2)	–	(27.2)
Reclassifications	–	–	–	(0.2)	–	(0.2)
Transferred from held for sale	–	–	(0.5)	–	–	(0.5)
At 31 December 2011	(9.7)	(4.6)	(5.2)	(179.1)	–	(198.6)
Net book value						
At 31 December 2010	121.4	7.0	24.3	287.6	44.8	485.1
At 31 December 2011	91.6	6.5	25.6	225.2	68.4	417.3

The net book value of the Group's vehicles, plant and equipment includes an amount of £0.4m (2010: £21.2m) in respect of assets held under finance leases. None of the additions of £54.1m for the year related to assets held under finance leases.

On 31 January 2011, the Group purchased £18.8m of plant and machinery that was held as a finance lease at 31 December 2010. Certain of these assets were then sold to Princes Limited as part of the disposal of the Group's East Anglian canned grocery operations.

The Group's borrowings are secured on the assets of the Group including property, plant and equipment.

Impairment

An impairment charge of £27.2m has been recognised against assets relating to the Retailer Branded Chilled business as a result of an impairment review carried out in light of the decision to sell this business. (Refer to note 15).

15. Goodwill

	2011 £m	2010 £m
Carrying value		
At 1 January	1,096.1	1,371.3
Impairment — continuing	(185.4)	—
Impairment — discontinued	(23.3)	(150.0)
Transferred to held for sale	(31.2)	(125.2)
At 31 December	856.2	1,096.1

Goodwill attached to each of the Group's CGUs is as follows:

	2011 £m	2010 £m
Grocery	856.2	887.4
Bread	—	185.4
Retailer Branded Chilled	—	23.3
Net carrying value of goodwill	856.2	1,096.1

Impairment tests for goodwill

Goodwill is tested annually for impairment, or more frequently if there are indications that goodwill may be impaired. The recoverable amount of a CGU is determined based on value in use calculations or fair value less costs to sell, depending on the way in which the value of the CGU is expected to be recovered.

Key assumptions

The key assumptions for calculating value in use are those relating to the cash flows, long-term growth rate and discount rate.

In 2010 and 2011 fair value less costs to sell in respect of the Meat-free and Retailer Branded Chilled business respectively has been determined by reference to the value of the offer received, less the expected costs of disposing of the businesses.

Cash flow assumptions

The cash flows used in the value in use calculation are pre-tax cash flows based on the latest approved management forecasts in respect of the following four years. Assumptions regarding these future cash flows are based upon actual results in prior periods adjusted for expected developments in the following years with reference to market conditions and reasonable management expectations for the businesses. All income and costs are taken into account and an estimate of capital expenditure required to maintain these cash flows is also made.

Long-term growth rate assumptions

The four year management forecasts are extrapolated in perpetuity using growth assumptions relevant for the business sector. The growth rate applied is 2.25% (2010: 2.25%) and is not considered to be higher than the average long-term industry growth rate.

Discount rate

The discount rate applied to the cash flows is calculated using a pre-tax rate based on the weighted average cost of capital ("WACC") which would be anticipated for a market participant investing in the Group. The directors believe it is appropriate to use a single common discount rate for all impairment testing as each CGU shares similar risk profiles.

The Group has considered the impact of the current economic climate in determining the appropriate discount rate to use in impairment testing. At 31 December 2011, the pre-tax rate used to discount the forecasted cash flows has been determined to be 12.1% (2010: 12.3%).

Impairment

A total impairment charge of £362.4m has been recognised in the year against goodwill, other intangible assets and tangible fixed assets (2010: £150.0m).

Included within this charge is £282.0m recognised against the goodwill and intangible assets allocated to the Bread CGU (2010: £nil). The impairment has arisen as a result of adverse trading conditions experienced during the year. Further impairment would be required in the future if future performance fell below that which was used in the value in use calculation or the discount rate were to increase. A change of plus or minus 0.5% in the pre-tax discount rate would decrease/increase the recoverable amount by £17/£15m. A change of plus or minus 1% in the perpetual growth rate would increase/decrease the recoverable amount by £28/£22m. Lastly, a 5% increase/decrease in cash flows after the fifth year would increase or decrease the recoverable amount by £12m.

With regards to the Grocery CGU, the directors believe that no reasonable change in the key assumptions used in the impairment testing would cause the carrying value to exceed its recoverable amount.

Also included within this charge is £80.4m recognised against the assets allocated to the Retailer Branded Chilled CGU which has been recorded within discontinued operations (2010: £125.0m). This reduces the goodwill and intangible assets to £nil and also reduces the value of tangible fixed assets to their recoverable amount. The remaining assets and associated liabilities attributable to the Retailer Branded Chilled business were sold on 30 December 2011.

Notes to the financial statements

15. Goodwill continued

A further charge of £25.0m was recognised against the goodwill allocated to the Meat-free business in 2010 and was recorded within discontinued operations. The residual goodwill attributable to the Meat-free business of £64.6m was transferred to assets held for sale as at 31 December 2010.

Impairment charge

	Goodwill £m	Other intangibles £m	Property, plant and equipment £m	Total £m
2011				
Bread	185.4	96.6	–	282.0
Retailer Branded Chilled	23.3	29.9	27.2	80.4
	208.7	126.5	27.2	362.4
2010				
Retailer Branded Chilled	125.0	–	–	125.0
Meat-free	25.0	–	–	25.0
	150.0	–	–	150.0

16. Other intangible assets

	Software/ licences £m	Brands/ trademarks £m	Customer relationships £m	Assets under construction £m	Total £m
Cost					
At 1 January 2010	115.0	989.7	243.0	51.0	1,398.7
Additions	–	–	–	20.4	20.4
Transfer to property, plant and equipment	(3.8)	–	–	–	(3.8)
Reclassifications	1.0	–	–	–	1.0
Transfer into use	48.2	–	–	(48.2)	–
Transferred to held for sale	–	(96.5)	–	–	(96.5)
At 31 December 2010	160.4	893.2	243.0	23.2	1,319.8
Additions	–	–	–	16.8	16.8
Disposals	–	–	(91.5)	–	(91.5)
Transfer into use	2.7	–	–	(2.7)	–
Transferred to held for sale	–	–	(2.4)	–	(2.4)
At 31 December 2011	163.1	893.2	149.1	37.3	1,242.7
Amortisation					
At 1 January 2010	(24.4)	(118.0)	(96.9)	–	(239.3)
Charge for the year	(13.2)	(34.3)	(34.7)	–	(82.2)
Transfer to property, plant and equipment	0.8	–	–	–	0.8
Reclassifications	(1.0)	–	–	–	(1.0)
Transferred to held for sale	–	19.1	–	–	19.1
At 31 December 2010	(37.8)	(133.2)	(131.6)	–	(302.6)
Disposals	–	–	91.5	–	91.5
Charge for the year	(17.3)	(33.0)	(33.6)	–	(83.9)
Impairment	–	(67.9)	(58.6)	–	(126.5)
Transferred to held for sale	–	–	1.5	–	1.5
At 31 December 2011	(55.1)	(234.1)	(130.8)	–	(420.0)
Net book value 31 December 2010	122.6	760.0	111.4	23.2	1,017.2
Net book value 31 December 2011	108.0	659.1	18.3	37.3	822.7

During 2010, the Group disposed of certain Irish brands, including YR and Goodalls for £3.9m. The net book value of these brands was £nil and, as a result, a gain on disposal of £3.9m was recognised.

Brands and trademarks are considered to have finite useful lives and are amortised on a straight-line basis over their estimated useful lives of 20 to 40 years. Software is amortised on a straight-line basis over its estimated useful life of 3 to 10 years. Customer relationships are amortised on a straight-line basis over their estimated useful lives of 7 years. All amortisation is recognised in administrative expenses for 2011 and 2010.

16. Other intangible assets continued

Included in the assets under construction additions for the year are £5.6m of internal costs (2010: £6.5m).

As at 31 December 2011, the Group's borrowings are secured on the assets of the Group including other intangible fixed assets.

Impairment

An impairment charge of £126.5m has been recognised against other intangible assets (2010: £nil). Refer to note 15.

The material brands held on the balance sheet are as follows:

Brand/Trademark	Carrying value at 31 Dec 2011 £m	Estimated useful life remaining years
<i>Bisto</i>	151.3	25
<i>Hovis</i>	72.9	35
<i>Oxo</i>	95.1	35
<i>Batchelors</i>	79.5	25
<i>Sharwood's</i>	71.6	25
<i>Mr. Kipling</i>	58.7	25

17. Investments**Principal subsidiaries**

Name of Subsidiary	Country of incorporation or registration and principal operations	Principal activity	Effective interest in ordinary share capital at 31 December	
			2011	2010
Operating subsidiaries				
Premier Foods Group Limited	United Kingdom	Manufacture and distribution of ambient food products, cakes, bread, own label and other food products	100%	100%
Premier Grocery Products Ireland Limited	Republic of Ireland	Distribution of ambient food products, cakes, own label and other food products	100%	100%
Premier Foods Group Services Limited	United Kingdom	Head Office company	100%	100%
Other subsidiaries				
Premier Foods Investments Limited	United Kingdom	Financing company	100%	100%

Each of the principal subsidiary undertakings has the same year-end as Premier Foods plc. The companies listed above are those that materially affect the results and the assets of the Group. The Company has taken advantage of s.410 (2) of the Companies Act 2006 and in accordance a full list of subsidiary undertakings will be annexed to the Company's next annual return.

On 1 January 2010, the Group undertook an internal reorganisation which resulted in the transfer of the trade and assets of Chivers Hartley Limited, H.L. Foods Limited, Premier Ambient Products (UK) Limited and Premier International Foods UK Limited to a fellow subsidiary, Premier Foods Group Limited.

Notes to the financial statements

18. Inventories

	2011 £m	2010 £m
Raw materials	50.4	47.9
Work in progress	3.6	4.2
Finished goods and goods for resale	82.8	83.1
Inventories	136.8	135.2

Inventory write-offs in the year amounted to £16.4m (2010: £18.3m).

The borrowings of the Group are secured against all the assets of the Group including inventory.

19. Trade and other receivables

	2011 £m	2010 £m
Trade receivables	274.9	317.8
Trade receivables impaired	(27.5)	(9.1)
Net trade receivables	247.4	308.7
Prepayments	32.5	25.9
Interest receivable	0.4	0.6
Other tax and social security receivable	15.3	16.0
Other receivables	1.8	5.1
Trade and other receivables	297.4	356.3

The borrowings of the Group are secured against all the assets of the Group including trade and other receivables.

20. Trade and other payables

	2011 £m	2010 £m
Trade payables	(327.0)	(399.6)
Other tax and social security payable	(14.6)	(5.4)
Other payables and accruals	(93.2)	(91.2)
Trade and other payables	(434.8)	(496.2)

21. Bank and other borrowings

	2011 £m	2010 £m
Due within one year:		
Secured Senior Credit Facility — Term (note a)	(67.3)	(100.0)
Debt issuance costs	0.8	1.3
	(66.5)	(98.7)
Bank overdrafts	(23.7)	(30.6)
Total bank borrowings due within one year	(90.2)	(129.3)
Finance lease obligations (note 22)	(0.2)	(7.4)
Other unsecured loans (note b)	(23.2)	(53.4)
Total borrowings due within one year	(113.6)	(190.1)
Due after more than one year:		
Secured Senior Credit Facility — Revolving (note a)	(276.1)	(20.0)
Debt issuance costs	6.5	6.5
	(269.6)	(13.5)
Secured Senior Credit Facility — Term (note a)	(665.8)	(1,080.0)
Debt issuance costs	8.7	13.5
	(657.1)	(1,066.5)
Finance lease obligations (note 22)	(0.5)	(11.7)
Other unsecured loans (note b)	(0.1)	(0.1)
Total other	(0.6)	(11.8)
Total borrowings due after one year	(927.3)	(1,091.8)
Total bank and other borrowings	(1,040.9)	(1,281.9)

21. Bank and other borrowings continued

The borrowings are secured by a floating charge over all assets of the Group.

Cash and bank deposits and short-term borrowings have been offset to the extent possible in accordance with the Group's banking agreements.

(a) Senior Term Credit Facility and Revolving Credit Facility Arrangement – 2009

On 5 March 2009, the Group entered into a supplemental agreement with its banks amending certain terms of its Senior Term Credit Facility and Revolving Credit Facility Arrangement of 16 March 2007.

This original facility was arranged by Barclays Capital, Bayerische Landesbank, BNP Paribas, Rabobank International, Lloyds TSB Bank plc and The Royal Bank of Scotland plc as lead arrangers and underwriters and Lloyds TSB Bank plc as facility agent and security trustee.

The Senior Term Credit Facility now comprises £733m of Term and a multi-currency Revolving Credit Facility of up to £500m (or its equivalent in other currencies). The final maturity date of the above arrangements is 31 December 2013.

(b) Other unsecured loans

Other unsecured loans falling due within one year includes amounts owed in respect of cash receipts from debtors previously sold under the debtors securitisation programme.

Subsequent events

For details of amendments to the Group's financing arrangements please see note 31.

22. Financial instruments

The Group's activities expose it to a variety of financial risks: market risk (arising from adverse movements in interest rates, commodity prices, and foreign currency), credit risk and liquidity risk. The Group uses a variety of derivative financial instruments to manage certain of these risks. The management of these risks, along with the day-to-day management of treasury activities is performed by the Group Treasury function. The policy framework governing the management of these risks is defined by the Finance Committee, a sub-committee of the Board. The framework for management of these risks is incorporated into a policies and procedures manual.

The Group also enters into contracts with suppliers for its principal raw material requirements, some of which are considered commodities, and also diesel and energy. These commodity and energy contracts are part of the Group's normal purchasing activities. Some of the risk relating to diesel is mitigated with the use of derivative financial instruments. The Treasury Risk Management Committee, a sub-committee of the Finance Committee, monitors and reviews the Group's foreign currency exchange, commodity price and energy price exposures and recommends appropriate hedging strategies for each.

(a) Market risk

(i) Foreign exchange risk

The Group's main operating entities' functional currency and the Group's presentational currency is sterling although some transactions are executed in non-sterling currencies, including Euros, US dollars, Canadian dollars, Australian dollars and Japanese yen. The transactional amounts realised or settled are therefore subject to the effect of movements in these currencies against sterling. Management of these exposures is centralised and managed by the Group's Treasury Function. It is the Group's policy to manage the exposures arising using forward foreign currency exchange contracts and currency options. Hedge accounting is not sought for these transactions.

The Group generates some of its profits in non-sterling currencies and has assets in non-sterling jurisdictions, principally the Euro.

The principal foreign currency affecting the translation of subsidiary undertakings within the Group financial statements is the Euro. The rates applicable are as follows:

	Year ended 31 Dec 2011	Year ended 31 Dec 2010
Principal rate of exchange EUR/£		
Year-end	1.1917	1.1601
Average	1.1508	1.1584

The majority of the Group's assets and liabilities are denominated in the functional currency of the relevant division or subsidiary.

Notes to the financial statements

22. Financial instruments continued

The table below shows the Group's currency exposures as at 31 December 2011 and 2010 that gave rise to net currency gains and losses recognised in the consolidated income statement as a result of monetary assets and liabilities that are not denominated in the functional currency of the subsidiaries involved.

	Functional currency of subsidiaries		
	Sterling £m	Euro £m	Total £m
At 31 December 2011			
Net foreign currency monetary assets			
Sterling	–	0.5	0.5
Euro	(5.5)	–	(5.5)
US dollar	(0.4)	–	(0.4)
Other currencies	6.0	–	6.0
Total	0.1	0.5	0.6
At 31 December 2010			
Net foreign currency monetary assets			
Sterling	–	0.4	0.4
Euro	5.9	–	5.9
US dollar	2.2	–	2.2
Other currencies	3.9	–	3.9
Total	12.0	0.4	12.4

In addition the Group also has forward foreign currency exchange contracts outstanding at the year-end in order to manage the exposures above but also to hedge future transactions in foreign currencies. The sterling nominal amounts outstanding are as follows:

	2011 (Payable)/ receivable £m	2010 (Payable)/ receivable £m
Euro	(54.3)	(42.6)
US dollar	(7.8)	(36.9)
Swiss franc	–	1.1
Swedish krona	–	1.5
Australian dollar	–	0.2
Total	(62.1)	(76.7)

If the US dollar were to weaken against sterling by 20 US dollar cents, with all other variables held constant, post tax profit would decrease by £0.7m (2010: £3.3m decrease).

If the US dollar were to strengthen against sterling by 20 US dollar cents, with all other variables held constant, post tax profit would increase by £0.9m (2010: £4.1m increase).

If the Euro were to weaken against sterling by 10 Euro cents, with all other variables held constant, post tax profit would decrease by £2.7m (2010: £3.1m decrease).

If the Euro were to strengthen against sterling by 10 Euro cents, with all other variables held constant, post tax profit would increase by £3.2m (2010: £3.0m increase).

This is primarily driven by the effect on the mark to market valuation of the foreign exchange derivatives of the Group where the hedged rates differ from the spot rate.

(ii) Commodity price risk

The Group purchases a variety of commodities for use in production and distribution which can experience significant price volatility, which include, *inter-alia*, wheat, tinplate, diesel and energy. The price risk on these commodities is managed by the Group through the Treasury Risk Management Committee. It is the Group's policy to minimise its exposure to this volatility by adopting an appropriate forward purchase strategy or by the use of derivative instruments where they are available.

22. Financial instruments continued

(iii) Interest rate risk

The Group's borrowing facilities comprise term debt and a revolving facility, principally in sterling. Interest is charged at floating rates plus a margin on the amounts drawn down, and at half the margin for the non-utilised portion of the facility, hence the borrowings are sensitive to changes in interest rates.

The Group then seeks to mitigate the effect of adverse movements in interest rates by entering into derivative financial instruments that reduce the level of exposure to floating rates. The target of fixed/capped debt is defined in the Group Treasury policy and procedures however the amount hedged can be amended subject to agreement by the Finance Committee. Hedge accounting is not sought for these transactions.

The gross cash flows on the interest rate derivatives are sensitive to changes in interest rates as they are driven by three month LIBOR which is reset on a quarterly basis. As at 31 December 2011 the re-set rate was 1.08006% (2010: 0.7575%).

The weighted average interest rate for these derivative financial instruments is as follows:

	Weighted average interest rate (%)
Currency: Sterling	
At 31 December 2011	5.7
At 31 December 2010	5.7

The following table reflects, as at 31 December 2011, the likely contractual maturity date of the interest rate derivative contracts taking into account zero cost call features, where market rates at the balance sheet date indicate they will be triggered by the banks. As a result of amendments to the financing arrangements the maturity profile and structure of interest rate derivative contracts will be revised. Please see note 31 for further details.

	Within 1 year £m	1 and 2 years £m	2 and 3 years £m	3 and 4 years £m	4 and 5 years £m	Over 5 years £m	Total £m
2011							
Derivative financial liabilities:							
Fixed rate	-	50.0	-	-	-	-	50.0
Cap and Floor Structure	350.0	-	-	-	-	-	350.0
Other financial liabilities at fair value through profit or loss:							
Fixed rate	-	675.0	-	-	-	-	675.0
Other callable swaps	150.0	-	-	-	-	-	150.0
	500.0	725.0	-	-	-	-	1,225.0
2010							
Derivative financial liabilities:							
Fixed rate	-	-	50.0	-	-	-	50.0
Cap and Floor Structure	-	350.0	-	-	-	-	350.0
Other financial liabilities at fair value through profit or loss:							
Fixed rate	-	-	675.0	-	-	-	675.0
Other callable swaps	-	150.0	-	-	-	-	150.0
	-	500.0	725.0	-	-	-	1,225.0

Fixed rate derivative financial liabilities constitute one swap with a nominal value of £50m (2010: £50m) which is a conventional interest rate swap maturing in 2013. It has a callable option whereby the counterparty bank can cancel the swap at nil cost at certain specified dates from June 2011 onwards.

The cap and floor structures have a nominal value of £350m (2010: £350m) with caps set at 6.15% to 6.25% and floor rates between 4.31% and 4.55%. In addition, when LIBOR rates are beneath the floor strike price, a digital option is triggered which results in the Group paying interest at 5.75% on all of these instruments for three months.

In October 2010 the Group restructured certain long dated swaps into six fixed rate swaps with a nominal value totalling £675m, all maturing in 2013. These fixed rate swaps are hybrid instruments comprising an underlying host with embedded derivatives and have been reclassified as "Other financial liabilities at fair value through profit or loss". These swaps have an average fixed rate of 6.57% (ranging between 4.55% and 9.0%). Of these, swaps with a nominal value of £400m have callable options whereby the counterparty bank can cancel the swap at nil cost at certain specified dates from September 2011.

Notes to the financial statements

22. Financial instruments continued

The other callable swaps classified as "Other financial liabilities at fair value through profit or loss" comprise a single swap with an optional break at August 2012 and a mandatory break at June 2013. The swap was structured to amortise the fair value at 5 March 2009 over the life of the new contract. In addition a derivative element provides for an adjustment to the payments should interest rates rise above 7%, hence the swap comprises both an underlying host as well as embedded derivatives. The current fair value as at 31 December 2011 is £36.3m (2010: £32.4m), and based on the current yield curve the mark to market payment in August 2012 would be £35.0m (2010: £29.4m).

To compensate for the shorter maturity date these swaps have fixed bullet payments on maturity totalling £82.1m. A portion of this becomes immediately payable (up to a maximum of 25%) if the Group raises a bond before maturity.

Cash and deposits earn interest at floating rates based on banks short-term treasury deposit rates. Short-term trade and other receivables are interest-free.

The Group's provisions of £46.9m as at 31 December 2011 (2010: £38.9m) include £11.7m relating to onerous leases (2010: £14.1m) which are considered to be floating rate financial liabilities. These cash flows are discounted where the effect is material.

At 31 December 2011, for every 50 basis points reduction in rates below the last floating reset rate of 1.08006% (based on three month LIBOR), with all other variables held constant, annualised net interest expense would increase by £0.4m (2010: £1.7m decrease).

At 31 December 2011, if interest rates were 200 basis points higher than the last floating reset rate of 1.08006% (based on three month LIBOR), with all other variables held constant, annualised net interest expense would decrease by £1.6m (2010: £6.8m increase).

The Group's other financial assets and liabilities are not exposed to material interest rate risk.

(b) Credit risk

The Group's principal financial assets are cash and cash deposits and trade and other receivables.

The Group has no significant concentrations of credit risk. Cash and cash equivalents are deposited with high-credit quality financial institutions and trade receivables are due principally from major grocery retailers (though it is the Group's policy to insure trade debt).

At 31 December 2011, trade and other receivables of £85.8m (2010: £49.9m) were past due but not impaired. These relate to customers with whom there is no history of default.

The ageing of trade and other receivables was as follows:

	Past due						Total £m
	Fully performing £m	1-30 days £m	31-60 days £m	61-90 days £m	91-120 days £m	120+ days £m	
Trade and other receivables							
2011	163.8	42.6	1.1	2.3	7.7	32.1	249.6
2010	264.5	20.0	3.6	2.5	1.5	22.3	314.4

At 31 December 2011, trade and other receivables of £27.5m (2010: £9.1m) were determined to be specifically impaired and provided for. The total reflects the write-off of some aged receivable balances following recent disposal and restructuring activities and reflects receivables from customers which are considered to be experiencing difficult economic situations.

The Group does not hold any collateral as security against its financial assets.

Movements in the provision for impairment of trade receivables are as follows:

	2011 £m	2010 £m
At 1 January	9.1	7.7
Receivables written off during the year as uncollectable	(5.0)	(3.3)
Provision for receivables released	(3.0)	(1.8)
Provision for receivables impairment raised	26.4	6.5
At 31 December	27.5	9.1

The Group has benefitted from a £90m securitisation programme to allow it to transfer trade receivable balances to one of the Group's primary banks. This programme also allows the Group to delink its own credit rating from that of the underlying assets and achieve a lower cost of funding.

22. Financial instruments continued

(c) Liquidity risk

The Group manages liquidity risk through both the treasury and finance functions. Cash flow forecasts are prepared and reviewed on a weekly basis, normally covering a period of three months.

In addition, cash flow forecasts are prepared as part of the Group's overall budgeting and forecasting processes and performance is monitored against this each month. This is intended to give the Board sufficient forward visibility of debt levels.

The Group's net debt level can vary significantly from month to month and there is some volatility within months. This reflects trading patterns, timing of receipts from customers and payments to suppliers, patterns of inventory holdings and the timing of the spend on major capital and restructuring projects. For these reasons the debt levels at the year-end date may not be indicative of debt levels at other points throughout the year.

The following table analyses the Group's financial liabilities into relevant maturity groupings based on the contractual undiscounted cash flows.

	Within 1 year £m	1 and 2 years £m	2 and 3 years £m	3 and 4 years £m	4 and 5 years £m	Over 5 years £m	Total £m
At 31 December 2011							
Trade and other payables	(420.2)	-	-	-	-	-	(420.2)
Bank overdraft	(23.7)	-	-	-	-	-	(23.7)
Bank Term Loan	(67.3)	(665.8)	-	-	-	-	(733.1)
Bank Revolver Facility (Drawn down)	-	(276.1)	-	-	-	-	(276.1)
Finance leases	(0.2)	(0.6)	-	-	-	-	(0.8)
Other loans	(23.2)	(0.1)	-	-	-	-	(23.3)
At 31 December 2010							
Trade and other payables	(490.8)	-	-	-	-	-	(490.8)
Bank overdraft	(30.6)	-	-	-	-	-	(30.6)
Bank Term Loan	(100.0)	(100.0)	(980.0)	-	-	-	(1,180.0)
Bank Revolver Facility (Drawn down)	-	-	(20.0)	-	-	-	(20.0)
Finance leases	(7.4)	(12.4)	(0.2)	(0.1)	(0.1)	(0.3)	(20.5)
Other loans	(53.4)	(0.1)	-	-	-	-	(53.5)

The Bank Term Loan and Bank Revolver Facility are repriced quarterly to LIBOR, and other liabilities are not repriced before the maturity date.

The Group has £178.3m (2010: £420.9m) of facilities available and not drawn as at 31 December 2011 expiring between one and two years.

The borrowings are secured by a fixed and floating charge over all the assets of the Group.

The following table analyses the contractual undiscounted cash flows of interest on the floating rate debt to maturity (based on the last fixed rate refix of 1.08006% (2010: 0.7575%) plus applicable margin).

	Within 1 year £m	1 and 2 years £m	2 and 3 years £m	3 and 4 years £m	4 and 5 years £m	Over 5 years £m	Total £m
Interest							
2011	38.0	36.3	-	-	-	-	74.3
2010	44.9	37.5	31.3	-	-	-	113.7

Notes to the financial statements

22. Financial instruments continued

The following table analyses the Group's derivative financial instruments (including "Other financial liabilities at fair value through profit or loss") into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed are the undiscounted cash flows, except in the case of one of the swaps within "Other financial liabilities at fair value through profit or loss" with a nominal value of £150m where the outflows include the expected mark to market value at the call date.

	Within 1 year £m	1 and 2 years £m	2 and 3 years £m	3 and 4 years £m	4 and 5 years £m	Over 5 years £m	Total £m
At 31 December 2011							
Forward foreign exchange contracts:							
Outflow	(62.1)	-	-	-	-	-	(62.1)
Inflow	60.8	-	-	-	-	-	60.8
Commodities:							
Outflow	(6.3)	-	-	-	-	-	(6.3)
Interest rate swaps:							
Outflow	(12.4)	(1.0)	-	-	-	-	(13.4)
Inflow	2.4	0.2	-	-	-	-	2.6
Other financial liabilities at fair value through profit or loss:							
Outflow	(79.4)	(124.0)	-	-	-	-	(203.4)
Inflow	7.3	6.8	-	-	-	-	14.1
	(89.7)	(118.0)	-	-	-	-	(207.7)
At 31 December 2010							
Forward foreign exchange contracts:							
Outflow	(74.0)	-	-	-	-	-	(74.0)
Inflow	73.5	-	-	-	-	-	73.5
Outflow on options	(8.5)	-	-	-	-	-	(8.5)
Inflow on options	8.6	-	-	-	-	-	8.6
Commodities:							
Outflow	(13.1)	(1.2)	-	-	-	-	(14.3)
Interest rate swaps:							
Outflow	(22.4)	(12.4)	(1.0)	-	-	-	(35.8)
Inflow	3.6	3.3	0.5	-	-	-	7.4
Other financial liabilities at fair value through profit or loss:							
Outflow	(50.9)	(78.1)	(124.0)	-	-	-	(253.0)
Inflow	10.5	14.3	16.6	-	-	-	41.4
	(72.7)	(74.1)	(107.9)	-	-	-	(254.7)

The above table incorporates the contractual cash flows of the interest rate derivatives with floating rates of interest calculated based on LIBOR of 1.08006% (2010: 0.7575%) at the balance sheet date. In addition, the cash outflow between one and two years relating to "Other financial liabilities at fair value through profit or loss" includes £82.1m of fixed payments on maturity of the swaps restructured last year. Note that a portion of this becomes immediately payable (up to a maximum of 25%) if the Group raises a bond before maturity.

The cash flows above are based on the contractual maturity of the swaps except for one swap within "Other financial liabilities at fair value through profit or loss" with a nominal value of £150m which is based on an optional break date of August 2012 where the bank can call the swap at its mark to market value. Furthermore, for the purposes of this table, callable features have been reflected where the yield curve indicates that a counterparty is likely to call or cancel a contract at nil cost to themselves. We note that no contracts (2010: no contracts) are expected to be called at nil prior to their contractual maturity based on the current yield curve.

22. Financial instruments continued**(d) Fair value**

The following table shows the carrying amounts (which approximate to fair value except as noted below) of the Group's financial assets and financial liabilities. Fair value is the amount at which a financial instrument could be exchanged in an arm's length transaction between informed and willing parties, other than a forced or liquidation sale and excludes accrued interest. Set out below is a summary of methods and assumptions used to value each category of financial instrument.

	2011	2010
	Book & Market Value	Book & Market Value
	£m	£m
Loans and receivables:		
Cash and bank deposits	45.8	1.9
Trade and other receivables	249.6	314.4
Financial assets at fair value through profit or loss:		
Derivative financial instruments		
— Forward foreign currency exchange contracts/currency options	0.3	0.7
— Commodity and energy derivatives	0.2	0.7
Financial liabilities at fair value through profit or loss:		
Derivative financial instruments		
— Forward foreign currency exchange contracts/currency options	(1.9)	(1.4)
— Commodity and energy derivatives	(0.1)	–
— Interest rate swaps	(10.6)	(28.2)
Other financial liabilities at fair value through profit or loss:		
— Interest rate swaps	(187.0)	(206.3)
Financial liabilities at amortised cost:		
Trade and other payables	(420.2)	(490.8)
Bank Term Loan	(733.1)	(1,180.0)
Bank Revolver Facility (Drawn down)	(276.1)	(20.0)
Bank overdraft	(23.7)	(30.6)
Finance leases	(0.7)	(19.1)
Other	(23.3)	(53.5)
Interest payable	(0.9)	(12.3)

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2011 using the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December.

	2011	2010
	Level 2	Level 2
Financial assets at fair value through profit or loss:		
Derivative financial instruments		
— Forward foreign currency exchange contracts/currency options	0.3	0.7
— Commodity and energy derivatives	0.2	0.7
Financial liabilities at fair value through profit or loss:		
Derivative financial instruments		
— Forward foreign currency exchange contracts/currency options	(1.9)	(1.4)
— Commodity and energy derivatives	(0.1)	–
— Interest rate swaps	(10.6)	(28.2)
Other financial liabilities at fair value through profit or loss:		
— Interest rate swaps	(187.0)	(206.3)

Notes to the financial statements

22. Financial instruments continued

Fair value estimation

Derivatives

Forward exchange contracts are marked to market using prevailing market prices. Hedge accounting has not been applied to forward contracts and as a result the movement in the fair value of £0.9m has been charged to the income statement in the year (2010: £2.2m charge).

Commodity derivatives are marked to market using prevailing prices and are also not designated for hedge accounting. As a result the fair value movement of £0.8m (2010: £0.2m credit) has been charged to the income statement.

Interest rate swaps are marked to market using prevailing market prices. Interest rate swaps are also not designated for hedge accounting. As a result the movement in the fair value of £17.6m has been credited to the income statement in the year (2010: £133.7m credit).

Interest rate swaps classed as "Other financial liabilities at fair value through profit or loss" are also marked to market using prevailing market prices. These are also not designated for hedge accounting. As a result the movement in the fair value of £19.3m has been credited to the income statement in the year (2010: £177.0m charge).

Short and long-term borrowings, loan notes and interest payable

Fair value is calculated based on discounted expected future principal and interest rate cash flows. The fair value of the floating rate debt approximates the carrying value above.

Finance lease liabilities

The fair value of finance lease liabilities approximates book value.

Trade and other receivables/payables

The carrying value of receivables/payables with a remaining life of less than one year is deemed to reflect the fair value given their short maturity. The fair values of non-current receivables/payables are also considered to be the same as the carrying value due to the size and nature of the balances involved.

(e) Obligations under finance leases

	Minimum lease payments		Present value of minimum lease payments	
	2011 £m	2010 £m	2011 £m	2010 £m
Not later than one year	0.2	7.4	0.2	7.4
Later than one year but not later than five years	0.6	12.8	0.5	11.5
Later than five years	–	0.3	–	0.2
	0.8	20.5	0.7	19.1
Less: Future finance charges	(0.1)	(1.4)	n/a	n/a
Present value of lease obligations	0.7	19.1	0.7	19.1
Less: Amounts due for settlement within 12 months			(0.2)	(7.4)
Amounts due for settlement after 12 months			0.5	11.7

It is the Group's policy to lease certain items of plant and equipment under finance leases. The average lease term is 1.5 years, the longest being two years.

For the year ended 31 December 2011, the average effective borrowing rate was 3.9% (2010: 3.9%).

Interest rates are fixed at the contract date, and thus expose the Group to fair value interest rate risk. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

The fair value of the Group's lease obligations approximates their carrying value. The Group's obligations under finance leases are secured by the lessor's title to the leased assets.

(f) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may vary the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt.

The directors do not recommend the payment of a dividend for the year then ended 31 December 2011 (2010: nil).

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as equity plus net debt.

22. Financial instruments continued

The gearing ratios at 31 December 2011 and 31 December 2010 were as follows:

	2011 £m	2010 £m
Total borrowings	(1,040.9)	(1,281.9)
Less cash and bank deposits	45.8	1.9
Net borrowings	(995.1)	(1,280.0)
Total equity	(572.7)	(989.5)
Total capital	(1,567.8)	(2,269.5)
Gearing ratio	63%	56%

Under the Group's financing arrangement, the Group is required to meet two covenant tests which are calculated and tested on a 12 month rolling basis at the half year and full year, each year. The Group has complied with these tests at June 2011 and has agreed with its banking group to defer the year-end tests from 31 December 2011 to 31 March 2012.

Please refer to note 31 for details of the amendments to the Group's financing arrangements.

23. Provisions for liabilities and charges

	Restructuring £m	Other £m	Total £m
At 1 January 2010	(28.4)	(18.5)	(46.9)
Utilised during the year	10.4	7.3	17.7
Additional charge in the year	(2.8)	(6.0)	(8.8)
Unwind of provision	(0.8)	(0.5)	(1.3)
Released during the year	–	0.4	0.4
At 31 December 2010	(21.6)	(17.3)	(38.9)
Utilised during the year	6.3	3.5	9.8
Additional charge in the year	(8.7)	(9.9)	(18.6)
Unwind of provision	(1.2)	(1.2)	(2.4)
Released during the year	2.6	0.6	3.2
Reclassifications	(0.3)	0.3	–
At 31 December 2011	(22.9)	(24.0)	(46.9)
Analysis of total provisions:			2011 £m
Current	(8.1)	(0.2)	(8.3)
Non-current	(14.8)	(23.8)	(38.6)
	(22.9)	(24.0)	(46.9)
Analysis of total provisions:			2010 £m
Current	(8.6)	(1.9)	(10.5)
Non-current	(13.0)	(15.4)	(28.4)
	(21.6)	(17.3)	(38.9)

At 31 December 2011, restructuring and redundancy provisions have been raised mainly in respect of various programmes aimed at reducing the Group's cost base in line with the Group's strategy. The charge in the year relates to the closure of the Group's Windsor office and reduction of headcount in overhead functions. It is expected that the majority of these provisions will be utilised in 2012. The remaining provisions largely relate to onerous leases that have arisen due to exiting certain of the Group's premises, which range from 2 to 21 years.

At 31 December 2010, restructuring and redundancy provisions have been raised mainly in respect of the supply chain of the Group's Irish operations. The remaining provisions largely relate to onerous leases raised in previous years which range from 3 to 22 years.

Other provisions at 31 December 2011 and 2010, primarily relate to insurance claims and dilapidations against leasehold properties. The costs relating to dilapidation provisions will be incurred over a number of years in accordance with the length of the leases. These provisions have been discounted at rates between 0.64% and 2.96%. The unwinding of the discount is charged to the income statement under interest payable.

Notes to the financial statements

24. Retirement benefit schemes

Defined benefit schemes

The Group operates a number of defined benefit schemes under which employees are entitled to retirement benefits which are based on career average salary on retirement. These are as follows:

(a) Premier schemes

The Premier Foods Pension Scheme ("PFPS") was the principal funded defined benefit scheme within the old Premier Group which also operated a smaller funded defined benefit scheme, the Premier Ambient Products Pension Scheme ("PAPPS") for employees acquired with the Ambrosia business in 2001. As a result of the acquisition of Campbell's in 2006, the Group inherited the Premier Grocery Products Pension Scheme ("PGPPS") covering the employees of Campbell's UK business, and the Premier Grocery Products Ireland Pension Scheme ("PGPIPS") covering the employees of Campbell's Ireland. The Group also acquired two further schemes with the acquisition of Chivers Ireland in January 2007, the Chivers 1987 Pension Scheme and the Chivers 1987 Supplementary Pension Scheme. These schemes are presented together below as the Premier schemes.

(b) RHM schemes

As a result of the acquisition of RHM plc, the Group also acquired the RHM Pension Scheme, the Premier Foods Ireland Pension Scheme (1994), the Premier Foods Ireland Van Sales Scheme and the French Termination Indemnity Arrangements. These schemes are presented together below as the RHM schemes, with the exception of the French Termination Indemnity Arrangements which were disposed of with the speciality bakery businesses in 2009, and the Premier Foods Ireland Van Sales Scheme which was wound up in 2010.

The most recent full actuarial valuation of both the PFPS and RHM pension schemes was carried out on 5 April 2010.

The exchange rates used to translate the overseas Euro based schemes are £1.00 = 1.1508 Euros for the average rate during the year, and £1.00 = 1.1917 Euros for the closing position at 31 December 2011.

Until 30 June 2011, the employees of the above schemes accrued retirement benefits which varied as a percentage of final salary on retirement. On 30 June 2011 the link to final salary was closed to future accrual for UK schemes and members' retirement benefits are now linked to their salary on that date, index linked at Retail Price Index (subject to a 5% cap) until retirement date. From 1 July 2011 employees accrued career average benefits or chose to transfer to the new defined contribution scheme. Those contributing members of the PAPPS and PGPPS choosing career average benefits joined the PFPS on 1 July 2011 and transferred their past service entitlements to the scheme. Membership of the Group's defined benefit pension schemes is now closed to new employees, who are entitled to join the Group's main defined contribution scheme, the Group Personal Pension Plan. The closure of the final salary schemes resulted in a past service credit of £12.1m.

In July 2010, the UK government announced changes to the inflation index used for statutory pension increases (both for pensions in payment and pensions in deferment) to apply to private sector pension schemes. This has resulted in a credit to past service costs of £29.9m in respect of the Premier pension schemes during 2011. Discussions with the trustees of the RHM scheme in relation to any potential impact of this change are ongoing.

The assets of all defined benefit schemes are held by the trustees of the respective schemes and are independent of the Group's finances.

The schemes invest through investment managers appointed by the trustees in UK and European equities and in investment products made up of a broader range of assets. The plan assets do not include any of the Group's own financial instruments, nor any property occupied by, or other assets used by, the Group. The pension schemes hold a charge over the assets of the Group.

At the balance sheet date, the combined principal actuarial assumptions used for all the schemes were as follows:

	Premier schemes 2011	RHM schemes 2011
Discount rate	4.80%	4.80%
Inflation — RPI	3.15%	3.15%
Inflation — CPI	1.95%	n/a
Expected salary increases	4.15%	4.15%
Future pension increases	2.10%	2.10%
	2010	2010
Discount rate	5.45%	5.45%
Inflation — RPI	3.45%	3.45%
Inflation — CPI	n/a	n/a
Expected salary increases	4.45%	3.30%
Future pension increases	2.20%	2.20%

For the smaller overseas schemes the discount rate used was 5.45% (2010: 5.50%), expected salary increases of 3.00% (2010: 3.00%), and future pension increases of 1.75% (2010: 1.75%).

24. Retirement benefit schemes continued

The mortality assumptions are based on standard mortality tables which allow for future mortality improvements. The assumptions are as follows:

	Premier schemes	RHM schemes	Total
2011 Life expectancy			
Male pensioner, currently aged 65	87.9	86.0	86.5
Female pensioner, currently aged 65	90.1	88.4	88.8
Male non-pensioner, currently aged 45	89.3	87.3	87.8
Female non-pensioner, currently aged 45	91.7	90.0	90.4
2010 Life expectancy			
	Premier schemes	RHM schemes	Total
Male pensioner, currently aged 65	87.4	85.5	86.0
Female pensioner, currently aged 65	89.4	87.7	88.1
Male non-pensioner, currently aged 45	88.5	86.6	87.1
Female non-pensioner, currently aged 45	90.6	88.9	89.3

The fair values of plan assets split by type of asset are as follows:

	Premier schemes £m	RHM schemes £m	Total £m
Pension scheme assets			
Assets at 31 December 2011			
Equities	27.4	397.7	425.1
Government bonds	14.2	8.4	22.6
Corporate bonds	96.1	353.7	449.8
Property	1.0	126.6	127.6
Absolute/target return products	269.8	452.1	721.9
Interest rate and inflation swaps	25.5	206.1	231.6
Cash/other	80.2	1,097.2	1,177.4
Fair value of scheme assets	514.2	2,641.8	3,156.0
Assets at 31 December 2010			
Equities	98.7	489.4	588.1
Government bonds	15.3	6.7	22.0
Corporate bonds	93.0	330.7	423.7
Property	1.0	120.5	121.5
Absolute/target return products	241.0	325.8	566.8
Interest rate and inflation swaps	24.8	56.1	80.9
Cash/other	39.0	957.4	996.4
Fair value of scheme assets	512.8	2,286.6	2,799.4

The schemes invest in interest rate and inflation swaps to protect from fluctuations in interest and inflation.

The expected rates of return on assets were:

	Premier schemes	RHM schemes	Total
2011 (for 2012 return)			
Expected rate (%)	6.6	5.8	5.9
Market value (£m)	514.2	2,641.8	3,156.0
2010 (for 2011 return)			
Expected rate (%)	7.8	6.7	6.9
Market value (£m)	512.8	2,286.6	2,799.4
2009 (for 2010 return)			
Expected rate (%)	8.0	7.0	7.2
Market value (£m)	477.1	2,052.9	2,530.0
2008 (for 2009 return)			
Expected rate (%)	7.4	6.3	6.5
Market value (£m)	415.4	2,112.9	2,528.3
2007 (for 2008 return)			
Expected rate (%)	8.0	6.9	7.2
Market value (£m)	506.2	2,079.2	2,585.4

Notes to the financial statements

24. Retirement benefit schemes continued

The expected return on pension scheme assets is based on the long-term investment strategy set out in the Schemes' Statement of Investment Principles at the start of the year.

The actual rate of return on plan assets was a gain of 0.8% (2010: 8.5% gain) for Premier schemes, and a gain of 18.1% for RHM schemes (2010: 14.4% gain).

The amounts recognised in the balance sheet arising from the Group's obligations in respect of its defined benefit schemes is as follows:

	Premier schemes £m	RHM schemes £m	Total £m
2011			
Present value of funded obligations	(781.9)	(2,656.5)	(3,438.4)
Fair value of plan assets	514.2	2,641.8	3,156.0
Deficit in scheme	(267.7)	(14.7)	(282.4)
2010			
Present value of funded obligations	(748.0)	(2,372.3)	(3,120.3)
Fair value of plan assets	512.8	2,286.6	2,799.4
Deficit in scheme	(235.2)	(85.7)	(320.9)
2009			
Present value of funded obligations	(685.5)	(2,273.0)	(2,958.5)
Fair value of plan assets	477.1	2,052.9	2,530.0
Deficit in scheme	(208.4)	(220.1)	(428.5)
2008			
Present value of funded obligations	(587.7)	(1,952.1)	(2,539.8)
Fair value of plan assets	415.4	2,112.9	2,528.3
(Deficit)/surplus in scheme	(172.3)	160.8	(11.5)
2007			
Present value of funded obligations	(581.7)	(2,126.9)	(2,708.6)
Fair value of plan assets	506.2	2,079.2	2,585.4
Deficit in scheme	(75.5)	(47.7)	(123.2)

The aggregate deficit has decreased by £38.5m during the year primarily due to an increase in the fair value of plan assets, offset by an increase in the defined benefit obligation. This was primarily a result of a fall in discount rate assumption used, which is based on the AA bond yield, from 5.45% to 4.80%.

24. Retirement benefit schemes continued

Experience gains/(losses) on the two schemes are as follows:

	Premier schemes £m	RHM schemes £m	Total £m
2011			
Experience adjustments on:			
Scheme assets			
Amount (£m)	(35.5)	261.9	226.4
Percentage of scheme assets	6.9%	9.9%	7.2%
Scheme obligations			
Amount (£m)	3.3	0.2	3.5
Percentage of scheme obligations	0.4%	–	0.1%
2010			
Experience adjustments on:			
Scheme assets			
Amount (£m)	2.8	153.2	156.0
Percentage of scheme assets	0.5%	6.7%	5.6%
Scheme obligations			
Amount (£m)	1.0	35.8	36.8
Percentage of scheme obligations	0.1%	1.5%	1.2%
2009			
Experience adjustments on:			
Scheme assets			
Amount (£m)	42.5	(135.0)	(92.5)
Percentage of scheme assets	8.9%	6.6%	3.7%
Scheme obligations			
Amount (£m)	6.4	2.4	8.8
Percentage of scheme obligations	0.9%	0.1%	0.3%
2008			
Experience adjustments on:			
Scheme assets			
Amount (£m)	(131.6)	(50.3)	(181.9)
Percentage of scheme assets	31.7%	2.4%	7.2%
Scheme obligations			
Amount (£m)	(6.4)	(2.2)	(8.6)
Percentage of scheme obligations	1.1%	0.1%	0.3%
2007			
Experience adjustments on:			
Scheme assets			
Amount (£m)	(14.8)	11.7	(3.1)
Percentage of scheme assets	2.9%	0.6%	0.1%
Scheme obligations			
Amount (£m)	30.6	–	30.6
Percentage of scheme obligations	5.3%	–	1.1%

Notes to the financial statements

24. Retirement benefit schemes continued

Changes in the present value of the defined benefit obligation were as follows:

	Premier schemes £m	RHM schemes £m	Total £m
2011			
Opening defined benefit obligation	(748.0)	(2,372.3)	(3,120.3)
Current service cost	(8.8)	(9.6)	(18.4)
Past service (cost)/credit	46.8	(4.8)	42.0
Interest cost	(40.1)	(126.9)	(167.0)
Actuarial loss	(58.8)	(246.9)	(305.7)
Other income/exchange differences	0.9	0.5	1.4
Curtailments/settlements	0.3	(1.7)	(1.4)
Contributions by plan participants	(5.2)	(13.2)	(18.4)
Benefits paid	31.0	118.4	149.4
Closing defined benefit obligation	(781.9)	(2,656.5)	(3,438.4)
2010			
Opening defined benefit obligation	(685.5)	(2,273.0)	(2,958.5)
Current service cost	(13.2)	(7.5)	(20.7)
Past service credit	6.7	4.9	11.6
Interest cost	(39.2)	(129.1)	(168.3)
Actuarial loss	(42.8)	(66.8)	(109.6)
Other income/exchange differences	1.5	0.5	2.0
Curtailments/settlements	–	1.5	1.5
Contributions by plan participants	(5.1)	(10.8)	(15.9)
Benefits paid	29.6	108.0	137.6
Closing defined benefit obligation	(748.0)	(2,372.3)	(3,120.3)

Changes in the fair value of plan assets were as follows:

	Premier schemes £m	RHM schemes £m	Total £m
2011			
Opening fair value of plan assets	512.8	2,286.6	2,799.4
Expected return	39.5	151.6	191.1
Administrative and life insurance costs	(3.6)	(3.5)	(7.1)
Actuarial (loss)/gain	(35.5)	261.9	226.4
Contributions by employer	27.5	50.8	78.3
Contributions by plan participants	5.2	13.2	18.4
Other costs/exchange differences	(0.7)	(0.4)	(1.1)
Benefits paid	(31.0)	(118.4)	(149.4)
Closing fair value of plan assets	514.2	2,641.8	3,156.0
2010			
Opening fair value of plan assets	477.1	2,052.9	2,530.0
Expected return	37.6	141.4	179.0
Administrative and life insurance costs	(3.1)	(3.5)	(6.6)
Actuarial gain	2.8	153.2	156.0
Assets disposed due to settlement	–	(1.6)	(1.6)
Contributions by employer	24.1	41.9	66.0
Contributions by plan participants	5.1	10.8	15.9
Other costs/exchange differences	(1.2)	(0.5)	(1.7)
Benefits paid	(29.6)	(108.0)	(137.6)
Closing fair value of plan assets	512.8	2,286.6	2,799.4

24. Retirement benefit schemes continued

Actuarial gains and losses are as follows:

	Premier Schemes £m	RHM Schemes £m	Total £m
2011			
Actuarial loss on plan liabilities	(58.8)	(246.9)	(305.7)
Actuarial (loss)/gain on plan assets	(35.5)	261.9	226.4
Net actuarial (loss)/gain for the year	(94.3)	15.0	(79.3)
Cumulative actuarial loss	(359.3)	(16.7)	(376.0)
2010			
Actuarial loss on plan liabilities	(42.8)	(66.8)	(109.6)
Actuarial gain on plan assets	2.8	153.2	156.0
Net actuarial (loss)/gain for the year	(40.0)	86.4	46.4
Cumulative actuarial loss	(265.0)	(31.7)	(296.7)

The actual return on plan assets was a £417.5m gain (2010: £335.0m gain), which is £226.4m more (2010: £156.0m more) than the expected return on plan assets of £191.1m (2010: £179.0m) at the start of the relevant periods.

The actuarial loss on liabilities of £305.7m (2010: £109.6m loss) comprises a gain on member experience of £3.5m (2010: £36.8m gain) and an actuarial loss due to changes in assumptions of £309.2m (2010: £146.4m loss).

The net actuarial loss taken to the statement of comprehensive income was £79.3m (2010: £46.4m gain). This was £83.4m (2010: £16.5m gain) net of taxation (with tax at 25.0% for UK schemes, and 12.5% for Irish schemes).

The Group expects to contribute approximately £31.9m (2011: £78.3m) to its defined benefit plans in 2012, £26.4m (2011: £30.0m) of regular contributions and expenses and £5.5m (2011: £48.3m) of additional contributions to fund the scheme deficits. The decrease in future deficit funding is a result of the amendments to the Group's financing arrangements detailed in note 31.

The total amounts recognised in the Group's income statement are as follows:

	Premier schemes £m	RHM schemes £m	Total £m
2011			
Operating profit			
Current service cost	(8.8)	(9.6)	(18.4)
Past service credit/(cost)	46.8	(4.8)	42.0
Gain/(loss) on curtailment	0.3	(1.7)	(1.4)
Interest cost	(40.1)	(126.9)	(167.0)
Expected return on plan assets	39.5	151.6	191.1
Administrative and life insurance costs	(3.6)	(3.5)	(7.1)
Total	34.1	5.1	39.2
2010			
Operating profit			
Current service cost	(13.2)	(7.5)	(20.7)
Past service credit	6.7	4.9	11.6
Losses on curtailment	–	(0.1)	(0.1)
Interest cost	(39.2)	(129.1)	(168.3)
Expected return on plan assets	37.6	141.4	179.0
Administrative and life insurance costs	(3.1)	(3.5)	(6.6)
Total	(11.2)	6.1	(5.1)

Defined contribution schemes

A number of companies in the Group operate defined contribution schemes, predominantly stakeholder arrangements. In addition a number of schemes providing life assurance benefits only are operated. The total expense recognised in the income statement of £0.3m (2010: £1.1m) represents contributions payable to the plans by the Group at rates specified in the rules of the plans.

Other post retirement benefits

The Group does not provide any other post retirement benefits.

Notes to the financial statements

25. Reserves and share capital

Share premium reserve

The share premium reserve comprises the premium paid over the nominal value of shares for shares issued.

Merger reserve

The merger reserve comprises the non-statutory premium arising on shares issued as consideration for acquisition of subsidiaries where merger relief under section 612 of the Companies Act 2006 applies less subsequent realised losses relating to those acquisitions.

Other reserves

Other reserves comprise the hedging reserve which represents the effective portion of the gains or losses on derivative financial instruments that have been designated as hedges.

Profit and loss reserve

The profit and loss reserve represents the cumulative surplus or deficit and the own shares reserve which represents the cost of shares in Premier Foods plc, purchased in the market and held by the Company on behalf of the Employee Benefit Trust, in order to satisfy options and awards under the Company's incentive schemes.

Non-controlling interest reserve

The non-controlling interest reserve represents the reserves attributable to non-controlling interests.

Share capital

	2011 £m	2010 £m
Authorised		
3,500,000,000 (2010: 3,500,000,000) ordinary shares of 1 pence each	35.0	35.0
Issued and fully paid		
2,398,058,019 (2010: 2,398,021,581) ordinary shares of 1 pence each	24.0	24.0

During 2011 36,438 ordinary shares of 1p each were issued to certain employees at a price of 15.2p per ordinary share pursuant to exercise of share options.

Share option schemes

The Company has share option schemes for certain senior executives and key individuals. The employees involved in the schemes hold options to subscribe for up to 85.0m ordinary shares of 1 pence each between 2010 and 2014, granted at prices ranging between 1 pence per ordinary share and 186 pence per ordinary share. The number of shares subject to options, the periods in which they were granted and the periods in which they may be exercised are given below. For 2011, a summary of the Company's schemes is as follows:

1. The Company adopted an Executive Share Option Scheme ("ESOS") at the time of admission for executive directors. A portion of the options granted under the ESOS have now vested and are exercisable between three and ten years after grant as certain performance criteria have been met. These options are equity-settled and the number of shares subject to options, the periods in which they were granted and the periods in which they may be exercised are given below. No further awards are anticipated under this scheme.
2. A Savings Related Share Option Scheme for employees. The employees involved in the scheme have the right to subscribe for up to 61.9m ordinary shares. The number of shares subject to options, the periods in which they were granted and the periods in which they may be exercised are given below. These options are equity-settled, have a maximum term of 3.5 years and generally vest only if employees remain in employment to the vesting date.
3. A Long-Term Incentive Plan ("LTIP") for senior managers. The individuals involved in the scheme have the right to subscribe for up to 5.1m ordinary shares at 1 pence per ordinary share. The number of shares subject to awards, the periods in which they were granted and the periods in which they may be awarded are given below. These awards are equity-settled and have a maximum term of three years. No further awards are anticipated under this plan.

The performance and vesting conditions of the scheme have been aligned with those of the Co-Investment Plan below. Since the Company was positioned below the median TSR performance target, the required performance conditions were not met and the 2008 award lapsed in full.

4. A Co-Investment Plan ("CIP") for directors and senior managers. The scheme is structured as a share matching plan and the individuals involved in the scheme are required to commit and retain a significant amount of capital in the form of Premier Foods' shares. The number of shares subject to awards, the periods in which they were granted and the periods in which they may be awarded are given below. These awards are equity-settled and have a maximum term of three years. No further awards are anticipated under this plan.

The vesting of matching awards is conditional on achievement against a combination of EPS and TSR performance targets. During the year performance conditions were not met and so the 2008 CIP award lapsed in full.

25. Reserves and share capital continued

5. In 2011 the Company introduced two new Executive remuneration schemes. The details of the two new schemes are as follows:

5.1 A Long-Term Incentive Plan (Performance share award) for directors and senior managers. The individuals in this scheme have the right to subscribe to ordinary shares at nil cost. The number of shares subject to awards, the periods in which they were granted and the periods in which they may be awarded are given below. These awards are equity-settled and have a maximum term of three years.

The vesting of the 2011 award is conditional on achievement of an EPS performance target.

5.2 A Long-Term Incentive Plan (Matching share award) for directors and senior managers. The scheme is structured as a share matching plan and the individuals involved in the scheme are required to commit and retain a significant amount of capital in the form of Premier Foods' shares. The number of shares subject to awards, the periods in which they were granted and the periods in which they may be awarded are given below. These awards are equity-settled and have a maximum term of three years.

The vesting of the 2011 award is conditional on achievement of an absolute share price target.

6. Deferred share bonus plan for directors. This will operate alongside the cash annual bonus. Growth of market share for total brands must be achieved for the bonus to become payable and the Group trading profit must be met.

Details of the share options of the Premier Foods ESOS are as follows:

Premier Foods plc Executive Share Option Scheme

	2011		2010	
	Year of expiry	Options	Options	Weighted average exercise price (p)
Outstanding at beginning of year		1,560,119	1,600,782	162
Forfeited during the year		(241,268)	(40,663)	162
Outstanding at the end of the year	2014	1,318,851	1,560,119	162
Exercisable at the end of the year		1,318,851	1,560,119	162

The options outstanding at 31 December 2011 had a weighted average exercise price of 162 pence (2010: 162 pence), and a weighted average remaining contractual life of 2.6 years (2010: 3.6 years).

Details of the share options of the Premier Foods Savings Related Share Option Schemes are as follows:

Premier Foods plc Savings Related Share Option Scheme

	2011		2010	
	Options	Weighted average exercise price (p)	Options	Weighted average exercise price (p)
Outstanding at beginning of year	63,465,915	24	58,771,948	45
Exercised during the year	(36,438)	15	–	–
Granted during the year	23,981,613	10	47,756,192	15
Forfeited during the year	(25,500,367)	27	(43,062,225)	43
Outstanding at the end of the year	61,910,723	17	63,465,915	24
Exercisable at the end of the year	2,052,202	68	975,564	186

During the year 24.0m (2010: 47.8m) options were granted under the Savings Related Share Option Schemes, with a weighted average exercise price at the date of exercise of 10 pence per ordinary share (2010: 15 pence).

The options outstanding at 31 December 2011 had a weighted average exercise price of 17 pence (2010: 24 pence), and a weighted average remaining contractual life of 2.1 years (2010: 2.6 years).

Notes to the financial statements

25. Reserves and share capital continued

Details of the share awards of the Premier Foods LTIP are as follows:

Premier Foods plc Long-Term Incentive Plan

	2011		2010	
	Awards	Weighted average exercise price (p)	Awards	Weighted average exercise price (p)
Outstanding at beginning of year	8,503,418	1	6,130,231	1
Granted during the year	-	-	4,373,565	1
Forfeited during the year	(3,411,749)	1	(2,000,378)	1
Outstanding at the end of the year	5,091,669	1	8,503,418	1
Exercisable at the end of the year	-	-	-	-

During the year, no awards were granted under the LTIP (2010: 4.4m). The weighted average share price at the date of exercise was 1 pence. The awards outstanding at 31 December 2011 had a weighted average remaining contractual life of one year (2010: 1.7 years).

The weighted average fair value of awards granted during the year was nil pence per award (2010: 39 pence). This was determined using a closed-form approach as a proxy for a stochastic Monte Carlo valuation model (which takes into account market based performance conditions) except for the Savings Related Share Option Scheme where the Black-Scholes model was used. The significant inputs into the model were:

	2011	2010
Weighted average share price (p)	-	32
Annual risk-free interest rate (%)	-	1.7
Expected dividend at grant date (%)	-	-
Expected award life (years)	-	3
Expected volatility (%)	-	37

The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices over the last three years.

Details of the share awards of the Premier Foods CIP are as follows:

Premier Foods plc Co-Investment Plan

	2011		2010	
	Awards	Weighted average exercise price (p)	Awards	Weighted average exercise price (p)
Outstanding at beginning of year	10,898,240	1	8,265,837	1
Granted during the year	-	-	4,520,685	1
Forfeited during the year	(2,563,959)	1	(1,888,282)	1
Outstanding at the end of the year	8,334,281	1	10,898,240	1
Exercisable at the end of the year	-	-	-	-

The awards outstanding at 31 December 2011 had a weighted average remaining contractual life of 1.4 years (2010: 2.1 years). The weighted average fair value of awards granted during the year was nil pence per award (2010: 39 pence). This was determined using a closed-form approach as a proxy for a stochastic Monte Carlo valuation model. The significant inputs into the model were:

	2011	2010
Weighted average share price (p)	-	32
Annual risk-free interest rate (%)	-	1.7
Expected dividend (%)	-	-
Expected award life (years)	-	3
Expected volatility (%)	-	37

The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices over the last three years.

25. Reserves and Share capital continued

Details of the share awards of the Premier Foods Long-Term Incentive Plan — EPS Target are as follows:

Premier Foods plc Long-Term Incentive Plan — Performance share award

	2011	
	Awards	Weighted average exercise price (p)
Outstanding at beginning of year	–	–
Granted during the year	8,741,250	1
Forfeited during the year	(3,094,720)	1
Outstanding at the end of the year	5,646,530	1
Exercisable at the end of the year	–	–

The awards outstanding at 31 December 2011 had a weighted average remaining contractual life of 2.4 years. The weighted average fair value of awards granted during the year was nil pence per award. No charge has been recognised in the income statement in 2011 because it is anticipated that the performance conditions will not be met and therefore the awards will not vest.

Details of the share awards of the Premier Foods Long-Term Incentive Plan — average share price target are as follows:

Premier Foods plc Long-Term Incentive Plan — Matching share award

	2011	
	Awards	Weighted average exercise price (p)
Outstanding at beginning of year	–	–
Granted during the year	5,344,038	1
Forfeited during the year	(2,670,282)	1
Outstanding at the end of the year	2,673,756	1
Exercisable at the end of the year	–	–

The awards outstanding at 31 December 2011 had a weighted average remaining contractual life of 2.4 years. The weighted average fair value of awards granted during the year was nil pence per award. No charge has been recognised in the income statement in 2011 because it is anticipated that the performance conditions will not be met and therefore the awards will not vest.

In 2011, the Group's continuing operations recognised an expense of £3.9m (2010: £6.9m), related to all equity-settled share-based payment transactions. A further £0.9m was recognised in relation to discontinued operations.

A summary of the range of exercise price and weighted average remaining contractual life is shown below:

Weighted average remaining life and exercise prices

	31 Dec 2011			31 Dec 2010		
	Number outstanding at end of the year	Weighted average remaining contractual life (years)	Weighted average exercise price (p)	Number outstanding at end of the year	Weighted average remaining contractual life (years)	Weighted average exercise price (p)
At 1 pence	21,746,236	1.7	1	19,401,658	1.9	1
£0.01 to £0.99	61,910,723	2.1	17	62,490,351	2.6	22
£1.00 to £2.00	1,318,851	2.6	162	2,535,683	2.2	171
Total	84,975,810	2.0	15	84,427,692	2.5	21

Notes to the financial statements

26. Notes to the cash flow statement

Reconciliation of operating profit to cash flows from operating activities

	Year ended 31 Dec 2011	Year ended 31 Dec 2010 (Restated) ¹
	£m	£m
Continuing operations		
Operating (loss)/profit	(176.3)	219.9
Depreciation of property, plant and equipment	41.8	43.2
Amortisation of intangible assets	72.0	65.8
Loss on the sale of canning operations	11.2	–
Gain on disposal of property, plant and equipment	(0.9)	(0.2)
Gain on disposal of intangible assets	–	(3.9)
Impairment of goodwill and intangible assets	282.0	–
Fair value movements on foreign exchange and other derivative contracts	1.7	2.0
Non-cash movement relating to retirement benefits	(41.3)	5.7
Share-based payments	3.9	6.9
Net cash inflow from operating activities before interest and tax and movements in working capital	194.1	339.4
(Increase)/decrease in inventories	(26.3)	6.7
(Increase)/decrease in trade and other receivables	53.8	(24.6)
(Decrease)/increase in trade and other payables and provisions	(10.9)	18.4
Movement in retirement benefit obligations	(76.1)	(64.3)
Cash generated from continuing operations	134.6	275.6
Discontinued operations	(47.9)	37.6
Cash generated from operating activities	86.7	313.2

¹ Comparatives have been restated to reflect the reclassification of the Retailer Branded Chilled business as a discontinued operation.

Reconciliation of cash and cash equivalents to net borrowings

	Year ended 31 Dec 2011	Year ended 31 Dec 2010
	£m	£m
Net inflow/(outflow) of cash and cash equivalents	51.1	(13.1)
Decrease/(increase) in finance leases	18.4	(17.7)
Decrease in borrowings	221.3	121.7
Other non-cash movements	(5.9)	(5.8)
Decrease in borrowings net of cash	284.9	85.1
Total net borrowings at beginning of year	(1,280.0)	(1,365.1)
Total net borrowings at end of year	(995.1)	(1,280.0)

26. Notes to the cash flow statement continued**Analysis of movement in borrowings**

	As at 1 Jan 2011 £m	Cash flow £m	Other non-cash movements £m	As at 31 Dec 2011 £m
Bank overdrafts	(30.6)	6.9	–	(23.7)
Cash and bank deposits	1.9	44.2	(0.3)	45.8
Net cash and cash equivalents	(28.7)	51.1	(0.3)	22.1
Borrowings — term facilities	(1,180.0)	446.9	–	(733.1)
Borrowings — revolving credit facilities	(20.0)	(256.1)	–	(276.1)
Finance leases	(19.1)	18.4	–	(0.7)
Other	(53.5)	30.2	–	(23.3)
Gross borrowings net of cash¹	(1,301.3)	290.5	(0.3)	(1,011.1)
Debt issuance costs	21.3	0.3	(5.6)	16.0
Total net borrowings¹	(1,280.0)	290.8	(5.9)	(995.1)

¹ Borrowings excludes derivative financial instruments and other financial liabilities fair valued through profit or loss.

27. Operating lease commitments

The Group has lease agreements in respect of property, plant and equipment, for which future minimum payments extend over a number of years.

	2011		2010	
	Property £m	Plant and Equipment £m	Property £m	Plant and Equipment £m
Within one year	11.3	8.0	13.0	14.6
Between two and five years	38.7	11.0	46.2	18.4
After five years	66.2	0.2	74.4	0.1
Total operating lease commitments	116.2	19.2	133.6	33.1

Leases primarily relate to the Group's properties, which principally comprise offices and factories. Lease payments are typically subject to market review every five years to reflect market rentals, but because of the uncertainty over the amount of any future changes, such changes have not been reflected in the table above. Within our leasing arrangements there are no significant contingent rentals, renewal, purchase or escalation clauses.

The Group sub-lets various properties under non-cancellable lease arrangements. Sub-lease receipts of £1.4m (2010: £0.9m) were recognised in the income statement during the year. The total future minimum sub-lease payments at the year-end is £4.5m (2010: £5.5m).

28. Capital commitments

	2011 £m	2010 £m
Contracts placed for future capital expenditure not provided in the financial statements:		
Intangible assets	2.0	2.2
Tangible assets	16.0	6.4
Total	18.0	8.6

29. Contingencies

The Group has been in discussion with one of the Group Pension Schemes relating to the possibility that it may have to recognise some additional liability as a result of alleged failure to adequately equalise retirement ages between 1990 and 1993. During 2011 the Group decided to seek a court ruling. On 20 February 2012 the case was heard in court and on 2 March 2012 the judge ruled in favour of the Group. As a result there is no material additional liability to be recognised and no impact on pension deficit recovery payments relating to the case.

There were no other material contingent liabilities at 31 December 2011. Other contingencies and guarantees in respect of the Parent Company are described in note 9 of the Parent Company financial statements.

Notes to the financial statements

30. Related party transactions

Key management personnel of the Group are considered to be the executive and Non-executive directors and the Group Executive.

Details of their remuneration are set out below in aggregate for each of the categories specified in IAS 24 "Related Party Disclosures". Further information about the remuneration of individual directors is provided in the audited part of the directors' remuneration report on pages 65 to 76.

	Year ended 31 Dec 2011 £m	Year ended 31 Dec 2010 £m
Salaries and other short-term employee benefits	7.3	4.4
Post employment benefits	0.3	0.3
Termination benefits	2.0	–
Share-based payments	1.2	1.5
Total	10.8	6.2

WP X Investments Limited ("Warburg Pincus") is considered to be a related part of the Group by virtue of its 15.8% (2010: 15.8%) equity shareholding in Premier Foods plc and of its power to appoint a member to the Board of directors, which has been exercised. There have been no transactions during the year.

Apart from the information above there were no other related party transactions.

31. Subsequent events

Disposal of the Irish brand business

On 15 December 2011 the Group announced that it had agreed to sell its four Irish brands (Chivers, Gateaux, McDonnells and the Erin licence) to The Boyne Valley Group for €41.4m. The disposal of the Irish brands completed on 23 January 2012.

Financing arrangements

On 12 March 2012 the Group announced that it had obtained consent from its banking syndicate, swap counterparties and pension schemes on a re-financing package subject to the formalities of final documents being signed, expected by the end of March.

Pension arrangements

Subject to implementation of the new re-financing arrangements, the Trustees of the Group's pension schemes have agreed to defer deficit contribution payments (c.£47m p.a.) until 1 January 2014 and there will be no increase in the agreed deficit contributions before 2016. Regular contributions of approximately £26m per annum will continue to be paid to the pension schemes.

Lending arrangements

The existing term loan (£733m) and revolving credit facility (£500m), previously due to mature on 31 December 2013, will be extended to a new maturity date of 30 June 2016. The current applicable bank margin of 2.25% will increase to 3.25% with effect from 1 January 2014.

Additionally, the current amortisation payment schedule has been amended, with amortisations to occur semi-annually from 30 June 2014. Banking covenants of net debt/EBITDA and EBITDA/interest remain in place; they will continue to be tested bi-annually and have been reset to reflect the Group's strategic plan. The covenant tests are set out in the table below.

Having already realised net disposal proceeds of £400m in 2011, the Group is required to realise proceeds from disposals of £330m by 30 June 2014, with 80% of this to be achieved by 31 December 2013 and 90% of this by 31 March 2014.

The total interest rate swap portfolio, including previously restructured swaps, will be restructured into additional term loan totalling approximately £199m. Of this additional term loan, approximately £117m of the previously restructured swaps will be interest bearing with immediate effect. The remaining £82m of previously restructured swaps will attract interest from 1 January 2014. These new tranches of additional term loan will attract the same interest margin as the main term loan. The result of this conversion from swaps to additional term loan will significantly reduce the Group's interest expense in 2012 and 2013 and the previously arranged agreed swap settlements of £35m in 2012 and £82m in 2013 are no longer applicable. A new amortising swap commencing in July 2012, with a nominal value of approximately £750m, will be arranged attracting a swap rate of 1.55%.

All term loan and securitised debt attract interest charges based on LIBOR.

A sliding scale of new deferred fees at market rates will be applicable from 2014 through to 2016, which are payable on a subsequent re-financing. Planned future disposal proceeds will be shared between the banks in the banking syndicate (including those swap counterparties whose swaps have been restructured into additional term loans as described above).

On 31 December 2013, a 'cash sweep', reflecting excess cash generated over and above an agreed level will be calculated and paid in early 2014 to the banking syndicate, (including those swap counterparties whose swaps have been restructured into additional term loans as described above) and pension schemes in lieu of payments foregone by this date. Further cash sweeps will be included annually with amounts distributed to the banking syndicate (including those swap counterparties whose swaps have been restructured into additional term loans as described above).

31. Subsequent events continued

The Company is restricted from paying dividends under the terms of the re-financing package.

Summary of Re-financing package

Bank Facility Maturity	30 June 2016	
Bank Margin	2.25% until 31 Dec 2013 3.25% 1 Jan 2014–30 June 2016	
Facilities	Term loan A £733m RCF £500m Additional term loan circa £199m	
Amortisation payments	30 June 2014 – £25m 31 Dec 2014 – £25m	30 June 2015 – £30m 31 Dec 2015 – £30m
Disposals	Proceeds shared between banks and swap counterparties £330m disposal proceeds required by 30 June 2014; certain progress milestones from 31 December 2013	
Securitisation	Programme now £120m and now on balance sheet	
Cash sweep	Paid in Feb 2014, split between banks, swaps and pension schemes Further cash sweeps annually thereafter (excluding pension schemes)	
Consent fee	1% fee on outstanding facilities	
Existing deferred fee	0.5% on existing facilities, paid Dec 2013	
New deferred fee	2.0% on facilities between 28 March 2013 – 27 March 2014	
	2.5% on facilities between 28 March 2014 – 27 March 2015	
	3.0% on facilities between 28 March 2015 – 27 March 2016	
Covenant test dates	Bi-annually, 30 June and 31 December	
Net debt: EBITDA covenant	30 June 2012	6.96x
	31 Dec 2012	5.87x
	30 June 2013	5.26x
	31 Dec 2013	4.52x
	30 June 2014	4.66x
	31 Dec 2014	3.92x
	30 June 2015	3.82x
	31 Dec 2015	3.26x
EBITDA: Interest covenant	30 June 2012	2.37x
	31 Dec 2012	3.69x
	30 June 2013	4.50x
	31 Dec 2013	4.50x
	Each test thereafter	4.50x

Receivables Purchase Agreement

The Group's Receivables Purchase Agreement with DLLI (a wholly owned subsidiary of Rabobank Group) is due to expire on 31 March 2012.

The Group has negotiated and obtained a commitment to a new securitisation programme relating to certain receivable balances available up to an amount of £120m, subject to sufficient receivables being capable of being sold into the programme. These balances will be included as part of net debt, reflecting their recognition on the balance sheet and will attract an interest margin of 3.5%.

Premier Foods plc – Company financial statements

The following statements reflect the financial position of the Company, Premier Foods plc as at 31 December 2011 and 2010. These financial statements have been prepared in accordance with Generally Accepted Accounting Practice in the United Kingdom (“UK GAAP”). The directors have taken advantage of the exemption available under section 408 of the Companies Act 2006 and not presented a Company profit and loss account.

Balance sheet

	Note	As at 31 Dec 2011 £m	As at 31 Dec 2010 £m
ASSETS:			
Fixed assets			
Investments	3	729.7	1,749.7
Current assets			
Debtors	4	647.7	636.7
Deferred tax assets	6	0.8	0.6
Cash at bank and in hand		0.3	0.3
Total assets		1,378.5	2,387.3
LIABILITIES:			
Current liabilities			
Creditors: amounts falling due within one year	5	(55.4)	(51.9)
Total liabilities		(55.4)	(51.9)
Total assets less total liabilities		1,323.1	2,335.4
EQUITY:			
Capital and reserves			
Share capital	7	24.0	24.0
Share premium	7	1,124.7	1,124.7
Merger reserve	7	228.0	1,027.5
Profit and loss reserve	7	(53.6)	159.2
Total shareholders' funds		1,323.1	2,335.4

The notes on pages 133 to 135 form an integral part of the financial statements.

The financial statements on pages 132 to 135 were approved by the Board of directors on 18 March 2012 and signed on its behalf by:

Michael Clarke
Chief Executive Officer

Mark Moran
Chief Financial Officer

Notes to the Company financial statements

1. Accounting policies

Basis of preparation

The financial statements have been prepared on the going concern basis and in accordance with the Companies Act 2006 and applicable accounting standards in the United Kingdom ("UK GAAP"), under the historical cost convention. The loss for the year of £1,017.5m (2010: £6.7m profit) is recorded in the accounts of Premier Foods plc. The directors have taken advantage of the exemption available under section 408 of the Companies Act 2006 and not presented a profit and loss account for the Company.

The directors consider that the accounting policies set out below are the most appropriate and have been consistently applied.

The Company has taken advantage of the exemption from preparing a cash flow statement under the terms of FRS (revised 1996) on the grounds that the Group includes the Company in its consolidated financial statements that are publically available.

The Company is exempt under the terms of Financial Reporting Standard 8 "Related Party Transactions" ("FRS 8") from disclosing related party transactions with entities that are wholly owned subsidiaries of the Premier Foods plc Group or investees of the Premier Foods plc Group.

Fixed asset investments

Investments held as fixed assets are stated at cost less any provision for impairment in their value.

Taxation

The charge for taxation is based on the profit for the year and takes into account deferred taxation. The Company provides in full for deferred tax arising from timing differences between the recognition of gains and losses in the financial statements and their inclusion in tax computations to the extent that a liability or an asset is expected to be payable or recoverable in the foreseeable future. The Company discounts its deferred tax liability as appropriate.

Cash and liquid resources

Short-term cash deposits, which can be called on demand without any material penalty, are included within cash balances in the balance sheet.

Share-based payments

The fair value of employee share option plans is calculated using an option-pricing model. In accordance with Financial Reporting Standard 20, "Share-based Payment" ("FRS 20"), the resulting cost is charged to the profit and loss account over the vesting period of the options for employees employed by the Parent Company, or treated as an investment in subsidiaries in respect of employees employed by the subsidiaries where the cost is recharged. The value of the charge is adjusted to reflect expected and actual levels of options vesting.

Dividends

Dividend distribution to the Company shareholders is recognised as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's shareholders, and for interim dividends in the period in which they are paid.

Operating lease agreements

Leases in which a significant portion of risks and rewards of ownership are retained by the lessor are classified as operating leases. Rental costs under operating leases, net of any incentives received from the lessor, are charged to the income statement on a straight-line basis over the lease period.

2. Operating profit

Audit fees in respect of the Company are £nil (2010: £nil). Note 6b of the Group consolidated financial statements provides details of the remuneration of the Company's auditors on a Group basis.

At 31 December 2011, the Company had two employees (2010: three), and their remuneration totalled £2.3m (2010: £2.7m). This excludes the Company's six (2010: seven) non-executive directors whose remuneration totalled £0.7m (2010: £0.6m). Directors' emolument disclosures are provided in the directors' remuneration report on pages 65 to 76 of this annual report.

Notes to the Company financial statements

3. Investments

	2011 £m	2010 £m
Shares in subsidiary undertakings		
At 1 January	1,749.7	1,743.7
Additions	4.2	6.0
Impairment	(1,024.2)	–
At 31 December	729.7	1,749.7

Impairment

An impairment charge of £1,024.2m is recognised against the value of the Company's investment in subsidiaries as a result of various disposals made during the year combined with adverse trading conditions.

During 2011, a capital contribution of £4.2m (2010: £6.0m) was given in the form of share incentive awards to employees of subsidiary companies which were reflected as an increase in investments. See note 17 in the Group financial statements for a list of the principal subsidiary undertakings. A full list of subsidiary undertakings will be annexed to the Company's next annual return.

On 1 January 2010, the Group undertook an internal reorganisation and the Company entered into a deed of gift under which the Company transferred the shares in RHM Limited to a subsidiary undertaking, Premier Foods Investments Limited.

4. Debtors

	2011 £m	2010 £m
Amounts falling due within one year:		
Amounts owed by Group undertakings	647.7	636.7

The above balances are not subject to interest rate risk as they are interest free with the exception of £307.0m (2010: £295.9m) which attracted interest at a rate of LIBOR plus 3.0% (2010: LIBOR plus 3.0%). Carrying value approximates fair value.

5. Creditors

	2011 £m	2010 £m
Amounts falling due within one year:		
Amounts owed to Group undertakings	43.5	42.4
Current tax	11.9	9.5
Total creditors falling due within one year	55.4	51.9

The above balances are not subject to interest rate risk as they are interest free with the exception of £37.2m (2010: £35.8m) which attracted interest at a rate of LIBOR plus 3.0% (2010: LIBOR plus 3.0%). Carrying value approximates fair value.

6. Deferred Tax

	2011 £m	2010 £m
At 1 January	0.6	0.3
Charged to the profit and loss account	0.2	0.3
At 31 December	0.8	0.6

The deferred tax asset relates to share-based payments.

7. Share capital and other reserves

	Share capital £m	Share premium £m	Merger reserve £m	Profit and loss reserve £m	Total £m
At 1 January 2010	24.0	1,124.7	1,027.5	145.6	2,321.8
Profit for the year	–	–	–	6.7	6.7
Share-based payments (a)	–	–	–	6.9	6.9
At 31 December 2010	24.0	1,124.7	1,027.5	159.2	2,335.4
Loss for the year	–	–	–	(1,017.5)	(1,017.5)
Realisation of merger reserve (b)	–	–	(799.5)	799.5	–
Share-based payments (a)	–	–	–	5.2	5.2
At 31 December 2011	24.0	1,124.7	228.0	(53.6)	1,323.1

Share capital

	2011 £m	2010 £m
Authorised		
3,500,000,000 (2010: 3,500,000,000) ordinary shares of 1 pence each	35.0	35.0
Issued and fully paid		
2,398,058,019 (2010: 2,398,021,581) ordinary shares of 1 pence each	24.0	24.0

a) Share-based payments 2011 and 2010

The costs reflect the Company's share option schemes in operation. Further details are available per note 25 of the Group's consolidated financial statements.

The charge relating to its employees of the Company amounted to £1.0m (2010: £0.9m). Further details of these schemes can be found in the directors' remuneration report on pages 74 to 75.

b) Realisation of merger reserve

The Company has transferred to the profit and loss reserve an amount that has become realised on disposal and write down of the related investment.

8. Operating lease commitments

At 31 December 2011, the Company had annual commitments under non-cancellable operating leases in respect of land and buildings as follows:

	2011 £m	2010 £m
After five years	0.3	0.3

The lease expense has been borne by a subsidiary company.

9. Contingencies and guarantees

Premier Foods plc has provided guarantees to third parties in respect of borrowings of certain subsidiary undertakings. The maximum amount guaranteed at 31 December 2011 is £1.2bn (2010: £1.7bn).

The Group has been in discussion with one of the Group Pension Schemes relating to the possibility that it may have to recognise some additional liability as a result of alleged failure to adequately equalise retirement ages between 1990 and 1993. During 2011 the Group decided to seek a court ruling. On 20 February 2012 the case was heard in court and on 2 March 2012 the judge ruled in favour of the Group. As a result there is no additional material liability to be recognised and no impact on pension deficit recovery payments relating to this case.

10. Subsequent events

The Group has obtained consent from its banking syndicate, swap counterparties and pension schemes on a re-financing package subject to the formalities of final documents being signed, expected by the end of March.

Further details of the amendments to the financing arrangements are shown in note 31 to the Group financial statements.

Glossary

Adjusted earnings per share

Adjusted earnings per share is defined as Adjusted Profit before tax less a notional tax charge for the Group divided by the weighted average number of shares in issue during the period (see note 10 to the financial statements for a full definition)

Adjusted Profit before tax

Trading profit less net regular interest payable

AGM

Annual General Meeting

Amortisation

An annual charge made in a company's profit and loss account to reduce the value of an intangible asset to its residual value over its useful economic life

Articles

Articles of Association — the constitution of the Company

BIS

UK department for Business, Innovation and Skills

Bps

Basis point — a unit that is equal to 1/100th of 1%

BRC

The British Retail Consortium

Called-up share capital

Ordinary shares, issued and fully paid

CEO

Chief Executive Officer

CFO

Chief Financial Officer

CGU

Cash-generating unit — the smallest identifiable group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets

CIP

Premier Foods plc Co-Investment Plan

Chief Operating Decision Maker

A function or person that is responsible for allocating resources to, and assessing the performance of operating segments

Code

The UK Corporate Governance Code 2010 published by the FRC

Companies Act

The Companies Act 2006

Company (the)

Premier Foods plc

COO

Chief Operating Officer

CSR

Corporate Social Responsibility

DSB

Premier Foods plc new Deferred Share Bonus

EBITDA

Earnings before interest, tax, depreciation and amortisation

EBT

Employee Benefit Trust

EPS

Earnings Per Share — calculated as total earnings divided by the weighted average number of shares in issue during the period

ESOS

Premier Foods plc Executive Share Option Scheme

EU

European Union

Fair value

The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction

FDf

The Food and Drink Federation

Finance lease

A lease that transfers substantially all the risks and rewards incidental to ownership of an asset

FRC

Financial Reporting Council

Free Cash Flow

The amount of money that business has at its disposal at any given time after paying out operating costs, interest payments on bank loans and bonds, salaries, research and development and other fixed costs

FSA

Depending on the context, either the Food Standards Agency or the Financial Services Authority

FTSE 250 (index)

Index comprising of the 250 largest companies listed on the London Stock Exchange in terms of their market capitalisation

GDAs

Guidance Daily Amounts

Group (the)

The Company and its subsidiaries

Group Executive

The Group Executive support the CEO in carrying out the duties delegated to him by the Board

HACCP

Hazard Analysis Critical Control Point

Higgs Report

Report in the UK by Derek Higgs on the role and effectiveness of non-executive directors

HMRC

Her Majesty's Revenue & Customs

IAS

International Accounting Standards

IFRIC

International Financial Reporting Interpretations Committee

IFRS

International Financial Reporting Standards

Intangible assets

An identifiable non-monetary asset without physical substance, e.g. patents, goodwill, trade marks and copyrights

Glossary

Interest rate hedging

Entering into a financial derivative to protect against unfavourable changes in interest rates

Interest rate swaps

An agreement between two parties that allows either party to modify the interest cost without changing the characteristics of the underlying debt

KPI

Key Performance Indicator

LIBOR

The London Inter-Bank Offered Rate

LTIP

Premier Foods plc Long-Term Incentive Plan

New LTIP

Premier Foods plc new Long-Term Incentive Plan approved at the AGM 2011

Mark to market

The recording of a financial asset or liability to reflect its fair value rather than its book value

NED

Non-executive director

Net regular interest payable

The net interest after excluding the following non-cash items: write-off of financing costs, accelerated amortisation of debt issuance costs, fair value adjustments on interest rate financial instruments and the unwind of the discount on provisions

Non branded

Non branded products comprise retailer brand and business to business sales

Non-recourse securitisation

The sale of selected accounts receivable on a non-recourse basis where legal title and non-payment risk is transferred to a third party

Operating lease

A lease that is not a Finance lease

Operating Profit

A company's profit after deducting its operating costs from gross profit

Ordinary Share

An ordinary share of 1 pence each in the share capital of the Company

pp

Percentage points

Pro forma

Pro forma comparisons are calculated as follows: current year actual results (which include acquisitions and/or disposals from the relevant date of completion) are compared with prior year actual results, adjusted to include the results of acquisitions and/or disposals for the commensurate period in the prior year

RHM

Rank Hovis McDougall

RIDDOR

Reporting of Injuries, Diseases and Dangerous Occurrences Regulations

Retailer branded

Also known as "private label" or "own label" products

RPI

Retail Price Index

SAP

SAP is the market leader in the supply of enterprise resources planning (ERP). SAP is also the name of the software and is an acronym for Systems, Applications and Products. This software is being deployed as part of the Fusion programme

SAYE

Save As You Earn Scheme

Share Capital

Ordinary shares issued and fully paid

Share Premium Account

Additional paid-in capital or paid-in surplus (not distributable)

SID

Senior Independent Director

SKU

(Stock Keeping Unit)
Each specific product item which is identifiable as separate from any other due to brand, size, flavour, etc

Term and Revolving Credit Facility

The amounts of money borrowed or available for borrowing where the repayment of the debt is predetermined by a contract

Trading Profit

Operating profit before re-financing costs, restructuring costs and losses associated with disposals, amortisation and impairment of intangible assets, the revaluation of foreign exchange and other derivative contracts under IAS 39 and pension credits or charges in relation to the difference between the expected return on pension assets, administration costs and interest costs on pension liabilities

Treasury Shares

Shares as defined by the Companies Acquisitions of Own Shares (Treasury Shares) Regulations 2003

TSR

Total Shareholder Return — the growth in value of a shareholding over a specified period assuming that dividends are reinvested to purchase additional shares.

Turnbull report

Guidance issued by the Institute of Chartered Accountants in England & Wales on the implementation of the internal control requirements of the Combined Code on Corporate Governance at the request of the London Stock Exchange

UK GAAP

UK Generally Accepted Accounting Principles

WACC

Weighted Average Cost of Capital

YoY

Year on year



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