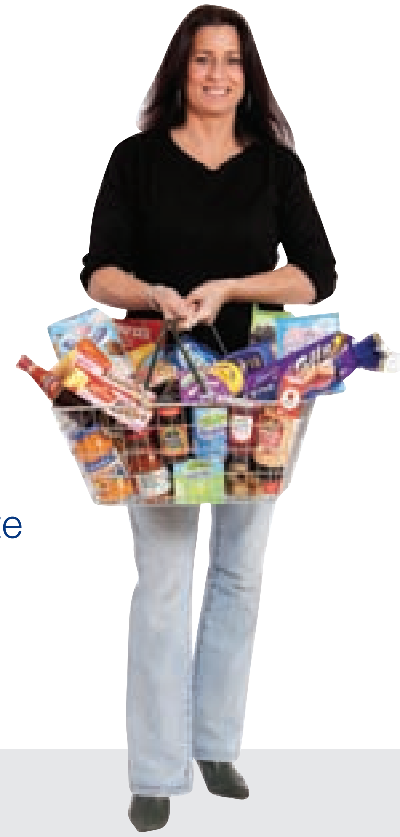

# The best in British food

*with brands you really love*

**Premier Foods plc**

Annual report and accounts for the year ended 31 December 2010

Stock code: PFD

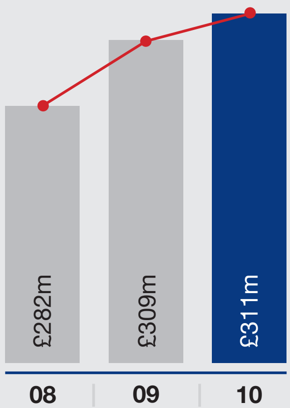


# All the **Nation's Favourites.**

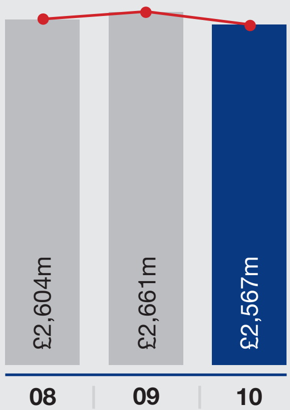
Premier Foods is home to some of the nation's favourite food brands. Last year over 99% of British households bought a Premier Foods' brand, so you're likely to find us in every British kitchen and on every British table.

## Financial Highlights for **2010**

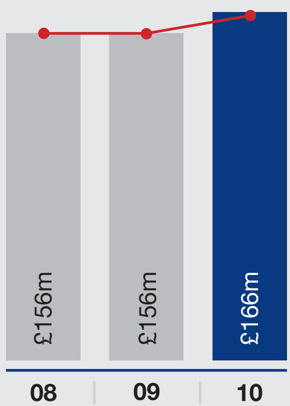
### Trading Profit[1]



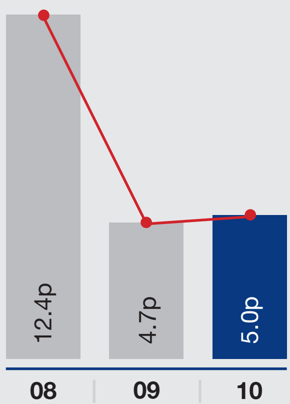

### Total Sales



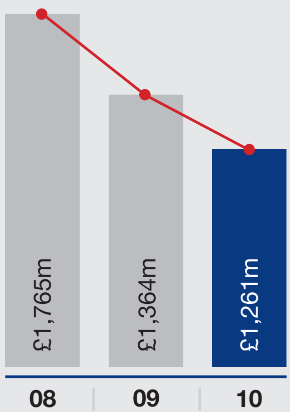

### Pro forma adjusted profit before tax[3]




### Pro forma adjusted earnings per share (EPS)[4]




### Net debt[5]




*All financial metrics refer to the continuing Group plus the Meat-free business unless otherwise indicated. For the purposes of the financial statements, the Meat-free business is disclosed within discontinued operations.*

1 *Trading profit is defined as operating profit before exceptional items, 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.*

2 *Source: IRI Infoscan, Total Grocery Outlets, 52 weeks ended 25 December 2010.*

3 *Pro forma adjusted profit is defined as trading profit less net regular interest payable, less a notional tax charge at 28.0% (2009: 28.0%), adjusted in 2009 as if the equity raising and refinancing in March 2009 had been in place for the whole year.*

*Net regular interest payable is defined as net interest after excluding non-cash items, namely exceptional 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.*

4 *Pro forma adjusted earnings per share is defined as pro forma adjusted profit divided by the weighted average number of ordinary shares of the Company adjusted in 2009 as if the equity raising and refinancing in March 2009 had been in place for the whole year.*

5 *Net debt is defined as net borrowings less obligations due under finance leases.*

6 *Comparatives have been restated to reflect the classification of the Meat-free business as a discontinued operation and to reflect the change in classification of certain exceptional items as business restructuring and investment costs which have now been included within trading profit.*


**To read more**
www.premierfoods.co.uk

## Highlights for **2010**

- **Trading profit[1] of £311m, up 0.6% on last year**
  - Grocery and Hovis both recorded improved trading profit
  - £12m pension credit reduces year-on-year pension service cost by £3m
  - £15m fall in trading profit at Brookes Avana
- **Sales down 3.5% due to lower non-branded sales**
  - Branded sales volume up 3.1%, ahead of the market[2]
- **Pro forma adjusted profit before tax[3] and EPS[4] advanced by 6.4% benefiting from lower interest charges**
- **Net debt[5] down £103m to £1,261m (2009: £1,364m). After proceeds of Canning and Meat-free disposals, pro forma net debt will be below £900m**
- **£125m goodwill impairment at Brookes Avana resulting in loss before taxation of £98m (2009: £42m profit restated[6]) on a continuing basis. Basic EPS was a loss of 3.6p (2009: earnings of 1.7p) on a continuing basis**
- **Recurring cash generation of £124m, ahead of £100m target**

### Our business



### Business review



### Governance



### Financial statements



### Other information

# Driving forward with brand growth.

**Ronnie Bell**
Chairman

## Dear Shareholders

This is my first report to shareholders since taking over as Chairman in October 2010 and I would like to start with a few first impressions.

My early observation is that Premier Foods has a number of strong platforms for growth:

- it has a tremendous stable of leading brands with consumer franchises developed in many cases by decades of investment. These brands account for over two thirds of the Company's revenues and provide an excellent base for long term business growth;
- the business has significant scale and excellent operational capabilities with generally well invested assets; and
- a strong and capable management team.

I have spent the last few months getting to know the Company, its brands, facilities and people. I have been impressed with the capability and commitment of employees at all levels of the Group. There is a strong culture of improvement and willingness to adapt quickly to the changing demands of the business.

### Progress in 2010

During the year the Group set out twin strategic priorities:

- an on-going strategy focused on branded growth; and
- a robust financial plan to reduce the Group's debt.

I am fully supportive of this approach and my immediate priority is to ensure rapid progress against delivery on both fronts.

It is clear that we experienced very challenging trading conditions in 2010, particularly in the second half of the year. Market growth has been subdued as a result of constrained consumer spending and increased promotional activity during this period of ongoing economic uncertainty.

However, it is important to recognise that despite this, we have been able to make progress on our strategy of delivering branded volume growth ahead of the market. While total sales revenue was down slightly in line with the market, branded sales were up 3.1% in terms of volume. Drive brands in particular made significant progress, gaining market share in a number of areas.

Whilst both the Grocery and Hovis divisions made progress in 2010, Brookes Avana had a very difficult year suffering a £15m fall in trading profit largely as a result of increased commodity costs and lower prices.

In particular, I am pleased to report that through improved management of working capital we have increased recurring cash generation by £124m exceeding our target of £100m.

### Derisking the Group's balance sheet

It is clear that in the current economic climate, investors have continued to be concerned by companies with a high level of leverage.

A great deal of progress has been made by the Company in 2010 to reduce balance sheet concerns. In October we successfully restructured the Group's swap portfolio significantly reducing the Company's risk exposure. Net debt at the year end has reduced by £103m to £1,261m and in addition we have obtained a credit rating which will allow us to diversify our sources of funding.

### Disposals

During the year we assessed our portfolio and took steps to reduce our dependence on some parts of our non-branded portfolio which were de-prioritised. We have also undertaken a review of our business to assess whether there was the potential for the disposal of non-strategic businesses which could accelerate our leverage reduction.

In January 2011 we announced we had reached agreement with the private equity business, Exponent Private Equity and Intermediate Capital Group (Exponent), to sell our Meat-free business which manufactures and sells products under the *Quorn* and *Cauldron* brands for £205m. This disposal was approved by shareholders on 3 March and successfully completed on 7 March 2011.

In addition in February 2011, we announced we had reached agreement with food producer Princes for the sale of our canned grocery operations in East Anglia for £182m. We expect the disposal, which is subject to a number of clearances, to complete later in 2011.

"We will increase our focus on innovation, brand building and consumer marketing to deliver branded sales growth."

The Board believes that these disposals are in the best interests of both the Company and shareholders as the net proceeds of the sale of around £370m will be used to repay debt. This is an important step both in significantly reducing the time it takes to reach our target debt level and also in allowing management to focus more single mindedly on our key brands within the Grocery and Hovis businesses.

## Board changes

As referred to above, I joined as Chairman with effect from 1 October 2010 succeeding David Kappler. On behalf of the Board, I would like to thank David for his significant contribution to the Group since its flotation in 2004. At the same time as my appointment Charles Miller Smith became Deputy Chairman and he has been working closely with me on the strategic development of the business.

At the forthcoming AGM in April, David Felwick will be stepping down as a non-executive director. I would like to take this opportunity to thank David for the help and support he has provided to the Company both as Senior independent director and, until 2009, as Chairman of the Remuneration Committee. Following his retirement David Beever will take up the appointment of Senior independent director.

I am also very pleased to announce the appointment of David Wild, Chief Executive of Halfords plc, as a new non-executive director with effect from 7 March 2011. David's background within the grocery and retail industry will be valuable to the Company as we continue to develop our strategy.

## Focus for 2011

We have made significant strides in achieving a capital structure which we believe will be more attractive to investors and hope to make further progress in this over the course of the year. With balance sheet issues largely addressed, our focus for 2011 will be on branded sales growth.

In order to achieve this I believe it is also important that we increase our focus on innovation, brand building and consumer marketing. To this end we have now aligned our organisational structure to combine the management of our Drive and Core brands and plan to put the necessary investment behind accelerating growth.

This new organisational structure is an important step in enabling the business to prioritise resources and maximise the return from its brand portfolio. The new structure will enable us to:

- manage all brands together rather than solely by division;
- establish a single Group marketing function to facilitate the sharing of consumer insight and aid prioritisation of resources;
- concentrate more resources behind Drive and Core brands; and
- manage the Defend brands and own label businesses separately to ensure their contribution is maximised.

Premier Foods has a good track record of developing innovation and new products which reflect changing consumer trends and habits. We believe this new structure and increased investment will help us to grow the amount of branded sales from new and improved products within Grocery as the benefits of our innovation pipeline start to come through.

With the current tough general economic environment combining with strong pressure from rising commodity prices, 2011 will remain difficult from a consumer confidence and trading perspective.

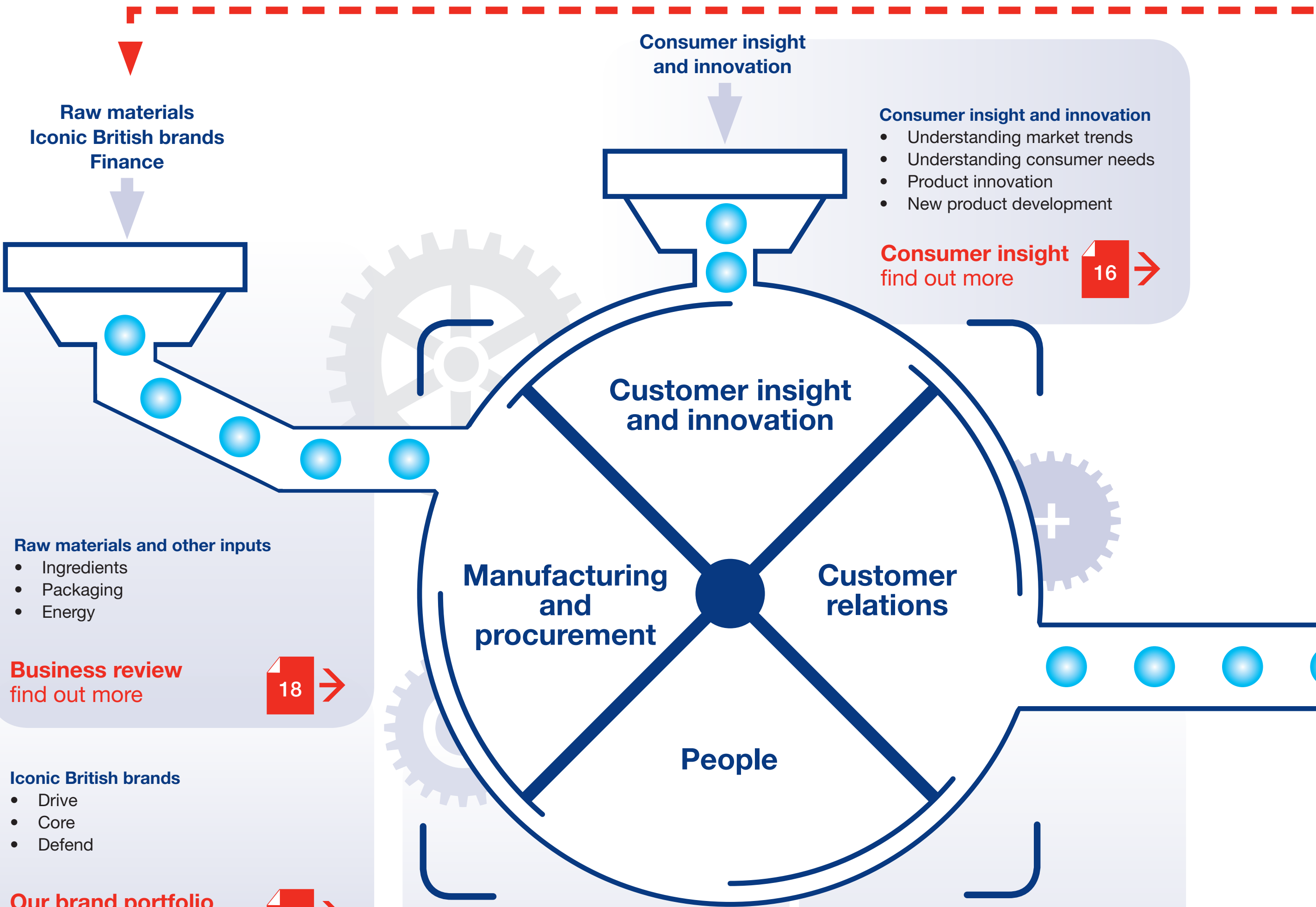
However, as demonstrated in 2010, the Group remains committed to the pursuit of share growth behind our strong stable of brands across our major markets. Strong marketing programmes and increased product innovation will support our share growth initiatives. At the same time the Group will continue to leverage cost release from its efficiency savings programmes to support gross margin achievement. Our improving debt and strengthening balance sheet position will allow us to diversify sources of funding. Overall we are confident that we can continue to make progress in 2011.

Ronnie Bell

**Ronnie Bell**
Chairman

# Our business model.

## Generating cash, investing for profitable growth




**Consumer insight and innovation**
- Understanding market trends
- Understanding consumer needs
- Product innovation
- New product development

Consumer insight
find out more 16

**Raw materials and other inputs**
- Ingredients
- Packaging
- Energy

Business review
find out more 18

**Iconic British brands**
- Drive
- Core
- Defend

Our brand portfolio
find out more 08

**Finance**
- Shareholder equity
- Long term bank debt
- Short term borrowings

Financial review
find out more 30

**Manufacturing**
- Infrastructure
- Logistics
- Economies of scale
- Efficiencies
- Know-how

**Procurement**
- Machinery
- Facilities
- Engineering
- Corporate spend

**People**
- Marketing
- Sales
- Innovation
- Technical
- Finance
- Intellectual property

Workplace
find out more 40

**Customer Relations**
- Scale relationships
- Category management
- In-store presence

**Revenue**
- Free cash flow
- Debt reduction
- Investment in innovation, marketing and capital expenditure

**Operating review**
find out more 20

**Consumers**
- Households
- Individuals

**Business Review**
find out more 18

£

**SHAREHOLDER RETURN**

Branded

Non-branded


**Customer channels**
- Major retailers
- Wholesalers
- Food service
- Convenience
- Business to business

**Our markets**
find out more 14

**Branded Products**
- Grocery
- Cake
- Bread

**Business review**
find out more 18

**Non-branded Products**
- Grocery
- Cake
- Bread
- Chilled

**Business review**
find out more 18

**To read more**
www.premierfoods.co.uk

# Investment proposition.

## Focused strategy to grow brands and reduce debt

See Chief Executive's Statement on page 12

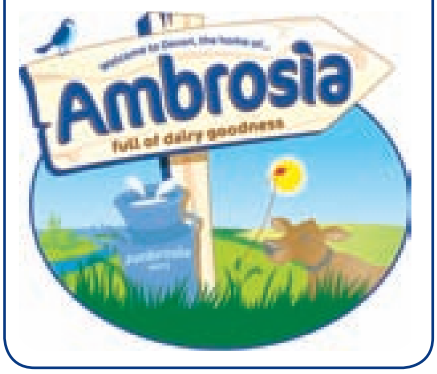
Our business strategy is:

- to grow branded sales faster than their respective markets by investing in and strengthening our brands and their relevance to today's consumers;
- to gain competitive advantage through consumer insight and scale to deliver value to customers and work more effectively with suppliers; and
- to deliver efficiency benefits such that supply chain costs and overheads are held flat or decline while volumes grow.

Our financial strategy is:

- to focus on cash generation to reduce average debt to EBITDA to 3.25 or less;
- to derisk the swap portfolio and pension arrangements; and
- to diversify our sources of funding.

We believe that the successful execution of these strategies will in turn deliver shareholder value.




## Leading market positions

See Our markets on page 14

We are the UK's largest branded ambient grocery manufacturer.

We are the UKs largest vertically integrated bread baker and flour miller.

We operate across 15 food categories and hold #1 positions in 11 of them.

Our focus on the UK market makes us different and means we have no directly comparable competitors when looking at either major multinationals or other UK food companies.


## Portfolio of great British brands

See Our brand portfolio on page 08

Premier has a large portfolio of over 40 well known, British brands.

More than 99% of all UK households consume a Premier Foods product every year.

Our brands have stood the test of time — our oldest brand *Sarson's* has been in existence since 1794.

With such a large portfolio of brands it is important we focus our effort in the right places to maximise growth and profitability.

We have a clear strategy to focus on the categories and brands where we can grow the fastest and where we will invest the most.

**Drive**

**Core**

**Defend**

## Consumer insight and innovation

See Consumer insight on page 16

Our scale and focus on the UK market gives us greater insight on the behaviours and needs of UK consumers and shoppers. We use this to help us decide:

- how brands are positioned in the market;
- how we communicate through advertising; and
- how products should look and taste.

We have implemented a new organisation structure which will:

- establish a Group marketing function facilitating the sharing of consumer insight and maximising value from marketing spend; and
- concentrate more resources behind innovation in our Drive and Core brands leading to a greater contribution from new and improved products.

## Benefits of scale

See KPIs on page 18

Our scale gives us many advantages. It enables us to:

- to work with customers over a wide range of categories;
- to consolidate our supplier base, building stronger relationships with suppliers and driving lower per unit input costs;
- to consolidate our manufacturing footprint creating fewer, larger facilities;
- to drive efficiencies in manufacturing;
- to reduce administrative overheads; and

to use this to increase our profit margin.

## Robust and stable business

See Financial review on page 30

We have a wide customer base — supplying all the top retailers, convenience and independent stores.

We also supply the foodservice, catering and milling channels.

We have demonstrated our ability to pass on cost inflation as witnessed by the recent increases in wheat prices.

Our business is stable and robust even under the recent challenging economic conditions.

The business generates strong free cash flow and this in turn allows us to pay down our debt.

# Great British brands.

We have a strong and diversified portfolio of market leading, iconic British brands. A key part of our strategy is to grow our branded sales faster than their respective markets by investing in our brands and increasing their relevance to today's consumers.

To do this in the most efficient way we focus our investment on areas with the greatest growth potential. This is based on both the size and growth prospects of the category and the competitive strength of our brands.

Our portfolio is divided into three broad categories:

**Drive**

Large categories where we believe we can win. Categories that are showing strong growth.

**Core**

Medium sized categories with strong share positions. Moderate growth potential.

**Defend**

Smaller categories with lower growth potential.

| | |
|---|---|
| **Drive Brands** | Wrapped bread |
| | Ambient cake |
| | Meat-free[1] |
| | Ambient desserts |
| | Asian meal solutions |
| | Jellies |
| | Preserves |
| | Ambient wet cooking sauces |
| | **Total Drive Brands** |
| **Core Brands** | Dried soups |
| | Dried noodles |
| | Ambient gravy |
| | Pickles and relishes |
| | Baked beans |
| | Ambient cake |
| | Stock |
| | **Total Core Brands** |
| **Defend Brands** | **Total Defend Brands** |
| | **Total Branded** |

[1] The Meat-free business, including the *Quorn* and *Cauldron* brands, was sold to Exponent on 7 March 2011.


| Category position 1 | Category position 2 | Category market share (2010) | UK retail sales value (2010) | UK retail sales value (2009) | Year-on-year increase |
|---|---|---|---|---|---|
| | Hovis | 24.5% | £359m | £349m | ↑ 2.8% |
| Mr Kipling | | 17.8% | £136m | £132m | ↑ 3.3% |
| Quorn | | 58.1% | £117m | £118m | ↓ 1.4% |
| Ambrosia | | 31.6% | £85m | £83m | ↑ 2.9% |
| Sharwood's | | 23.3% | £65m | £62m | ↑ 4.5% |
| Hartley's | | 82.5% | £36m | £33m | ↑ 10.5% |
| Hartley's | | 25.9% | £22m | £21m | ↑ 6.0% |
| | LOYD | 9.6% | £45m | £42m | ↑ 7.2% |
| | | | £865m | £840m | ↑ 3.0% |
| | | | | | |
| Batchelors | | 53.9% | £70m | £70m | ↑ 0.9% |
| Batchelors | | 74.1% | £61m | £62m | ↓ 3.2% |
| Bisto | | 75.3% | £95m | £96m | ↓ 1.5% |
| Branston | | 21.0% | £38m | £38m | ↓ 0.6% |
| | Branston | 10.2% | £33m | £36m | ↓ 8.0% |
| | Cadbury | 7.0% | £58m | £60m | ↓ 3.4% |
| OXO | | 35.8% | £36m | £38m | ↓ 4.8% |
| | | | £391m | £400m | ↓ 2.5% |
| | | | £417m | £438m | ↓ 4.6% |
| | | | £1,673m | £1,678m | ↓ 0.3% |

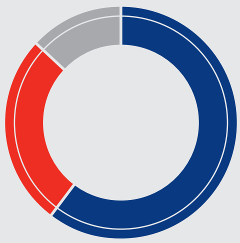
# Group at a glance.

Premier Foods is the UK's largest ambient grocery producer. We manufacture, distribute and sell a wide range of branded and retailer branded foods.

## Group

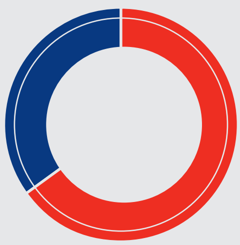
The Group is organised into three divisions: Grocery, Hovis and Chilled

### Revenue



- Grocery 60.3% of total
- Hovis 26.8% of total
- Chilled 12.9% of total

### Branded Mix

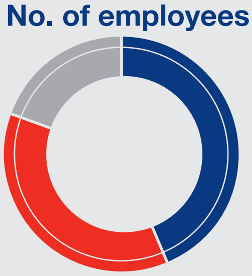


- Branded
  65.2% of total
  £1,673m
- Non-branded
  34.8% of total
  £894m

**Group Revenue £2,567m**

**Group Trading Profit £311m**

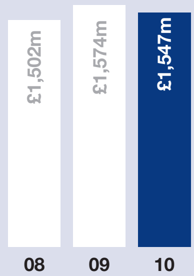
### No. of employees



- Grocery 6,449
- Hovis 5,742
- Chilled 3,030

## Grocery

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

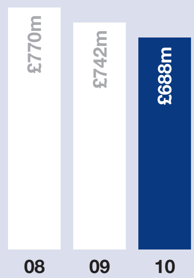



**Key brands**
*Batchelors, Mr Kipling, Bisto, Ambrosia, Branston, Sharwood's, Hartley's, Loyd Grossman* and *Oxo*

**Revenue £1,547m**

## Hovis

The Hovis division operates principally in the wrapped bread market and in addition manufactures own label 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 own label bagged flours.

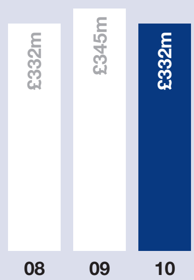



**Key brands**
*Hovis, Granary* and *Mother's Pride*

**Revenue £688m**

## Chilled

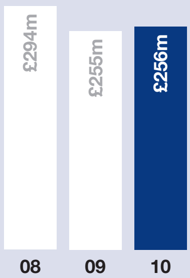
The Chilled division comprises Brookes Avana, our retailer branded chilled ready meal, cake and desserts business. As at the year end the division also included the chilled and frozen Meat-free business under the *Quorn* and *Cauldron* brands. On 7 March 2011 the Group completed the sale of the Meat-free business. For the purposes of the financial statements, the results of the Meat-free business are disclosed within discontinued operations.



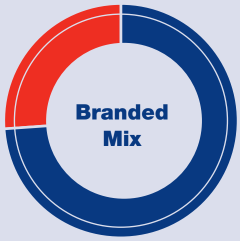

**Revenue £332m**

We supply a broad range of customers including the major multiple retailers, wholesalers, foodservice providers and other food manufacturers. Premier owns iconic British brands such as *Hovis*, *Batchelors*, *Mr. Kipling*, *Quorn*, *Bisto*, *Ambrosia*, *Branston*, *Sharwood's*, *Hartley's*, *Loyd Grossman*, *Oxo* and many more. The business employs around 15,000 people and operates from over 60 sites across the UK and Ireland.

Following the year-end we have announced the sale of our Meat-free and East Anglian canned grocery businesses. On 7 March 2011 we completed the sale of our Meat-free business to Exponent for £205m. For the purposes of the financial statements, the results of the Meat-free business are disclosed within discontinued operations. On 8 February 2011, we announced an agreement to sell our East Anglian canning business to Princes for £182m. Together, this will result in the sale of five manufacturing and two distribution sites and the transfer of around 2,000 employees.




**Trading Profit**
**£256m**




**Branded revenue**
**£1,146m 74.1%**

**Non-branded revenue**
**£401m 25.9%**

**Manufacturing sites**

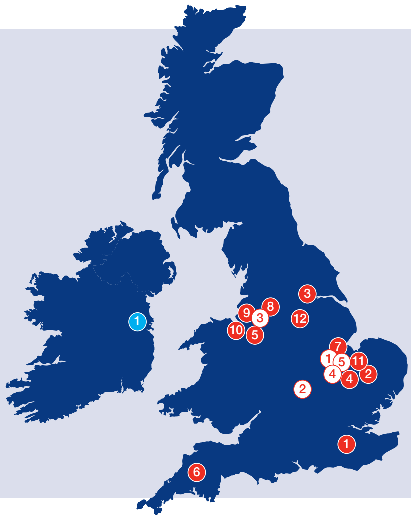
1 Ashford
2 Bury
3 Carlton
4 Histon
5 Knighton
6 Lifton
7 Long Sutton
8 Middleton
9 Moreton
10 Stoke
11 Wisbech
12 Worksop

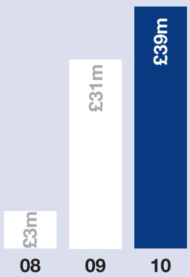
**Distribution/Logistics centres**

1 Knowsley
2 Rugby
3 Skelmersdale
4 Wimblington
5 Wisbech

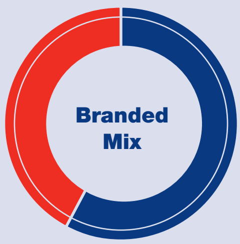
**Ireland**

1 Dublin — Premier Foods Ireland






**Trading Profit**
**£39m**




**Branded revenue**
**£398m 57.8%**

**Non-branded revenue**
**£290m 42.2%**

**Bakeries**

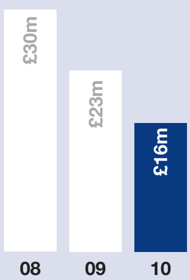
1 Avonmouth
2 Belfast
3 Birmingham
4 Eastleigh
5 Erith
6 Forest Gate
7 Glasgow
8 Greenford
9 Leicester
10 Leicester — Charnwood
11 Mitcham — Sebon
12 Nottingham
13 Wigan

**Mills**

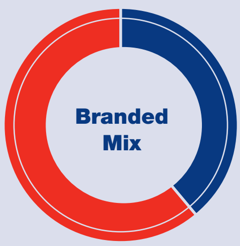
1 Andover
2 Barry
3 Gainsborough (wheat maltings)
4 Glasgow
5 Manchester
6 Selby
7 Southampton
8 Wellingborough

**Depots/RDC**

1 Bradford
2 Dagenham
3 Chandlers Ford
4 Inverness
5 Mendlesham
6 Mossend
7 Newbridge — Fleming Howden
8 Newcastle
9 Plymouth




**Trading Profit**
**£16m**




**Branded revenue**
**£129m 38.9%**

**Non-branded revenue**
**£203m 61.1%**

**Manufacturing Sites**

1 Belasis — Meat-free
2 Leicester — RF Brookes
3 Methwold — Meat-free
4 Rogerstone Park — Avana
5 Rogerstone Park — RF Brookes
6 Stokesley — Meat-free

# Our strategy & focus.

**Robert Schofield**
Chief Executive Officer

**Last year we set out the Group's business strategy and in addition, at the half year, we provided details of our financial strategy. I would now like to report on the significant progress we have made in 2010 in implementing these strategies and also our plans for 2011.**

## STRATEGY

### Introduction

Our vision is to be "the best in British food with brands that you really love".

The Group's business strategy is:

- to grow our branded sales faster than their respective markets by investing in and strengthening our brands and their relevance to today's consumers;
- to gain competitive advantage by utilising our consumer insight and scale to deliver value to customers and to work more effectively with suppliers; and
- to deliver efficiency benefits such that supply chain costs and overheads are held flat or decline while volumes grow.

The Group's financial strategy is:

- to focus on cash generation and to reduce average debt to EBITDA to 3.25 or less;
- to derisk the swap portfolio and pension arrangements; and
- to diversify our sources of funding.

Despite the continuing difficult consumer environment, we have been able to progress with both our business and financial strategies in 2010.

Note: All financial metrics refer to the continuing Group plus the Meat-free business unless otherwise indicated. For the purposes of the financial statements the Meat-free business is disclosed within discontinued operations.

### Branded sales

Branded sales are up 3.1% in volume versus category markets down 0.8%. Sales revenue was down 0.3% on 2009 in line with the market. Within this total, Drive brands are up 3.0%.

### Competitive advantage through scale

In the year, procurement gains from working more strategically with our suppliers added £16m to the Grocery trading profit.

### Improve efficiency

Grocery manufacturing costs in the year were reduced by 8%, being 6% from efficiencies, ahead of our 4% per annum strategic target and 2% from deflation in energy costs. In Group operating expenses, savings of £17m were found chiefly from efficiencies in distribution.

### Cash generation

Recurring cash flow was £124m, versus the £100m target set out in our strategy. The outperformance was generated by good management of working capital including reducing stock holding by five days' cover to 36. £16m of recurring cash flow was used to enable the swap restructure to take place: being £8m of settlement of a mark to market liability and £8m of fee for bank approval. After other non-recurring items amounting to £5m this left £103m which has been used to pay down bank debt.

### Derisking swap portfolio and pensions

The swap portfolio was restructured to remove the elements which did not provide an economic hedge to the bank debt. These elements were diverting cash flow by increasing short term interest rates and were building up a large cash call risk in 2012. By restructuring the swap portfolio, these risks have been removed. The short term interest cost has been reduced and the cash call has been fixed at the then current mark to market and deferred to the end of the current financing period, i.e. 2013.

The closure of the final salary pension fund has been agreed with the trade unions and pension trustees and will be implemented in the second half of 2011. The previous final salary offer is replaced with a market competitive career average scheme for existing pension fund members and a money purchase scheme for new starters.

In conjunction with the trustees of the pension fund, we have also agreed a programme to increase the amount of hedging between the fund investments and liabilities. This will reduce the volatility of the deficit.

### Diversifying sources of funds

The swap restructure removed a considerable risk from the Group's balance sheet which would otherwise have prevented the Group obtaining a credit rating. We have now obtained a credit rating of Ba2 (stable outlook) from Moody's and BB (stable outlook) from both Fitch and Standard & Poors. It is our intention to access the debt capital markets and raise a bond during the course of 2011. This will diversify our sources of funding and reduce our reliance on bank debt.

### Proposed disposal of Meat-free and Canning businesses

After the year end, the Group agreed the sale of its Meat-free



business and its East Anglian canned grocery businesses for a total of £387m, equivalent to 7.6 times the combined EBITDA of £51m. After costs and pension contributions of around £17m and, subject to working capital adjustments on completion, the remaining proceeds of around £370m will be used to reduce bank facility borrowings.

The disposals will leave the Group's branded sales percentage largely unchanged at 66.4%. But both the gross margin and the trading profit margin will be improved. The main effect will be in the Grocery business where the branded sales percentage will increase from 74.1% to 82.3%. The non-branded Grocery sales will be halved and the brands sold are largely in the Core and Defend categories.

The disposal will contribute materially to our objective of deleveraging. On a pro forma basis, the Group's net debt will be below £900m and net debt/EBITDA would be around 2.87 times. In addition, average debt/EBITDA would be reduced to around 3.72 times which is well on the way to achieving the Group's stated target of 3.25 times.

Once the disposals are complete, the Group expects to have recurring cash generation of at least £80m per annum. The Group believes that the EBITDA growth prospects are largely unchanged as the Meat-free business had growth prospects whereas the Canning business faced more difficult markets.

Initially, the effect of the disposals will be to dilute EPS. However, the Group believes this is a temporary effect. Firstly, the initial interest saving is at the marginal cost of bank funds. Once a bank refinancing is undertaken, the saving will increase to the average rate. Secondly, the simplification of the business achieved by the disposals will facilitate improving processes which will result in cost savings.

## Corporate Social Responsibility

Last year we also published our first stand alone CSR report setting out the progress we had made against a number of objectives and also setting out our future plans to strengthen our approach to CSR in 2010. We have also made significant progress in aligning our commitment to CSR with our overall business strategy to deliver long-term and sustainable business growth. Details of our key achievements are set out on pages 36 to 43.

## Plans for 2011

In 2010 we have made significant progress in resolving the balance sheet issues which have up until now weighed heavily on the business. With the financial path now clear and the journey well under way, we can focus our resources more firmly on building our brands.

To achieve this, we have now implemented a new organisation structure in which Tim Kelly was appointed Chief Operating Officer with effect from January 2011.

This structure will:

- manage all brands together rather than separately by division allowing for better prioritisation of resources;
- establish a Group marketing function facilitating the sharing of consumer insight and maximising value from marketing spend;
- concentrate more resources behind innovation in our Drive and Core brands leading to a bigger contribution from new and improved products;
- manage the Defend brands and non-branded businesses separately to ensure their contribution is maximised; and
- consolidate back office functions to simplify back office processes and facilitate cost reduction.

We will elaborate on these plans at an Investor Conference in May 2011.

## Outlook

Promotional activity increased significantly in 2010. For 2011, we do not believe that it will continue to escalate at the same rate but we are cautious about whether it will decline very quickly.

Commodity inflation has been running at mid single digit percentages. This has required us to increase prices for our products. At this level, we believe that inflation is manageable.

In 2010, the most dramatic effect of pricing and commodity inflation was felt in the significant fall in profitability in our Brookes Avana business. We are talking constructively with Marks and Spencer to agree new product ranges and revised pricing and supply arrangements which we believe will return the business to profitability in 2011.

Our focus in 2011 will be:

- to continue to take branded market volume share;
- to grow our percentage of Grocery branded sales from new and improved products as our innovation pipeline matures;
- to continue our drive for efficiencies; and
- to generate at least £80m of recurring cash flow.

We would expect our focus to result in the Group showing progress in 2011 without any further deterioration in the consumer environment.

**Robert Schofield**
Chief Executive Officer

# Our markets.

## MARKETS

### Grocery

The UK Grocery market proved resilient despite the continuing recessionary environment in 2010 and pressure on consumer spending.

The total UK Food and Drink Market (excluding alcohol) was worth £68.0bn in 2010 (2009: £65.8bn) and grew by 3.3% over the year (2009: 4.8%). Within this branded sales outpaced retailer brands with value growth of 4.5% (2009: 7.0%) compared to 2.6% (2009: 3.3%).[1]

Premier operates in the Ambient Grocery sector which grew by 3.6% to £25.9bn in 2010 (2009: £25.0bn).[1] Our principal market is the UK accounting for 94.9% of sales (2009: 94.7%).

### Baking and Milling

The total UK Bakery market is worth £3.68bn and is one of the largest segments within the food industry.[2] Total volume at present is just under 4 billion units which is equivalent to 11 million loaves and packs sold each day.

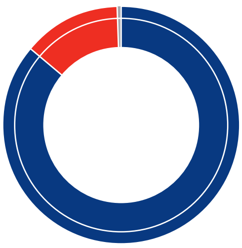
The industry is divided into three main categories:

1) Large plant bakers

2) In-store bakers; and

3) Local high street bakers

### Market share of UK bread production by value[2]



- Large plant bakers 86.2%
- In-store bakers 13.5%
- Local high street bakers 0.3%

The UK milling industry produces 4.5 million tonnes of flour each year with a total value of around £1bn. Demand for flour has been stable for the last ten years.

The UK milling industry utilises 35% of the 15 million tonne wheat crop with a further 1 million tonnes imported. Approximately 40% of the supply is vertically integrated.

## COMPETITION

### Grocery

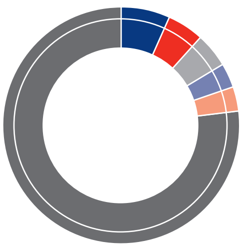
Competition is largely split between two categories:

1) major multi-nationals who pursue a global brand strategy and focus on categories where their global focus can be achieved; and
2) smaller UK companies who are generally more focused on retailer branded products. As these businesses are less branded they tend to generate lower profit margins.

Due to the large portfolio of brands the Group owns and our focus on the UK market we do not have any principal competitors who operate over all of the same categories as us.

Premier is the UK's largest ambient grocery producer with a 6.8% (2009: 6.8%) share of the £25.9bn Ambient Grocery sector.[1]

### Top 5 UK ambient grocery producers[1]

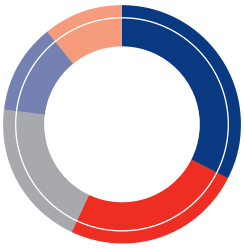


| | | |
|---|---|---|
| Premier Foods (2009: 6.8%) | | 6.8% |
| Kraft (including Cadbury) (2009: 4.9%) | | 5.0% |
| Nestlé UK (2009: 4.8%) | | 4.7% |
| United Biscuits (2009: 3.4%) | | 3.4% |
| Coca-Cola (2009: 3.3%) | | 3.4% |
| Other (2009: 76.8%) | | 76.7% |


## Baking and Milling

Hovis is one of three main plant bread producers, the other two being Warburtons Ltd and Associated British Foods plc (Kingsmill).

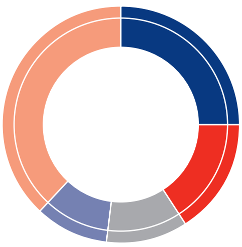
### Market share in branded bread[2]



| | |
|---|---|
| Warburtons (2009: 32.2%) | 32.5% |
| Hovis (2009: 24.9%) | 24.7% |
| Kingsmill (2009: 18.6%) | 19.9% |
| Own label (2009: 13.2%) | 12.2% |
| Other branded | 10.7% |

Hovis is the largest vertically integrated baker and miller in the UK and our mills produced approximately 1 million tonnes of flour in 2010.

### Milling market share by volume[3]



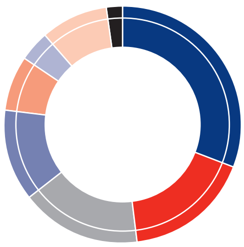
| | |
|---|---|
| Premier Foods | 25% |
| ADM Milling | 16% |
| Associated British Foods | 11% |
| Whitworths | 10% |
| Others | 38% |

Sources:
1 Kantar Worldpanel Purchase Panel, 52 w/e 26 Dec 2010
2 Kantar Worldpanel, 52 w/e 28 Nov 2010.
IRI Total Grocery Outlets, 52 w/e 27 Nov 2010 vs previous year, value share.
Pre-packed bread only.
3 Internal management estimates.

## CUSTOMERS

The main retail channels within the UK Grocery market are the large supermarkets/superstores and convenience stores.

### Largest UK retailers[1]



| | |
|---|---|
| Tesco | 30.6% |
| Asda | 16.9% |
| Sainsbury's | 16.3% |
| Morrisons | 11.9% |
| Co-op | 7.3% |
| Waitrose | 4.2% |
| Other multiples | 10.6% |
| Independents | 2.2% |

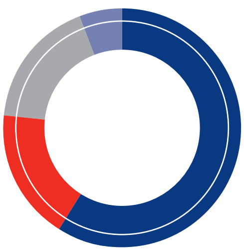
Within Grocery we sell both branded and non-branded products to a wide range of customers. Our most significant customers are the major UK retailers.

In addition, our Foodservice business sells to local authorities (schools and hospitals), staff canteens, restaurants and pub chains largely through intermediate wholesalers.

Within Milling approximately 50% of the flour milled is used by the business and the remainder sold to other food manufacturers.

In addition, we supply retailer branded chilled ready meals, cakes and pizza bases to a number of leading food service retailers.

### Premier sales split per customer



| | |
|---|---|
| Top 5 retailers | £1,517m |
| Other retailers | £452m |
| Others including wholesalers and food service | £450m |
| Bulk flour | £148m |

# Consumer insight.

## Growing the business through branded sales

Much of the last few years since the acquisition of the RHM and Campbell's businesses has been focused on managing the restructuring the business. With this completed we are now moving to focus on our key strategic priority of growing the business through branded sales.

## In-depth understanding of the British consumer

If we are to achieve this it is essential that all our activities and initiatives are based on understanding the behaviours and needs of our consumers and shoppers. This is the step change that is underway that will ensure that Premier Foods achieves its' goals over the coming years.

It is the role of the Consumer Insights team at Premier Foods to know exactly what those behaviours and needs are and to make sure the business understands them better than any of our competitors. Part of their role is to articulate specific consumer insights which can feed into a number of activities such how are brands are positioned in the market, how we communicate through advertising or packaging design, what areas we need to be innovating in, how our products should be tasting and so on.

"... good consumer insight requires a deep understanding of a consumer's needs and behaviours that will in turn offer competitive advantage."

## So what is a consumer insight?

There are many textbook definitions but what is common to them all is that a good consumer insight requires a *deep* understanding of a consumer's needs and behaviours that will in turn offer competitive advantage. The word deep is highlighted as it is very easy to 'observe' what is on the surface but the job of an insight practitioner is to ask why, and why again to get under the skin of what a consumer is saying or doing.

## The Consumer and Shopper Manifesto

The Consumer and Shopper Manifesto was first published in the 2009 Annual Report and is a good example of broader level insights. The Manifesto was conceived with a view to answering the simple question, "what are the things that are most important to consumers and shoppers of food today?" On reading the manifesto most of those things would appear to obvious, such as 'Looking and Taste Delicious', 'Offer Genuine Value for Money' and 'Be Natural and Wholesome', but it can be easy to forget the big important things when focusing on the day to day running of a business.



## Consumer insight in action — *Loyd For One*

The Consumer and Shopper Manifesto has proved most powerful, where one or more of the principles have combined with brand level consumer insights. *Loyd For One* cooking sauces which launched in 2010 is a good example of this.

One of the Manifesto principles 'Make Food Easy' urges us to think about whether we have the right size packs for the consumers who use them. Our data shows that meals where four or more people are present are three times more likely to be prepared using a cooking sauce than a meal where only one person is present. We also know that the number of single person occupied households is increasing rapidly and busy family lives means that even within larger households eating alone is becoming more commonplace.

Armed with this information the *Loyd Grossman* team set about launching a product specifically for one person.

- We found that the main reason that people eating on their own were less likely to use cooking sauces is that invariably, despite current jars being re-sealable, half a jar would be used and after a few days the remainder of the sauce would be thrown away.
- We also know from data that *Loyd Grossman* consumers specifically are far more likely to be environmentally aware than other consumers and avoiding food wastage is very important to them.
- Finally, we know that typical *Loyd Grossman* consumers are 'foodie' people who like to know what is in their food and where is comes from.

As a result *Loyd For One* was launched addressing all of these needs. The portion size is perfect 'for one' (we researched this too!), using high quality premium ingredients with nothing artificial added (as with all of our cooking sauces), packed in lightweight packaging (a pouch is approximately 95% less packaging in weight than a glass jar) in the flavours that we know our consumers love the most. Whilst the original inspiration for *Loyd For One* was the 'Make Food Easy' principle, in reality every one of the other seven Consumer and Shopper Manifesto principles were employed:

- The products are only made from natural ingredients and are 'Natural and Wholesome';
- By addressing food waste and with less packaging they 'Do The Right Thing';
- They 'Focus on the Nation's Favourite Food' as they are in the most popular flavours;
- They 'Look and Taste Delicious' only using the finest ingredients;
- They are 'Genuine Value for Money', partly because of the competitive price point but also because there is no waste;
- The pouch is a different size and shape to the rest of the category which is in jars and so they 'Shine In Store'; and
- Finally its launch TV advertising helps the product and brand to 'Be Loved'.

The result is a phenomenal rate of sale for the range and after less than a year in the market, this part of the *Loyd Grossman* range is already bigger than some other competitor brands in their entirety.

- *Loyd For One* has already gained a 5% value share of the Premium Italian sector[1].
- Contributed to second half sales growth of 16.7% across the *Loyd Grossman* range — delivering total sales of £45m for the year.

## Outlook for the future

This is just one example of how understanding the consumer and shopper can help ensure success. However, this is just the starting point; all Premier Foods employees are now being encouraged to think about the consumer and shopper.

Over the year every member of the Group Executive has spent a day meeting a consumer in their home and accompanying them around a store and have seen consumer insights in action by attending focus groups. There are plans to roll out this kind of activity throughout the organisation.

[1] Source: Kantar 4 w/e 19 Feb 2011.

# Key performance indicators (KPIs).

## Strategy

## Measures and targets

## Performance

### Branded sales growth

- To grow branded sales volume faster than their respective markets.
- To grow total sales 0%–2% ahead of market.
- To grow Drive brand volumes 1%–2% ahead of market.

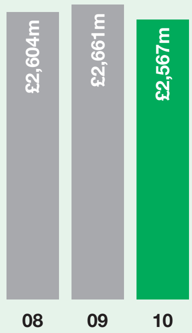
**Total branded sales volume growth**

**+3.1%**

**versus -0.8%**

overall category market volume decline

**Total sales value (£)**




### Competitive advantage through scale and efficiency improvements

- To generate procurement savings in Grocery.
- To reduce manufacturing costs with Grocery by 4% per annum.
- To increase gross margin.

**Grocery procurement savings**

**£16m**

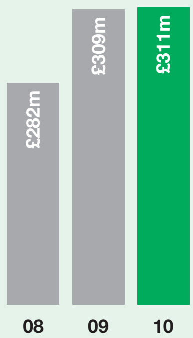
**Grocery manufacturing costs**

**-8.0%**

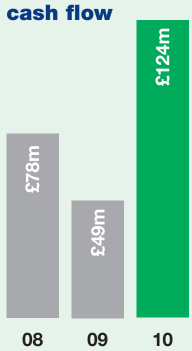
### Generating cash to pay down debt

- To make progress against 2009 trading profit.
- To increase recurring cash flow by £100m.
- To reduce average debt to EBITDA to 3.25 over the medium term.

**Trading profit**

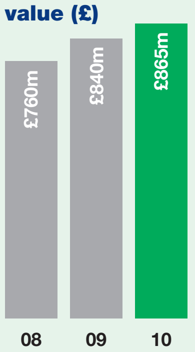



**Underlying operating cash flow**

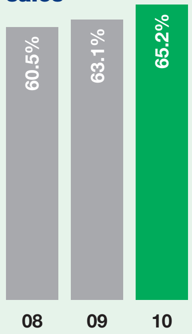


"We use KPIs to help drive focus and measure performance across a number of areas which are aligned to the strategic priorities of the Group that we set out in 2010."

**Drive brand sales value (£)**




**Branded sales as a % of total sales**



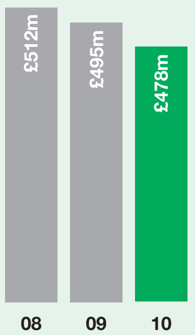

## Commentary

- Branded sales were up 3.1% in volume versus category market decline of 0.8%.
- Sales revenue was down slightly due to increased promotional activity but within this Drive brands were up 3.0%.
- Total branded share increased by 2.1pp to 65.2% of total sales.

## Focus for 2011

- To continue to take branded market share.
- To grow the percentage of Grocery branded sales from new and improved products.
- Disposal of Canning businesses will increase focus on branded sales with the Grocery Division.

**Trading operating expenses**




**Trading gross margin**

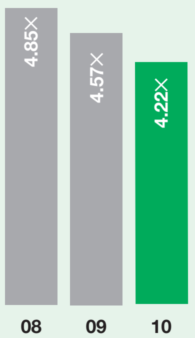

## Commentary

- Savings of £16m generated within Grocery supply chain from working more strategically with suppliers.
- Grocery manufacturing costs reduced by 8%, 6% from efficiencies well ahead of our 4% target.
- Gross margin enhanced by 50bp to 30.7%.

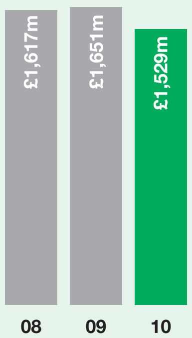
## Focus for 2011

- To generate further procurement savings from consolidating suppliers and strategic supply chain initiatives.
- To reduce manufacturing costs within Grocery by 4% per annum.
- To increase consumer marketing investment funded by administrative savings.

**Average debt/ EBITDA**




**Average net debt**




## Commentary

- Progress against 2009 despite difficult trading conditions.
- Strong recurring cash flow of £124m well ahead of target.
- As a result of this cash flow average debt reduced by £122m and average debt/EBITDA to 4.22X.

## Focus for 2011

- To make progress against 2010 trading profit.
- To generate £80m of recurring cash flow.
- Sale of Meat-free and East Anglian canned grocery businesses will accelerate debt reduction — average debt/EBITDA to fall to 3.72X.

# Operating review.

**2010 has been an important year in the history of Premier Foods. During the year we have progressively implemented our financial strategy by closing out our interest rate swap exposure, closing our final salary pension scheme, generating £124m in a recurring cash flow and obtaining a credit rating to allow us to access the bond markets. Since the end of the year we have also agreed the sale of two businesses which will reduce our debt level to less than £900m, compared to £1,365m a year ago.**

Our business has proved resilient, with branded volume market share growth, increased margin from procurement and manufacturing efficiency and lower operating expenses.

All financial metrics refer to the continuing business plus the Meat-free business unless otherwise indicated. For the purposes of the financial statements the Meat-free business is disclosed within discontinued operations.

| 2010 | Continuing business £m | Meat-free business £m | Continuing & Meat-free £m |
|---|---|---|---|
| Revenue | 2,438 | 129 | 2,567 |
| Cost of sales | (1,691) | (87) | (1,778) |
| **Trading gross profit** | **747** | **42** | **789** |
| Gross margin % | 30.6 | 32.1 | 30.7 |
| Trading operating expenses | (452) | (26) | (478) |
| **Trading profit** | **295** | **16** | **311** |

| 2009 | Continuing business £m | Meat-free business £m | Continuing & Meat-free £m |
|---|---|---|---|
| Revenue | 2,530 | 131 | 2,661 |
| Cost of sales | (1,766) | (91) | (1,857) |
| **Trading gross profit** | **764** | **40** | **804** |
| Gross margin % | 30.2 | 30.2 | 30.2 |
| Trading operating expenses | (463) | (32) | (495) |
| **Trading profit** | **301** | **8** | **309** |

Trading gross profit is defined as gross profit excluding exceptional items which were £nil (2009: £6m continuing).

Trading operating expenses are defined as operating expenses before exceptional items of £nil (2009: £40m continuing), 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.

## Summary

| | 2010 | 2009 | 10 v 09 % |
|---|---|---|---|
| Branded sales (£m) | **1,673** | 1,678 | (0.3) |
| Branded sales volume growth (%) | **3.1** | 9.2 | |
| Total sales (£m) | **2,567** | 2,661 | (3.5) |
| Total sales volume growth (%) | **(2.7)** | 1.8 | |
| Branded market share — volume (%) | **22.3** | 21.8 | 0.5pp |
| Branded market share — value (%) | **23.9** | 24.3 | (0.4)pp |
| Trading profit (£m) | **311** | 309 | 0.6 |
| (Loss)/profit before tax — continuing (£m) | **(98)** | 42 | |
| Pro forma adjusted EPS (pence) | **5.0** | 4.7 | 6.4 |
| EPS — continuing (pence) | **(3.6)** | 1.7 | |
| Cash flow before non-recurring items (£m) | **124** | 49 | |
| EBITDA (£m) | **362** | 361 | |
| Net debt (£m) | **1,261** | 1,364 | |
| Net debt/EBITDA (times) | **3.48×** | 3.78× | |
| Average debt (£m) | **1,529** | 1,651 | |
| Average debt/EBITDA (times) | **4.22×** | 4.57× | |

## Robert Schofield
Chief Executive Officer

## Jim Smart
Chief Financial Officer

### Trading profit

| | 2010 £m | 2009 £m | 10 v 09 % |
|---|---|---|---|
| Sales | **2,567** | 2,661 | (3.5) |
| Cost of sales | **(1,778)** | (1,857) | 4.3 |
| Gross profit | **789** | 804 | (1.9) |
| Gross margin % | **30.7** | 30.2 | 50bp |
| Operating expenses | **(478)** | (495) | 3.4 |
| **Trading profit** | **311** | 309 | 0.6 |

Trading profit increased 0.6% to £311m owing to an improvement in gross margin and lower operating expenses.

| | 2010 £m | 2009 £m | 10 v 09 % |
|---|---|---|---|
| Grocery | **256** | 255 | 0.4 |
| Hovis | **39** | 31 | 25.8 |
| Chilled | | | |
| Brookes Avana | **–** | 15 | (100.0) |
| Meat-free | **16** | 8 | 100.0 |
| **Trading profit** | **311** | 309 | 0.6 |

Grocery, Hovis and Meat-free divisions all increased profit in the year. Brookes Avana suffered a £15m fall in trading profit owing to lower volumes, lower prices, poorer mix and higher commodity costs. We are in constructive dialogue with our main customer, Marks and Spencer, which we believe will result in an amended product range and revised pricing and supply arrangements which we believe will return the business to profit in 2011.

Above: In January 2011, *Mr Kipling* announced a move to using 100% free range eggs in all products containing egg as an ingredient. *Mr Kipling* uses the equivalent of over 60 million free range eggs to bake his famous cakes.

### Sales

| | 2010 | 2009 | 10 v 09 % |
|---|---|---|---|
| Branded (£m) | **1,673** | 1,678 | (0.3) |
| Non-branded (£m) | **894** | 983 | (9.1) |
| **Total sales** | **2,567** | 2,661 | (3.5) |
| Total branded sales (%) | **65.2%** | 63.1% | 2.1pp |
| Branded market share in Grocery | | | |
| Volume (%) | **20.0** | 19.1 | 0.9pp |
| Value (%) | **22.1** | 22.3 | (0.2)pp |
| Hovis branded market share in bread | | | |
| Volume (%) | **25.2** | 24.9 | 0.3pp |
| Value (%) | **24.9** | 25.7 | (0.8)pp |

Total sales fell by 3.5%. Volume contributed 2.7% to the reduction with positive mix offset by price contributing 0.8%.

Branded sales were down 0.3% at £1,673m and now account for 65.2% of total sales, an increase of 2.1pp on 2009. Market share for the Grocery division increased by 0.9pp to 20.0% by volume as a result of innovation and promotional activity. Market share fell by 0.2pp to 22.1% by value as the higher volumes were offset by the effect of increased promotional activity on net prices.

Promotional activity continues to escalate in the market. Across all grocery categories, during 2010 32.8% of items were bought on promotion. In 2009 this was 30.4%. The promotional activity increased during the year with Q4 reaching 34.2%. Premier Foods' promotional cost in grocery categories similarly increased by 8% in 2010 although this was more concentrated in Q4.

Market share for the Hovis division increased by 0.3pp to 25.2% by volume as a result of additional distribution but fell by 0.8pp to 24.9% by value as a result of promotional activity.

> "Our business has proved resilient, with branded volume market share growth, increased margin from procurement and manufacturing efficiency and lower operating expenses."

## Branded sales

| | 2010 £m | 2009 £m | 10 v 09 % |
|---|---|---|---|
| *Hovis* | **359** | 349 | 2.8 |
| *Mr Kipling* | **136** | 132 | 3.3 |
| *Quorn* | **117** | 118 | (1.4) |
| *Ambrosia* | **85** | 83 | 2.9 |
| *Sharwood's* | **65** | 62 | 4.5 |
| *Hartley's* | **58** | 54 | 8.7 |
| *Loyd Grossman* | **45** | 42 | 7.2 |
| **Subtotal — Drive brands** | **865** | 840 | 3.0 |
| *Batchelors* | **131** | 132 | (1.1) |
| *Bisto* | **95** | 96 | (1.5) |
| *Branston* — pickles and relishes | **38** | 38 | (0.6) |
| *Branston* — beans | **33** | 36 | (8.0) |
| *Cadbury* cakes | **58** | 60 | (3.4) |
| *Oxo* | **36** | 38 | (4.8) |
| **Subtotal — Core brands** | **391** | 400 | (2.5) |
| **Defend brands** | **417** | 438 | (4.6) |
| **Total branded sales** | **1,673** | 1,678 | (0.3) |

Drive brands grew by 3.0% to £865m helped by promotional spend and new products. Drive brand volumes were up 4.9% compared with a category market decline of 2.2%. *Hovis*, *Mr Kipling*, *Ambrosia* and *Hartley's* all succeeded in gaining volume market share. *Loyd Grossman* benefited from the launch of the *Loyd For One* range which contributed to second half sales growth of 16.7%. *Quorn* sales were down 1.4% as we pulled back on promotional and marketing spend particularly in the first half. During the second half, the brand returned to growth with sales up 0.4%.

Core brands fell by 2.5% to £391m. Volumes were down 2.0% compared with a category market decline of 0.7%. *Batchelors* and *Oxo* faced strong competition in their markets and *Branston* beans and *Bisto* had a lighter promotional programme. *Cadbury* cakes sales fell reflecting lower promotional activity.

Defend brands declined by 4.6% to £417m. Volumes were up 2.6% compared with a category market growth of 1.6%. Volumes were helped by growth in *Crosse & Blackwell* beans, *Homepride* cooking sauces and *Elephant Atta* flour. Price deflation was driven by the Ireland market and wheat deflation.

## Non-branded sales

| | 2010 £m | 2009 £m | 10 v 09 % |
|---|---|---|---|
| Grocery | **401** | 421 | (5.0) |
| Hovis | **290** | 348 | (16.8) |
| Chilled | **203** | 214 | (4.7) |
| **Total** | **894** | 983 | (9.1) |

Non-branded sales, which comprise retailer brand, business to business products and milling, were down by 9.1%.

In the Grocery division, non-branded sales declined by 5.0%. This decline largely reflects a decline in the Canning category with sales down 10.3% and volumes down 11.2%. Market volumes for Canning were down 10.0% as a result of increased brand promotions. The contract losses were lapped at the end of Q3 and own label volumes were in line with the market in Q4.

In Hovis, sales of retailer brand bakery products were down 22.1%. Volumes were down 21.1% reflecting a retailer brand bread market down 13.6% and the exit from certain contracts. The volume lost by this decline was partly offset by increased volumes of branded bread leaving total bread volumes down 3.4%.

Also in Hovis, milling, sales revenue was down 11.3%. In volume, however, sales were down only 4.9% owing to competition and slight declines in market demand. Price deflation accounted for the remaining 6.4% of sales decline. The price deflation, however, has little effect on profitability as the cost of raw materials is similarly reduced. In Q4 this effect reversed with volumes down 4.9% but sales revenue up 10.9%.

In the Chilled division, non-branded sales fell by 4.7% driven by mix of contracts and less successful promotional activity.

CASE STUDY


# New *Bisto* and *Oxo* gravy and stock instant pastes

From March 2011 you will be able to buy *Bisto* gravy and *Oxo* stock instant pastes in a squeezy tube format. The innovation is the first of its kind, in a convenient and modern squeezy tube format. Premiumisation remains a key growth opportunity within the category as consumers trade-up for products that offer them great quality and convenience. With a total share of 46% in the gravy, stocks & stuffings category, *Bisto* and *Oxo* are leading brands and strongly positioned to inject momentum into the category with this the new premium offering.

*Bisto* instant roast gravy is a concentrated paste that allows you to easily create a smooth, deliciously rich, home made tasting gravy in an instant. It contains real meat juices and no artificial flavour enhancers or colours. *Bisto* instant gravy comes in three flavours: beef, onion and chicken.

*Oxo* squeezy stock is a convenient and easy way to bring fresh flavours to your dishes. Made with real meat and vegetable extracts, with no artificial flavour enhancers, the new format allows you to add as much or as little as you want to your dish. Also in three flavours to choose from: beef, chicken or vegetable.

## Trading gross profit

| | 2010 £m | 2009 £m | 10 v 09 % |
|---|---|---|---|
| Trading gross profit | **789** | 804 | (1.9) |
| Trading gross margin % | **30.7** | 30.2 | 50bp |
| Trading gross margin movement (bp): Branded growth, product mix, manufacturing efficiency and procurement | **200** | | |
| Commodity costs, pricing and promotions | **(150)** | | |
| Total change (bp) | **50** | | |

Trading gross profit decreased by 1.9% to £789m owing to the reduction in sales revenue.

The mix of products improved with branded sales now accounting for 65.2% of total sales. This added 20bp to gross margin. The Group's strategy of improving procurement and manufacturing efficiency combined to add a further 180bp to gross margin. In total, the benefit of the Group's strategy of growing branded sales, of using scale with suppliers and of increasing efficiency in manufacturing added 200bp to Group gross margin.

Input costs in some of our largest spend areas were higher in 2010 reflecting the rises in various commodity markets. Commodities particularly affected included cocoa, dairy, diesel and packaging. In the second half, we experienced significant wheat inflation with consequential increases in other cereals, meat and vegetable oils. The Group continues to foresee upward pressures in commodity input costs.

The Group generally expects the effects of input cost changes and resulting pricing changes to even out over the long term. However, there can be a delay, or stagger, between input costs changing and pricing in the market changing to reflect them. This can lead to volatility in results within any financial year. In 2010, pricing was increased to reflect the input costs but the effect of the negative stagger together with the general increase in promotional activity in the grocery market reduced Group gross margin.

In total, the combination of promotional activity, pricing and input cost changes reduced Group gross margin by 150bp.

The net effect of all these changes was an increase of 50bp in Group gross margin.

**CASE** STUDY


## **Bringing** women back to bread with *Hovis Wholemeal*

*Hovis* brand ambassador and Olympic cyclist Victoria Pendleton is fronting our new *Hovis Wholemeal* campaign which went on air in January 2011. Using the strap line 'Stops me Snacking', the campaign encourages more women to eat *Hovis Wholemeal* for breakfast. TV was supported by another first, using Facebook as our key digital platform to help drive the campaign and engage people in the 'bread debate.' This topic was of particular interest during January, when consumers are at their most health conscious.

Caroline Jary, Head of Marketing for *Hovis*, says: "Victoria is a great ambassador for the *Hovis* brand and we are proud to have her fronting our campaign, which will reinforce that *Hovis Wholemeal,* with a healthy topping, is a great alternative to cereal. *Hovis Wholemeal* is rich in fibre which can help you feel fuller for longer, a great tool to stop snacking. We want to bring back consumers to bread at breakfast and will be utilising our biggest ever digital campaign to engage consumers through healthy recipe ideas."

## Trading operating expenses

| | **2010 £m** | 2009 £m | 10 v 09 % |
|---|---|---|---|
| Consumer and in-store marketing | **(89)** | (91) | 2.2 |
| Distribution | **(217)** | (229) | 5.2 |
| Support functions and corporate costs | **(172)** | (175) | 1.7 |
| Operating expenses | **(478)** | (495) | 3.4 |

The strategy is to grow our branded sales without growing operating expenses. In the year, operating expenses fell by 3.4% to £478m.

Consumer and in-store marketing was down £2m year on year and this was deployed to support the growth in branded sales volumes. Our strategy is to increase consumer marketing as we increase support to our brands. In the year, marketing spend was increased in Grocery but was reduced in Hovis and Meat-free. We decided not to increase marketing budgets this year owing to the tough consumer environment. However, we expect marketing costs to increase in 2011 as we increase innovation activity.

Distribution costs were down 5.2% to £217m. The reduction in volumes allowed costs to be reduced. Lower fuel costs also contributed. However, the main reduction was as a result of improved efficiency which was equivalent to a 4.7% reduction.

Support functions and corporate costs decreased by 1.7% to £172m. Pension service costs decreased from £12m in 2009 to £9m. As a result of changes in bond yields and inflation assumptions current service cost was £21m as expected. However, this was offset by a past service credit of £12m which resulted from the amendment of future benefit accrual in two of the Group's pension funds. Based on the current levels of bond yields and inflation assumptions, we expect the current service cost to be around £20m in 2011. Further past service amendments are likely to be seen in 2011, the level of which will depend on the way in which new benefits are implemented.

During the year we continued to roll out our SAP system. Over the next few years we intend to complete the transition to SAP and to simplify our processes. Our aim is to reduce the administrative costs over this period sufficiently to fund the increase in marketing costs.

## Restructuring costs

In the year, a total of £12m was spent on restructuring compared with £14m in 2009. The main project was reducing the size of the Irish supply chain owing to a developing trend of retailers sourcing products directly from the UK. Of the £12m charge, £2m (2009: £5m) is included in Cost of sales and £10m (2009: £9m) in Operating expenses. The charge in Grocery is £8m (2009: £1m) and in Hovis is £2m (2009: £11m).

# Grocery.


## 2010 Highlights

| | 2010 £m | 2009 £m | 10 v 09 % |
|---|---|---|---|
| Branded sales | **1,146** | 1,153 | (0.6) |
| Non-branded sales | **401** | 421 | (5.0) |
| **Total sales** | **1,547** | 1,574 | (1.8) |
| **Trading profit** | **256** | 255 | 0.4 |
| **Volume market share %** | **20.0** | 19.1 | 0.9pp |
| **Value market share %** | **22.1** | 22.3 | (0.2)pp |

- **8% reduction in Grocery manufacturing costs.**
- **Launch of *Loyd For One* helped Loyd Grossman deliver sales growth of 7.2%.**
- **Promotional activity continues to escalate in the market, increasing from 30.4% to 32.8% across all grocery categories for 2010.**
- **Non-branded sales down 5.0% to £401m.**
- **Sale of East Anglian canned grocery business announced.**

"In 2010 the Grocery division succeeded in growing market share by 0.9pp to 20.0% by volume through innovation and promotional activity."

Sales for the Grocery division decreased by 1.8%. Branded sales were down 0.6% to £1,146m. Non-branded sales were down 5.0% to £401m.

Branded sales volumes increased by 2.7% with negative price and mix reducing revenue by 3.3%.

Branded sales in UK retail channels were up 0.1% in value and up 2.3% in volume.

Sales in the catering and specialist channels were down 1.9%. Muted market trends owing to consumers eating out less frequently was exacerbated by some contract losses in suet and beans.

Sales in Ireland were £81m down 8.8% on 2009 as the market suffered with the economic conditions and as the euro weakened. On a constant currency basis sales were down 6.0%. The Irish grocery retail sector has continued to adapt to the difficult economic environment with a substantial increase in sourcing directly from the UK coupled with a move to more centralised distribution. In 2010 we restructured our business in Ireland to reflect these changes and anticipate that further restructuring may be required as the retail sector continues to adapt. The supply chain savings were sufficient to offset the loss of gross margin from the fall in sales.

International sales amounted to £37m, an increase of 15.8%.

Retailer brand sales were down 5.0% in the year with volume decline reducing sales revenue by 5.3% with price and mix contributing 0.3%. The loss of volume was largely a reflection of trends in the category markets which were down 2.2% in the year. This is a steeper fall than normal which reflects a switch toward branded goods as promotional activity increased. Our performance lagged the market in the first three quarters of the year largely as a result of a material retailer brand beans contract lost in Q3 of 2009.

Trading profit increased by 0.4% to £256m.

**CASE STUDY**


## ***Mr Kipling*** range refresh


*Mr Kipling* had retails sales of £136m in 2010 so ensuring the core product range retains its relevancy with consumers is extremely important. Our range refreshment programme, launched in 2009, aims to drive new news and interest for consumers in our key product sectors.

2010 saw *Mr Kipling's* continued commitment to the programme with the launch of *Mr Kipling's* Ice Cream Inspirations in May. Recreating some of the best loved ice cream flavours in his most iconic and best loved cakes, *Mr Kipling's* Neapolitan Bakewells, Raspberry Ripple Slices and Tutti Frutti Pies have been made with the same care and attention to detail that *Mr Kipling* gives to all his cake creations.

The range performed well, particularly over the summer months, finishing the year having delivered £4.5m in retail sales value

The range refresh continues in 2011 with the replacement of the Ice Cream range with the launch of *Mr Kipling's* Great British Puds: Spotted Dick Slices; Trifle Bakewells; and Rhubarb & Custard Pies. These are proving to be a hit with consumers and are already on track to deliver increased YoY sales for the brand.

Lower sales volumes were partially offset by a superior product mix, with branded sales steady versus non-branded decline. This reduced profit by £5m. Our strategy of improving procurement efficiency added £16m to profit.

In the year, input costs increased reflecting commodity markets. This was largely offset by pricing but promotional costs were higher in the year. These factors combined meant that the business incurred a net cost of £18m.

The increase in promotional costs reflects an increase in the level of deal activity across all grocery markets, with retailers competing to offer value during the recession.


Above: Launch of new Frujies range helps *Hartley's* to deliver sales increase of 8.7% in 2010.

There was a £21m net benefit as a result of reduced manufacturing costs. This was achieved as a result of increased efficiency from various initiatives. For example, better operating practices reduced waste and better scheduling reduced the need to use overtime or third party manufacturing. This amounted to a 6% reduction of controllable costs in line with our strategic target. In addition, in 2010, deflation in energy prices contributed a further 2% reduction. This is liable to reverse in 2011 as fuel prices increase.

There was a £13m increase in operating expenses. Of this increase, £4m of higher bonus costs reflected a return to more normal levels as guided in 2009. Pension costs were flat year on year. An additional £8m was spent in restructuring costs as the project to decrease the size of the Irish supply chain got under way. Additional marketing costs of £4m were incurred to support driving market share and the new product launches. We expect this cost to continue to increase in the future as we refresh our brand ranges. Other costs were reduced by £3m particularly owing to lower volumes and efficiencies in distribution.

In conclusion, in 2010, Grocery's results are substantially in line with the business strategy. Branded volume market share grew and, despite increased promotional investment and subdued consumer demand, sales revenue was flat. We grew sales through innovation and improved gross margin by better procurement and manufacturing efficiency. We found savings to fund increased consumer marketing activity. Non-branded sales were lower year on year but this relates to market trends and to contracts lost on grounds of profitability in 2009. We are confident that our strategy will result in further progress in 2011.

# Hovis.



## 2010 Highlights

| | 2010 £m | 2009 £m | 10 v 09 % |
|---|---|---|---|
| Branded bakery | 376 | 370 | 1.7 |
| Retailer brand bakery | 140 | 179 | (22.1) |
| Total bakery sales | 516 | 549 | (6.1) |
| Milling | 172 | 193 | (10.6) |
| Trading sales | 688 | 742 | (7.3) |
| Trading profit | 39 | 31 | 25.8 |
| Branded Bread Volume market share % | 25.2 | 24.9 | 0.3pp |
| Branded Bread Value market share % | 24.9 | 25.7 | (0.8)pp |

- **Hovis moved to sourcing 100% of wheat from British farmers.**
- **Launch of *Hovis Hearty Oats*.**
- ***Hovis Seed Sensations* raised over £100,000 for The Royal British Legion.**
- **Sharp increase in the market cost of wheat in Q4.**



"*Hovis* branded volume increased by 3.5% contributing to a 0.3pp increase in volume market share."

Branded bakery sales grew 1.7% to £376m. Volumes were up 3.5% with pricing and mix reducing revenue by 1.8%. This reduction was a function of year on year promotional increases and wheat cost declines in the early part of the year which was equivalent to a 0.6% reduction in revenue. This merely reflects wheat input costs and has little effect on profitability. In Q4, this effect reversed as pricing was amended to reflect the sharp increase in the market cost of wheat. As a consequence, price and mix was 5.5% favourable in Q4. Branded sales benefited from the launch of our new *Hearty Oats* loaf and by market share gains in white bread.

*Hovis* branded volume increased by 3.5% contributing to a 0.3pp increase in volume market share. Volume growth reflected success in growing sales of white bread. This volume growth was partially offset by pricing and mix as the proportion of bread sold on deal was higher in 2010 than in the previous year. As a consequence, market share in value terms decreased by 0.8pp to 24.9%.

In retailer brand bakery, sales were down 22.1% reflecting volumes down 21.1%. The majority of this fall reflected a 13.6% fall in the market volume for retailer brand bread as consumers switched to branded bread as increased promotional activity improved value. The remainder of the decline was due to exit of bread contracts and lower sales of other bakery products.

CASE STUDY


## ***Hovis Hearty Oats*** "Sometimes it's good to be good"

New *Hovis Hearty Oats*, the first ever loaf to be baked with 50% wholegrain oats and 50% Wheatflour[1], launched into stores in 2010.

It has taken two years to develop this oat packed bread in association with HEART UK — The Cholesterol Charity. Just two slices of *Hovis Hearty Oats* contain 1.0g of beta-glucan, providing a quick and tasty way to get 1/3 of your daily suggested intake. As part of a healthy lifestyle and diet low in saturated fat, this has been shown to help maintain normal cholesterol levels.

Jon Goldstone, Group Marketing Director, says, "*Hovis* has a long history of innovation and a commitment to baking a range of healthy breads. We are extremely proud of *Hovis Hearty Oats*. Not only is it the first bread to be baked with 50% oats and 50% wheatflour, helping maintain normal cholesterol, but it is also uniquely approved by HEART UK."

The launch of *Hovis Hearty Oats* was supported by a new marketing campaign including a *Hearty Oats* community website and a TV campaign with a new advert.

1 Based on finished cereal weight.

The total volume of bread sold fell by 3.4% with a 3.5% growth in Hovis offset by a 24.1% decline in other brands and non-branded bread.

In Milling, pricing is closely related to raw material costs. The year on year decline in wheat cost in the early part of 2010 was thus largely mirrored in flour sales value. This effect has little effect on profitability and reversed in Q4 which saw a 13.0% contribution from pricing and mix. Volumes were down 4.1% owing to the loss of certain non-branded flour contracts owing to additional capacity causing competitive pricing in the market. Branded volumes were up 7.2% reflecting successful promotions of *Elephant Atta*.

The lower volume in bread and milling was only partly offset by an improved mix of product. The effect was a £10m decrease in profit.

The combination of pricing, promotion and inflation in manufacturing costs was partially offset by lower input costs and efficiencies in manufacturing and this reduced profit by £9m.

Operating expenses were £27m lower than in 2009. The main reduction was in distribution where efficiencies and lower fuel costs contributed to a £11m reduction in costs. Restructuring costs were £5m lower since there was high spend in 2009 for additional capacity and improved quality, not all of which was recurring. Marketing costs were £3m lower as the plans for marketing were scaled back in light of the difficult trading environment in the second half. Pension costs were £2m lower and other costs were £6m lower.

In conclusion, despite a rise in wheat costs, Hovis had another successful year growing trading profit by 25.8% to £39m aided by efficiencies. Branded growth continued as we launched our 100% British wheat across the range. We remain confident of making further strategic progress with the brand in 2011 but are cautious about the continuing rise in the market cost of wheat and competitive pressures in Milling.

# Chilled.




## 2010 Highlights

| | 2010 £m | 2009 £m | 10 v 09 % |
|---|---|---|---|
| Brookes Avana | **203** | 214 | (4.7) |
| Meat-free | **129** | 131 | (1.9) |
| **Total sales** | **332** | 345 | (3.6) |
| Brookes Avana | **–** | 15 | (100.0) |
| Meat-free | **16** | 8 | 100.0 |
| **Trading profit** | **16** | 23 | (30.4) |

- **Brookes Avana profitability impacted by commodity inflation and pricing.**
- **Sale of Meat-free business completed on 7 March 2011.**

In the year, sales for the Chilled division decreased by 3.6%. In Brookes Avana, sales were down 4.7% owing to contract losses and lower volumes sold on existing contracts. Meat-free sales decreased 1.9%. *Cauldron* sales fell 9.6% as the market for premium and organic products fell 1.1%. *Quorn* sales decreased 1.4%, a good result for a premium priced product in a recessionary environment. As guided at the half year, as a result of a refresh of the *Quorn* range of products, sales improved in the second half with sales up 0.4% versus a decline of 3.2% in the first half.

Meat-free trading profit increased substantially in the year as better margins and lower supply chain costs were realised as a result of the changes made in 2009 and early 2010. Marketing costs were lower as the difficult consumer environment led us to minimise our activity

Brookes Avana trading profit was down substantially. The business operates in an industry characterised by overcapacity and, consequently, by decreasing margins. In the past the business has offset this by increasing volumes. In 2010, however, lower volumes were accompanied by lower margins as pricing on retained contracts was reduced by more than could be saved in manufacturing and operating expenses in the year. In addition, substantial escalations in the market cost of key commodities such as wheat, dairy products and packaging could not be recovered. Despite this severe downturn in profitability, we believe the Brookes Avana business continues to produce excellent quality products and that it has innovation credentials. We are in constructive dialogue with the main customer, Marks and Spencer, with regard to revised product ranges, pricing and supply arrangements which we believe will return the business to profitability in 2011.

### Tim Kelly
Chief Operating Officer

Since the acquisition of RHM the business has operated through a divisional structure. We are now returning to a more centralised structure with clear brand focus and functional alignment.

The first step in the process was the appointment of Tim Kelly as Chief Operating Officer, in January 2011, with responsibility for managing all brands across Premier. To ensure greater functional alignment we have created two new roles: Group Marketing Director and Group Technical Director, both of whom now sit on the Group Executive. This in turn will lead to greater focus on brand growth within our Drive and Core brands.

# Financial review.

The Group's financial position is stable and there is adequate cash flow to service the cost of its financial obligations and to reduce net debt. The financial position was substantially strengthened in the year by a reduction of £103m in net debt as a result of strong operational cash flows, by the derisking of the swap portfolio and the pension funds and more recently by the attainment of a credit rating which will allow us to raise funds from the bond market.

## Cash flow

| | 2010 £m | 2009 £m | 10 v 09 % |
|---|---|---|---|
| **Trading profit** | **311** | 309 | 0.6 |
| Depreciation | **51** | 52 | (1.9) |
| Other non-cash items | **7** | 3 | 133.3 |
| Interest | **(131)** | (152) | 13.8 |
| Tax | **(2)** | 1 | |
| Pension | **(57)** | (52) | (9.6) |
| Regular capital expenditure | **(68)** | (83) | 31.3 |
| Working capital | **13** | (29) | |
| **Cash flow before non-recurring items** | **124** | 49 | 153.1 |

In the year, cash flow before non-recurring items was £124m, ahead of our target to generate at least £100m per annum. Cash interest was lower than in 2009 owing to lower debt levels and, in Q4, to the removal of additional interest on digital swaps. The pension cash flow was higher than in 2009 owing to the amount included for additional deficit contribution being £38m (2009: £33m). Capital expenditure was £68m. This is slightly higher than the combined depreciation and software amortisation charge of £64m. We would expect our programme to be slightly larger in 2011 as we invest in innovation and efficiency. Working capital fell £13m as we reduced stocks of finished goods and raw materials. It is our intention to continue to reduce stocks in 2011.


Above: New *Batchelors Saucy Super Noodles* launched in 2010. The new product contains two flavour sachets, the familiar seasoning sachet and an additional concentrated sauce sachet for an extra flavour hit.

| | 2010 £m | 2009 £m |
|---|---|---|
| **Cash flow before non-recurring items** | **124** | 49 |
| Exceptional items | **(7)** | (38) |
| Integration capital expenditure | **–** | (2) |
| **Operating cash flow** | **117** | 9 |
| Disposal proceeds | **9** | 54 |
| Net equity proceeds | **–** | 380 |
| Settlement of swap obligations | **(8)** | – |
| Financing fees, discontinued operations and other items | **(15)** | (41) |
| **Movement in Net debt** | **103** | 402 |

The combination of exceptional items, disposals and derisking the swap portfolio resulted in a net outflow of £21m, leaving £103m to reduce net debt. This was sufficient to ensure that headroom is maintained as the banking facility reduced by £100m in 2010. In 2010, there was a cash outflow of £7m relating to creditors and provisions for exceptional items such as onerous leases which were provided in 2009. Disposals of fixed assets and some small defend brands realised £9m. As disclosed in October 2010, the derisking of the swap portfolio required us to settle early part of the locked in mark to market. This reduced our swap obligations by £8m. An additional £8m was paid in fees to the bank group to permit the restructure to take place and there were £7m of other items.

## Financing

| | 2010 £m | 2009 £m | 10 v 09 % |
|---|---|---|---|
| Gross borrowings | **1,301** | 1,383 | 5.9 |
| Deferred refinancing fees | **(21)** | (18) | (16.7) |
| **Net borrowings – year end** | **1,280** | 1,365 | 6.2 |
| Less obligations under finance leases | **(19)** | (1) | |
| **Net debt – year end** | **1,261** | 1,364 | 7.6 |
| **EBITDA** | **362** | 361 | 0.3 |
| **Net debt/EBITDA** | **3.48×** | 3.78× | 0.30× |

**CASE STUDY**



# **Great** Little Ideas

We've launched the biggest cross brand initiative in the UK food industry this year.

Great Little Ideas provides simple and inspiring recipe ideas for exciting mealtimes. Our little yellow stars are on over 300 branded SKUs across 16 key brands, representing over 50% of Premier's Grocery brands by value.

Since launch in April 2010 the greatlittleideas.com site has welcomed 1.5 million visitors and now has almost 30,000 registered members. TV in January 2011 was a fantastic success, with just two weeks on air we boosted our brand awareness to 33% and had over 300,000 hits to the site in just one month - our biggest month so far.

As a result of cash flows, the Group's net debt fell £103m to £1,261m. EBITDA increased by £1m leading to a 0.30 reduction in the Net Debt/EBITDA ratio to 3.48 times.

| | **2010 £m** | 2009 £m | 10 v 09 % |
|---|---|---|---|
| Average bank borrowings — 12 month rolling | **1,439** | 1,561 | |
| Securitisation | **90** | 90 | |
| **Average debt** | **1,529** | 1,651 | 7.3 |
| **EBITDA — 12 month rolling** | **362** | 361 | 0.3 |
| **Average debt/EBITDA** | **4.22×** | 4.57× | 0.35× |

The key indicator in managing the Group's finances is the average debt, its being the driver of the Group's regular interest charge. Average debt for 2010 was £1,529m compared with £1,651m for 2009 (adjusted for the equity raised in the first half of 2009). This is a reduction of £122m. As a consequence, the Average debt/EBITDA ratio was reduced from 4.57 times to 4.22 times.

The Group's target, set out in its financial strategy, is to reduce this ratio to 3.25 times.

## Leases

In addition to the bank debt and securitisation set out above, the Group has a number of operating and finance leases.

## Operating lease rental payments

| | **2010 £m** | 2009 £m | 10 v 09 % |
|---|---|---|---|
| Plant & machinery | **13** | 17 | (23.5) |
| Land & buildings | **15** | 14 | 7.1 |
| **Total** | **28** | 31 | (9.7) |

## Outstanding finance lease obligations

| | **2010 £m** | 2009 £m | 10 v 09 % |
|---|---|---|---|
| Plant & machinery | **19** | 1 | – |

CASE STUDY


## **New** *Cup a Pasta* from *Batchelors*

To meet the increasing consumer demand for convenient, flexible meals on the go, *Batchelors* has added an exciting new product to its portfolio, *Batchelors Cup a Pasta*.

*Cup a Pasta* is a warm, filling pasta snack you make in a cup. Each product in the four strong range has less than 2% fat and takes only four minutes to prepare. Just add boiling water and stir! It's available in Chicken, Tomato, Creamy Cheese and Roast Vegetable flavours.

Jo Marshall, *Batchelors* senior brand manager, said: "The new *Cup a Pasta* range is for the growing number of consumers looking for a quick, convenient snack but who are not prepared to compromise on taste. It's perfect for home or work. *Cup a Pasta* has performed extremely strongly in consumer taste tests and complements our already successful range."

*Batchelors* is the No. 1 brand in the Hot Snacks category with a 44% share and is a trusted brand that consumers actively look for in store. This launch demonstrates our commitment to delivering innovation and driving category growth.

During the year one lease was converted from an operating lease to a finance lease in order to facilitate the sale of the Canning operations. This is shown as a £21m acquisition in fixed assets and a liability in Bank and other borrowings. No cash changed hands in 2010 and the amendment of the lease did not change the underlying lease payment profile. The assets were bought from the lessor in 2011 and around half were included in the net assets of the Canning business which we have agreed to sell.

### Financial instruments

| | **2010 £m** | 2009 £m | 10 v 09 % |
|---|---|---|---|
| Nominal value of derivative interest rate related financial instruments | **1,225** | 1,350 | (9.3) |
| Mark to market on derivative interest rate related financial instruments | **(235)** | (199) | (18.1) |

| Mark to market of financial instruments | **2010 Nominal £m** | **2010 MtM £m** | 2009 Nominal £m | 2009 MtM £m |
|---|---|---|---|---|
| **Economic hedging element** | | | | |
| Conventional swaps | **1,075** | **(125)** | 525 | (36) |
| Conventional swaps — agreed settlement | | **(78)** | | |
| Long dated swaps | | | 400 | (27) |
| Digital swaps | | | 275 | (17) |
| **Subtotal — future economic hedging interest** | **1,075** | **(203)** | 1,200 | (80) |
| **Non-economic hedging element** | | | | |
| Long dated swaps | | | | (44) |
| Digital swaps | | | | (38) |
| Other financial instrument | **150** | **(32)** | 150 | (37) |
| **Subtotal — future additional interest** | | **(32)** | | (119) |
| **Total** | **1,225** | **(235)** | 1,350 | (199) |

The portfolio hedges £1,075m of the bank debt at an average rate of 6.2%.

The mark to market of the interest rate derivatives portfolio has worsened by £36m in the year as a result of a reduction in the interest rate yield curve. However, the profile of the portfolio has been substantially altered during the year. As a consequence, "The financial position of the Group was substantially strengthened in the year by a reduction in net debt, derisking of the swap portfolio and the attainment of a credit rating."

the non-economic element of the portfolio has been substantially reduced. Previously, the long swaps and the digital swaps represented an open risk to interest rates which could have resulted in a cash outflow of up to £450m in 2012 and 2013. As a result of the restructure, this risk has been removed. A settlement amount representing the mark to market of the instruments of £78m has been agreed for 2013. The remainder of the mark to market is accommodated by increasing the interest rate of the swaps from 5.2% previously to the current 6.2%.

The only remaining non-economic hedging element is the Other Financial Instrument which represents a settlement of a previous long dated swap which is due in 2012. The terms of this instrument have been left unchanged. Unlike the agreed settlement on the other swaps, the value of this settlement varies with interest rates with the total risk approximately £10m. During the year, £8m of the settlement amount on this instrument was paid as part of the swap restructure.

The remaining settlement amounts are £32m due in 2012 and £78m due in 2013. In the event of a bond issue, part of the proceeds will be used to settle the £32m due under the Other Financial Instrument and £20m of the 2013 amounts.

## Interest

| Interest cost | 2010 £m | 2009 £m | 10 v 09 % |
|---|---|---|---|
| Bank debt interest | **(58)** | (78) | 25.6 |
| Securitisation interest | **(2)** | (2) | — |
| Swap contract interest — conventional | **(54)** | (47) | (14.9) |
| Amortisation and deferred fees | **(14)** | (13) | 7.7 |
| **Normal interest** | **(128)** | (140) | 8.5 |
| Swap contract — additional interest | **(17)** | (15) | (13.3) |
| **Net regular interest cost** | **(145)** | (155) | 6.5 |

Net regular interest cost fell to £145m with the effect of lower debt levels. Bank interest was payable at LIBOR plus 288bp in the year. The cost of the hedging swaps increased to £54m as interest rates fell. The cost of the additional interest on the non economic hedging digital swaps increased substantially but was mitigated by the swap restructure which avoided the cost in the fourth quarter. Nevertheless, the additional interest for three quarters of 2010 exceeded that paid for the whole of 2009.

## Debt covenants

| Covenant headroom | 2010 £m | 2009 £m |
|---|---|---|
| Covenant indebtedness | **1,254** | 1,378 |
| Covenant EBITDA | **365** | 376 |
| Covenant interest | **128** | 140 |
| **Covenant tests:** | | |
| Leverage test | **3.44** | 3.67 |
| Limit | **4.50** | 4.75 |
| Headroom | **24%** | 23% |
| Interest cover test | **2.85** | 2.69 |
| Limit | **2.40** | 2.00 |
| Headroom | **19%** | 35% |

At December 2010 leverage is 3.44 times giving 24% headroom against the covenant test. Interest cover was 2.85 times giving 19% headroom against the covenant. There was adequate headroom against both the financial limits at year end. The interest covenant headroom was tighter than would normally be the case solely because of the additional interest payable under the digital swap for the first three quarters of the year. This has now been restructured hence reducing this cost for 2011. If this restructuring had been in place throughout 2010, interest cost would have been £7m lower giving an interest cover test of 3.02 and headroom of 26%. Although each will become tighter in 2011, we expect to continue to have adequate headroom. The maximum leverage ratio for 2011 is 3.90 and the maximum interest cover limit is 2.75.

## Pensions

| Pensions | 31 Dec 2010 £m | 31 Dec 2009 £m |
|---|---|---|
| Liabilities | **(3,120)** | (2,959) |
| Discount rate | **5.45** | 5.80 |
| Inflation rate | **3.45** | 3.50 |
| Assets | | |
| Equities | **588** | 599 |
| Bonds | **445** | 395 |
| Property | **122** | 166 |
| Absolute return and swaps | **648** | 509 |
| Cash & other | **996** | 861 |
| Total assets | **2,799** | 2,530 |
| **Gross deficit (IAS 19)** | **(321)** | (429) |
| Deferred tax | **86** | 119 |
| **Net deficit (IAS 19)** | **(235)** | (310) |

"Cash flow before non-recurring items was £124m, ahead of our target to generate at least £100m".

At the end of 2010, the deficit was £321m on an IAS 19 basis which is equivalent to £235m net of deferred tax. This compares with £429m and £310m respectively in 2009. The discount rate used, which is based on the AA bond yield, decreased from 5.80% to 5.45% and the inflation rate assumption decreased from 3.50% to 3.45%. As a consequence, the real interest rate assumed fell from 2.30% to 2.00%. The size of the reported deficit will continue to be volatile based on market returns, movements in bond yields and future price inflation expectations. However, ongoing deficit contributions and improved hedging should mean that the medium-term trend should be one of improvement and lower volatility.

The charge to trading profit was £9m versus £12m in 2009. The current service cost was £21m for the year versus £12m in 2009 reflecting a significant reduction in real interest yields between 2008 and 2009. Past service credits in relation to changes to two of the Group's pension scheme rules reduced the total service charge to £9m. We expect the service cost to be around £20m in 2011. There are likely to be further past service charges or credits as the remainder of the Group's future pension benefits provision is amended in 2011.

Total cash paid to the pension fund including deficit funding was £66m in 2010 versus £65m in 2009. Deficit payments were £38m in 2010 versus £33m in 2009. The deficit payment in 2011 will be £48m before falling to £42m in 2012 and £38m in 2013.

The movement of the deficit is explained as follows:

### Movement in pension fund deficit

| | £m |
|---|---|
| Gross deficit (Dec 2009) | (429) |
| Total return on investment assets | 241 |
| Movements on hedging assets | 94 |
| Change in discount rate on liabilities | (182) |
| Other actuarial assumptions | 73 |
| Employer contributions | 66 |
| Charge to trading profit | (9) |
| Unwind of discount rate | (168) |
| Expenses | (7) |
| **Gross deficit (Dec 2010)** | **(321)** |

In the year, actual investment return on assets was 13.2%. This exceeded expected returns of 7.2%. The benefits of hedging added a further £94m to assets. This offset some of the change in the liability discount rate which fell from 5.80% to 5.45% following the fall in AA corporate bond yields. Other assumptions, such as inflation rates, changed slightly and this reduced the deficit by £73m. Total contributions, including the additional deficit contributions by the Group, exceeded the cost of new benefit accruals and expenses paid by the fund.

The sensitivities of the pension funds are as follows:

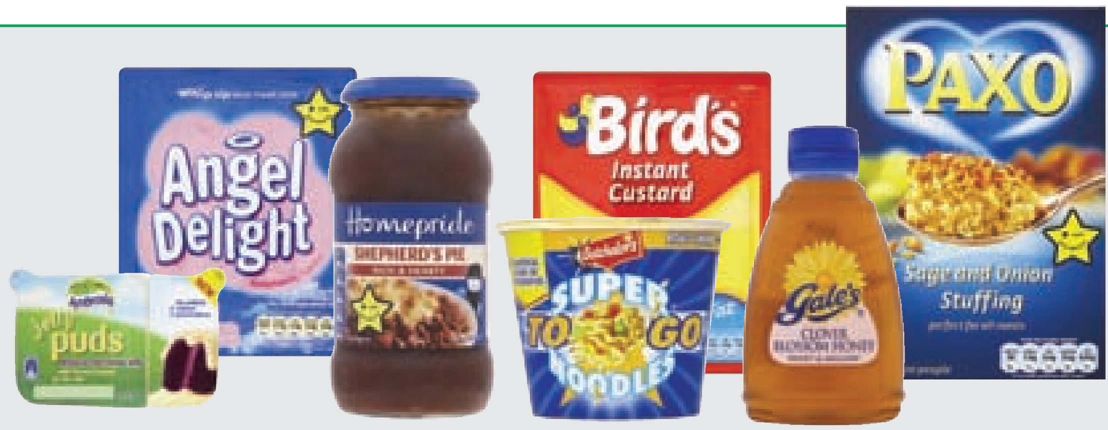
| | Impact on liabilities £m |
|---|---|
| +/- 0.1% change in discount rate | (49)/51 |
| +/- 0.1% change in price inflation | 18/(21) |
| +/- 0.1% change in real salary growth | 2/(2) |
| +1 year life expectancy | 117 |

| | Impact on assets £m |
|---|---|
| +/- 10% on equity values | 70/(70) |

During the year, the Group agreed with the Trustees a programme to increase the amount of hedging between assets and liabilities within the funds. This should help to reduce the volatility of the deficit.

Discussions with the Trustees regarding the triennial actuarial valuations of the four UK pension schemes as at 5 April 2010 are continuing and the results should be known in the first half of 2011. The discount rate is expected to be based on the yield available on appropriate gilts plus 1% p.a. At April 2010 this was equivalent to a discount rate of 5.5% p.a. The other liability assumptions have not yet been finalised but will in aggregate contain additional prudence to those used in the IAS 19 figures given above. We expect the technical deficit to be around £550m.

The Group has agreed with the pension fund Trustees a schedule of payments to reduce the deficit. The schedule of payments is agreed until 2014 and averages £40m a year. The agreement with the Trustees is that deficit contributions after 2014 will depend upon the 2013 actuarial valuation. The Trustees and the Group will aim to make up any deficit over the subsequent eight years until 2022. However, this is subject to affordability and hence the period can be lengthened or shortened accordingly. The 2010 valuation result, if it were confirmed at £550m, would imply an annual contribution of around £40m over the eight years to 2022.




The Group also took action in the year to reduce the rate at which the actuarial liabilities increase. This entailed proposing to close the final salary pension funds to future accrual. In its place we will offer a market competitive money purchase scheme for new starters and a market competitive career average scheme for existing pension fund members. These changes have been agreed with the unions and will be implemented in 2011. The result of the changes will be to leave the annual service charge at around the same level as before but to significantly cap the rate at which the defined benefit pension liability escalates.

## Profit after tax

| | 2010 £m | 2009 £m |
|---|---|---|
| **Trading profit (continuing & Meat-free)** | **311** | 309 |
| Less Meat-free trading profit | **(16)** | (8) |
| Exceptional items | **—** | (46) |
| Goodwill impairment | **(125)** | — |
| Software amortisation | **(13)** | (9) |
| Intangible amortisation | **(66)** | (66) |
| Pension financing | **4** | (2) |
| Forex mark to market | **(2)** | (6) |
| Net regular interest | **(145)** | (155) |
| Other interest incl. swap mark to market | **(46)** | 25 |
| **(Loss)/profit before tax** | **(98)** | 42 |
| Tax credit/(charge) | **11** | (6) |
| **(Loss)/profit after tax — continuing** | **(87)** | 36 |
| Discontinued operations | **(12)** | (11) |
| **(Loss)/profit after tax** | **(99)** | 25 |

Loss after tax was £99m versus a profit of £25m in 2009. Three factors contributed to this change.

Firstly, 2009 had an exceptional charge for restructuring and refinancing. There were no exceptional items in 2010 other than the impairment charge discussed below.

Secondly, in 2010, £125m of goodwill relating to Brookes Avana was impaired leaving goodwill for the business at £23m. The previous carrying value represents the original amount of goodwill based on the purchase price allocated to Brookes Avana when it was acquired as part of the RHM acquisition. The goodwill has been impaired reflecting the steep fall in profitability which the business has experienced this year and our view of the prospects for margins and input cost inflation in the near future. There was no equivalent impairment in 2009.

Thirdly, the mark to market on the interest rate swap portfolio and other interest deteriorated by £46m whereas it improved by £25m in 2009. This volatility is a result of the Group's not applying hedge accounting for the economic hedging portion of the portfolio and of the non-economic hedging portion which has now been addressed.

## Earnings per share

| | 2010 pence | 2009 pence | 10 v 09 % |
|---|---|---|---|
| **Basic EPS — continuing operations** | **(3.6)** | 1.7 | |
| Trading profit (£m) | **311** | 309 | |
| Pro forma net regular interest (£m) | **(145)** | (153) | |
| Tax at 28% (£m) | **(47)** | (44) | |
| Pro forma adjusted profit after tax (£m) | **119** | 112 | |
| Pro forma shares in issue (m) | **2,398** | 2,398 | |
| **Pro forma adjusted EPS** | **5.0** | 4.7 | 6.4 |

Basic earnings per share on a continuing basis was a loss of 3.6 pence versus earnings of 1.7 pence in 2009. The reduction was caused by the negative mark to market on swaps and the impairment of goodwill. None of these items entail any cash flows.

Adjusted earnings per share is a better reflection of the underlying business performance. It uses trading profit, regular interest and a notional tax charge based on the statutory tax rate. In 2010 adjusted EPS was 5.0 pence. The equivalent pro forma figure for 2009 was 4.7 pence. This accounts for the March 2009 equity issue and refinancing as if it had been in place for the whole year. This represents a 6.4% improvement driven by a reduction in regular interest.

**Jim Smart**
Chief Financial Officer
**Robert Schofield**
Chief Executive Officer

# Corporate social responsibility.

Over the year we have made further significant progress in our 4 core Corporate Social Responsibility (CSR) areas of Marketplace, Environment, Workplace and Community involvement.

Our customers and consumers are increasingly concerned about the quality and provenance of the food they eat. They also want us to make sure that their food is sourced ethically, with concern for the environment, and that generally accepted animal welfare standards are practiced.

### 2010 highlights

- *Ambrosia* has moved to using milk certified by the 'Dairy Assurance Scheme' and applied the 'Red Tractor' logo on its core products packaging;
- Continued commitment to UK sourcing — *Hovis* bread made from flour 100% sourced in the UK;
- Environmental targets for reducing energy consumption, $CO_2e$ emissions, delivery miles, water use, waste to landfill and the Carbon ($CO_2e$) intensity of our packaging all exceeded;
- Employees raised a fantastic £445,000 for our corporate charity partner 'Cancer Research UK'; and
- As from January 2011, *Mr Kipling* began using 100% free range eggs across the cake range.

A summary of our key achievements is provided in this section of the annual report and further details can be found in the CSR report which is available on our website.

**To read more**
www.premierfoods.co.uk

## KPI

### Doing the right thing

Practising good environmental and social stewardship is in the best interest of stakeholders and also aligned with our overall business strategy to deliver long term and sustainable business growth.

doing the right thing

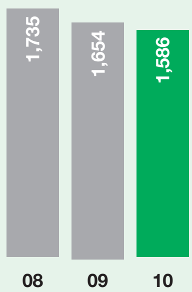
## Target 2010[1]

| | |
|---|---|
| **Energy usage** (gigawatts) | -3.0% |
| **$CO_2$ equivalent emissions** (tonnes) | -3.0% |
| **Delivery miles** miles (m) | -5.0% |
| **Non-ingredient water usage** (megalitres) | -2.5% |
| **Waste to landfill** (tonnes) | -20.0% |
| **RIDDOR** accident frequency rate per 100,000 hours worked | 0.23 |

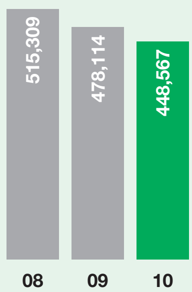
[1] All environmental targets were against a 2009 baseline.

## Performance

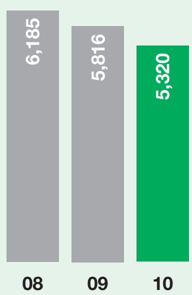
**Energy usage**
(gigawatts)
**-4.1%**



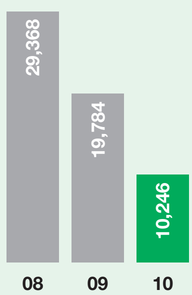

**$CO_2$ equivalent emissions**
(tonnes)
**-6.2%**




**Non-ingredient water usage**
(megalitres)
**-8.7%**




**Waste to landfill**
(tonnes)
**-48.3%**



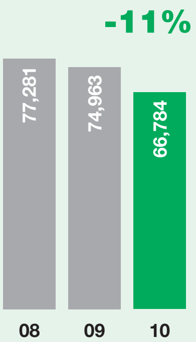
CASE STUDY


## **Royal Society** for the Prevention of Accidents (RoSPA)

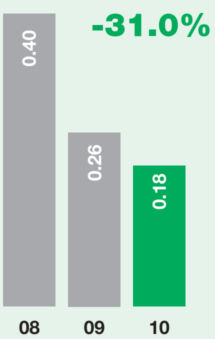
**Food and Beverage Sector Award:** In 2010, RoSPA awarded The Food and Beverage Sector Award for Health and Safety to Premier Foods and 48 of our sites were individually awarded Health and Safety Achievement Awards. In addition to this, Premier Foods also received a Gold Award for their management of Occupational and At Work Road Risk.

In winning the Sector Award, Premier Foods successfully demonstrated effective and continuously improving safety performance, providing evidence of its innovative approach to reducing risk, particularly through our Total Observation Process (TOPs).

**Delivery miles**
miles (m)




**RIDDOR frequency rate per 100,000 hours worked**




## Commentary

We were able to make excellent progress in 2010 and exceed all our CSR targets.

We are particularly pleased with the reduction of waste to landfill which has reduced by 65% since 2008 and leaves us well positioned to achieve our long term goal of zero waste to landfill by 2015.

In addition, our commitment to safety has led to another significant reduction in reportable accident rates.

## Focus for 2011

| | |
|---|---|
| **Energy usage** (gigawatts) | -3.0% |
| **$CO_2$ equivalent emissions** (tonnes) | -4.0% |
| **Delivery miles** miles (m) | -3.0% |
| **non-ingredient water usage** (megalitres) | -3.0% |
| **Waste to landfill** (tonnes) | -20.0% |
| **RIDDOR** accident frequency rate per 100,000 hours worked | 0.17 |

# Marketplace.

## Performance

In 2010, we began to develop a Sustainable Procurement Roadmap (SPR) which is designed to further strengthen our approach to responsible sourcing and factoring in social, economic and environmental criteria to our procurement process in order to achieve real long term benefits. Our SPR will be delivered through an outcome focused action plan, with well-defined deliverables, setting out how we intend to embed sustainable sourcing practices within our procurement function.

Our customers and consumers are increasingly concerned about the quality and provenance of the food they eat. They also want us to make sure that their food is sourced ethically, with concern for the environment, and that generally accepted animal welfare standards are practiced.

Across the year, we continued to consolidate our support for UK producers.

In 2010, 100% of the wheat used in our *Hovis* bread products was UK sourced, as were our milk and sugar. In addition to this, 80% of all the vegetables used in the manufacture of our great British brands came from British farmers.

### CASE STUDY


*Ambrosia* is set to unveil a fresh new design this month and be back on prime time TV.

The new look should help consumers understand *Ambrosia*'s natural and wholesome qualities — there is a misconception that as *Ambrosia* sits in the ambient aisle that it is full of preservatives, which is untrue. The redesign is a radical move from the old look and places the countryside at the centre of the design, bringing the world of *Ambrosia* to life.

We are also introducing the Red Tractor logo onto packs, reassuring consumers that all of our milk can be traced back to the farms it comes from. This is a first for Premier Foods and a first for the ambient desserts category and we're really proud to be registered with the scheme.

| Target 2010. | Performance. | Focus for 2011. |
|---|---|---|
| To meet, or exceed, the voluntary Food Standards Agency's (FSA) 2010 Salt Reduction Target (2006) | 97% of our branded retail products now meet the FSA 2010 Salt Reduction Target (2006) | Develop a procurement sustainability awareness programme |
| To seek to increase Guideline Daily Amounts (GDA's) on front of pack to 75% of our branded products | 90% of our branded products now carry GDA's on front of pack | Source 25% Roundtable on Sustainable Palm Oil (RSPO) certified 'physically segregated' sustainable Palm Oil |
| To review 100% of our own brand products against our internal Health and Nutrition guidelines | Review against internal Health and Nutrition guidelines 100% complete | Use 100% free range eggs in our *Mr Kipling* brand |
| To source 100% British Wheat across the entire *Hovis* range in 2010 | All *Hovis* products are now made from 100% British Wheat | Develop and formalise a Stakeholder Engagement Programme (SEP) |

# Environment.

Premier Foods is aware of its responsibility to the environment and is committed to reducing the overall environmental impact of its operations by monitoring, managing and continually improving its environmental performance. Our aim is to achieve this by providing a comprehensive framework of good environmental management practices that are embedded across the Group and extend throughout our supply chain.

We will continue our drive to use resources more efficiently, which in turn reduces the environmental impact of producing our food, and saves money by reducing waste.

### Five Star Environmental Award Programme.

The Premier Foods Five Star Environmental Award Programme (FSEAP), developed and launched in 2009, is fundamental to the delivery of the Premier Foods environment strategy.

The programme has been closely aligned with the environmental management standard ISO 14001, but places particular emphasis upon a sound practical approach and encourages businesses to integrate environmental management within all their operational activities. Unlike ISO 14001, the FSEAP incorporates a requirement for businesses to achieve specific targets for energy, water and waste.

In 2010 the FSEAP received an excellent response, with measurable performance improvement throughout. All our manufacturing sites achieved a satisfactory standard as a minimum in all categories, and we received an additional 20 gold and 29 silver awards compared to last year.

**CASE STUDY**

*Hovis* down-gauged their bread bag film and modified the dimensions to improve fit of the product in the bag. The project involved consumer group research to analyse 'quality' perceptions around the use of thinner film compared to the original bag.

Using less material has delivered the following savings:

- 550 metric tonnes of plastic film
- 1,485 metric tonnes of $CO_2$e.

*"Hovis is always looking for ways to reduce its impact on the environment, while still delivering great taste and quality for our consumers"*
Julia Herring, Premier Foods Packaging Development Manager.


| Target 2010. | Performance. | Focus for 2011. |
|---|---|---|
| To reduce energy usage by 3% from a 2009 baseline year | Energy usage reduced by 4.1% | Reduce energy usage by 3% |
| To reduce carbon equivalent emissions by 3% from a 2009 baseline year | Carbon equivalent emissions reduced by 6.2% | Reduce carbon equivalent emissions by 4% |
| To reduce delivery miles travelled by 5% from a 2009 baseline year | Delivery miles travelled reduced by 11% | Reduce actual delivery miles travelled by 3% |
| To reduce non-ingredient water consumption by 2.5% from a 2009 baseline year | Non-ingredient water consumption reduced by 8.7% | Reduce non-ingredient water usage by 3% |
| To reduce waste sent to landfill by 20% from a 2009 baseline year | Waste sent to landfill reduced by 48.3% | Reduce waste sent to landfill by 20% |

# Workplace.

## Leadership
Helping our people to deliver our plans and objectives is a major responsibility for all our leaders across the business. Therefore, to support our leaders we have developed the 'Premier Way' which highlights what we believe leadership is about at Premier Foods:

- Being passionate
- Delivering on our commitments and accountabilities
- Empowering and developing our people
- Doing the right thing
- Focusing on our customers and consumers
- Striving to be the best

## Our rewards and benefits
Premier Foods offers employees a competitive pay and benefits package. All of our people are entitled to join the Company Pension Scheme, benefit from Company sick pay arrangements, and good annual leave entitlement. However in addition there are benefits such as Childcare vouchers, an Employee Assistance Programme, and an employee Sharesave scheme, which allows employees to save over a three year period to purchase shares in the Company at a discounted rate. Around 30% of our employees take the opportunity to participate in our Sharesave scheme.

## 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. This has been further bolstered in 2010 through the addition of a coaching and mentoring framework across the Group, enabling colleagues, where appropriate to benefit from coaching and mentoring. During the year we also introduced a broader portfolio of programmes which now includes coaching skills training, commercial awareness and many others, along with interventions provided functionally.

## Career progression
Premier Foods actively encourages development from within. Our talent identification and succession planning processes are now becoming 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 in 2010 Premier Foods further developed specific programmes to develop key individuals, this was based on the success of earlier initiatives where over 50% of the talent pool had been promoted.

However to anticipate future requirements we will also look to bring the right people into the business. As an example in 2009 we launched our first Finance Graduate Programme, aimed at giving us a pipeline of talented finance professionals for the future and in 2010 we introduced graduates into supply chain roles across the Group to ensure we have a pipeline of talent in this critical area of the business.

## Employee Assistance Programme
The Employee Assistance Programme (EAP) is a free, confidential, telephone and online counselling service for all employees which is available 24 hours a day, 7 days a week, across the entire year.

## Occupational Health & Wellbeing
Occupational Health & Wellbeing provides professional, specialist health advice to employees on the following issues:

- The effects of work on health and of health on work
- Ways to improve physical and psychological well-being within the workplace
- Strategies to prevent illness and injury arising from work activity

## Recruitment
Premier Foods is committed to a fair but robust 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 as for other employees.

## 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 consultation and communication mechanisms in place to achieve this goal, including: regular communication meetings; specific consultation and involvement regarding major changes to the business; the Company's intranet site; and the quarterly Company magazine.

CASE STUDY

## Cascading our vision and strategy

Following a sustained period of acquisition, integration and transformation, we felt it was important to communicate the Group's vision and strategy to employees during 2010 to ensure that the whole Group understood and was aligned with it.

A route map of the journey Premier Foods was embarking on was designed ('StratNav') to help employees to navigate their way through the strategy, be excited by its potential and know their part in it. The cascade process started with 60 senior managers who became StratNav 'ambassadors' and created the material. They took a further 600 managers through the StratNav at a one day conference in March 2010.

After the conference, this group of employees were given access to a micro-site from which they could download the conference materials and order StratNav briefing packs for use in onward communication to the remainder of our 16,000 employees.

The pre and post conference surveys showed that those who participated in the StratNav exercise at the conference not only felt informed about the vision (99%), but understand it (99%); and believed in it (97%).

### Employee recognition awards

First introduced in 2008, the 'Employee Recognition Awards' is now in its third year. The awards recognise the huge effort our employees go to which contribute to our success and allow employees to see and learn about what success looks like. Each year our judges are more impressed by the huge number of employees with skill, dedication and creativity, despite the tough working environment we operate in. From 100 entries in the first year, the 2009 awards had 180 entries. The 2010 awards have a staggering 230 entries and winners will be announced in April 2011.

### Employee engagement

Premier Foods has surveyed its management population since 2007 as we are continually striving to make 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 90% the results in 2010 demonstrated significant improvements in how we empower and develop our people and how proud our employees are of our products and brands. The results also highlighted an improvement in moving to "one" culture. The results also highlighted some areas of focus which we are addressing and we will survey the same population in September 2011 before moving to an all employee engagement survey in 2012.

### Workplace Health & Safety

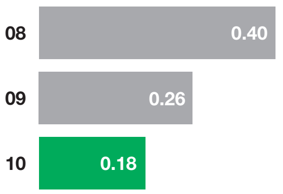
Over recent years, we have achieved very significant and demonstrable improvements in the Premier Foods' Workplace Safety programme with 42% of our sites having reported zero RIDDOR accidents throughout 2010.

We are passionate about safety within are business and our performance compares very favourably with the UK Food Manufacturing Sector and UK Manufacturing Industry overall.

# Workplace.
## continued

Against a corporate target of 0.23 RIDDOR reportable accidents per 100,000 hours worked, we achieved 0.18 delivering an impressive 31% improvement over 2009.

**RIDDOR accident frequency rate per 100,000 hours**




### Corporate Health & Safety Plan

The Corporate Health & Safety Plan ensures that a common strategy is adopted across our sites, applying a consistent 'best practice' approach to our Health & Safety management system and practice.

Initiatives which support our site teams in their efforts to drive our safety performance include:

- Safety Leadership: 585 Premier Foods' employees have successfully completed a 2 day bespoke training programme, underpinning their competence in Health & Safety.
- As Low As Reasonably Practicable (ALARP) Workshops: Throughout our sites ALARP Workshops were run in which over 200 Lead Risk Assessors were trained. In addition to this, to date approximately 500 additional ALARP Risk Assessors have been brought into the programme.

  The initiative was designed to ensure a more inclusive approach to undertaking the 'suitable and sufficient' risk assessments which drive our risk elimination and risk control programme.
- Total Observation Process (TOP's): During 2010, TOP's teams across the country identified over 34,000 hazards. These were resolved thereby avoiding over 34,000 potential accidents to our workforce.

  The TOP's process demands the active engagement of all employees and provides them with a clear mandate to raise their health and safety concerns with their management and to collaborate with them in developing and implementing effective solutions.

  TOP's, which underlines our fundamental approach to workplace safety, was further supported through the launch of a DVD detailing our effective preventative approach to workplace safety.

| Target 2010. | Performance. | Focus for 2011. |
|---|---|---|
| Achieve a Group RIDDOR rate of 0.23 of Reportable Accidents per 100,000 hours worked in 2010 | Achieved a Group RIDDOR rate of 0.18 of Reportable Accidents per 100,000 hours worked | To achieve a RIDDOR accident frequency rate of 0.17 |
| Embed the 'Premier Way' leadership framework throughout the business | 'Premier Way' leadership framework effectively communicated, and embedded, across the Group | To achieve a 30% YoY reduction in major RIDDOR accidents |
| Embed the 'talent identification and succession planning process' | Talent Identification and Succession Planning process established and implemented | Group occupational health to focus on back and skin care |
| Complete a Group-wide occupational health surveillance programme | Group-wide occupational health surveillance rolling programme implemented based on individual site risk assessments | |
| Undertake Group-wide workplace health screening programme | Group-wide workplace health screening rolling programme implemented based on individual site risk assessments | |

# Community.

Our community and charitable efforts share common traits including celebrating all that is good about being "British", capable of "National Reach" and focused on "Service Provision" — these are key factors that we look for when identifying which community and charitable initiatives to support.

Premier Foods believes that corporate charity sponsorship can bring genuine and lasting benefits to our Company, not only improving the public perception of our brands, but also improving our employees' motivation.

Many of our sites have long histories with deep roots in their local communities. Each of our sites has a Community Champion who, along with their colleagues, decides which local charities and activities to get involved with and support. We feel that it's important for employees to support local charities, and community organisations, because '*they live there too*' and therefore have a personal stake in their communities' wellbeing.

In December 2010, our charity partnership with Cancer Research UK (CRUK) came to an end. The partnership proved a great success, all our employees really got behind fundraising activities for CRUK, so much so that employees raised £445,000 against an initial target to raise £250,000.

**CASE** STUDY

In October 2010, we asked our employees to nominate their 'charity of choice' for 2011. Employees were given the opportunity the vote for their favourite charity, either on-line, or via an insert included in the Company magazine 'Being Premier'.

The only criteria were that the charity needed to be a '*national charity, recognised as British and providing a much needed service*'. The charity 'Help for Heroes' (H4H) was the overwhelming choice of our employees, and we have committed to raise £100,000 in the first year of our partnership.


| Target 2010. | Performance. | Focus for 2011. |
|---|---|---|
| Raise £300,000 for our Corporate Charity Partner "Cancer Research UK" | Raised £445,000 for "Cancer Research UK" | To raise £100,000 for our new Corporate charity partner "Help for Heroes" |
| Consult employees in order to identify a preferred Corporate Charity Partner post 2010 | Employees were consulted on their preferred corporate charity partner post 2010, and overwhelmingly voted for 'Help for Heroes' | To work in partnership with a number of organisations in making surplus food donations available to those in social need both in the UK and abroad |
| Support the Royal British Legion's 2010 "Poppy Appeal" at all our 50 sites | Support for the Royal British Legion's 2010 "Poppy Appeal" raised in excess of £140,000 | To develop a structured approach to Community Involvement across the Group |
| Ensure that a minimum of 20% of our 50 sites complete a local community project | 5% of our sites completed a local community project | |
| Support the redistribution of surplus food to those in social need within the UK and abroad | Provided 3,500 cartons of surplus food for redistribution to those in social need within the UK and abroad | |

Business review

# Risk management.

## Suzanne Wise
General Counsel & Company Secretary

### Risk Management at Premier Foods

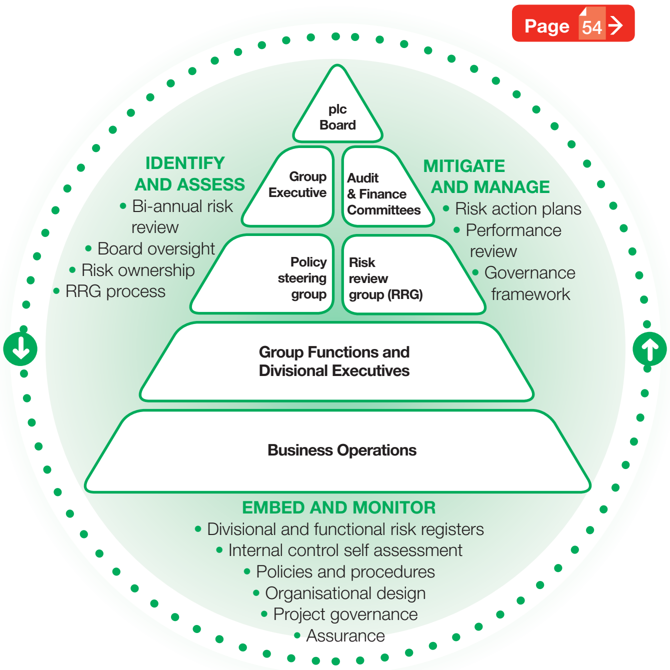
Effective risk management is an integral part of the overall achievement of the Company's strategic objectives. We have established a governance structure that supports the early identification and mitigation of key business risks and this has continued throughout 2010.

The Board has ultimate responsibility for ensuring that business risks are effectively managed. The Board has considered and approved the risk management policy and risk appetite of the Company and has delegated the regular review of the risk management process to the Audit Committee. The Audit Committee also 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 included in the section on Corporate Governance.

Page 60

The Finance Committee, chaired by David Beever, non-executive director, has continued to meet regularly throughout 2010 to oversee the management of financial and financing risks and the activities of the Company's Treasury Committee and Treasury Risk Management Committee. It includes as members the Company Chairman, two further non-executive directors, the Chief Executive Officer, Chief Financial Officer and Group Treasurer. Further details of the Board and its Committees are included in the section on Corporate Governance.

Page 54




A Policy Steering Group has been established under the chairmanship of Suzanne Wise, General Counsel & Company Secretary. The Group meets quarterly and considers the effective implementation of corporate policies taking into account changes in regulation and other business risks.

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

Each division and Group function is also 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 risk registers are submitted to the Risk Review Group for review.

The Risk Review Group is chaired by Suzanne Wise, General Counsel & Company Secretary, and performs the following activities:

- Reviews the effectiveness of the risk management process and makes recommendations to the Audit Committee, as appropriate;
- Considers emerging risks and their potential impact on the Company, for onward review with the Group Executive; and
- Receives presentations from management and provides challenge in relation to risk mitigation actions and their effective implementation.

Every six months the Group Executive reviews the corporate risk register and assesses progress on the implementation of mitigation strategies along with consideration of new and emerging risks.

The results of each Group Executive risk review are presented to the Board for consideration. Additionally, once a year, a separate risk session 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 market place; and
- Premier Foods specific risks.

The results of the non-executive directors' discussion form part of the overall process for reviewing the corporate risk register at the end of the financial year.

Effective management of risk is critical to achieving the Group's strategic objectives, protecting our people and reputation and creating sustainable shareholder value.



## Review of Risks

### External

A key risk facing the Group during 2010 has been the continued impact of the market downturn in the UK and its impact on our suppliers, customers and consumers. Premier Foods has a broad portfolio of staple food products and operates over a large number of categories and we believe that this makes us relatively resilient in periods of recessionary economic activity. As shown by our results for the year we have been successful in maintaining volumes despite a general slowdown in sales across our categories. However, margins have been impacted by an increase in promotional activity which has been experienced across our markets. We do not anticipate that this slowdown in sales and the increase in promotional activity will be a permanent feature but we do expect them to continue in 2011.

We have also experienced inflation both within raw materials we use to produce our products and also with indirect supplies such as energy and packaging and we expect this to continue in 2011. However, we have a centralised procurement function with a global sourcing strategy. We have also demonstrated that we can successfully pass costs onto customers through pricing, albeit with a timing lag.

### Industry and market

To operate successfully in a competitive marketplace and to grow our sales we must continue to invest in new product development, 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 have introduced a new innovation process and increased resources for innovation and marketing. We have also moved to align our organisational structure to manage our Drive and Core brands together so that innovation can be managed as one pipeline. During the year the Board has also approved investment for a number of capital expenditure projects related to new product development.

### Strategic

The Group's business strategy is set out on page 12 and our progress against this strategy is set out in this annual report.

As highlighted above there has been an increased strategic focus on brand innovation and new product development and a change in the Group's management structure.

### Operational

The completion of the rationalisation programme within the Grocery division in 2009 has reduced a number of risks around operational capability in 2010. The rationalisation was one of the largest undertaken within the UK food industry and its success demonstrates Premier's ability to manage major change programmes successfully.

Further major projects are ongoing within the business both within our operations, systems and organisational structure. However, the Group has tested project management processes in place to mitigate these risks.

### Financial

The Group's financial strategy is set out on page 12. The Board and Finance Committee have worked closely with management and Premier has made significant progress in 2010 in implementing this strategy and thereby reducing financial risk.

The Group restructured its interest rate swap portfolio in October. This acted to shorten the maturity of the swap portfolio, remove early termination options and reduce volatility thereby reducing the overall risk of the portfolio.

During the year the Group has reviewed the investment strategy of the pension funds and established an Investment Forum to foster greater dialogue with the trustees and to review and discuss investment strategy, performance and risk with the aim of reducing volatility within the funds. Following a review of current arrangements the Company has also announced the closure of the final salary pension scheme to further accrual from existing members from April 2011.

Premier Foods has also obtained a credit rating which will allow us to diversify our sources of funding and also stagger the maturity of our funding. Post-year end we have announced two significant business disposals which will significantly accelerate the Group's debt reduction.

# Risk management and risk factors.

| Key Strategic Risks | Risk |
|---|---|
| **External** | |
| Risks arising from external factors such as the economy, legal and regulatory, environmental | • Changes in general economic conditions, e.g. inflation, interest rates, availability of credit<br>• Raw material cost inflation<br>• Changes in government policy, e.g. taxation<br>• Changes in regulatory requirements, e.g. in respect to product composition, manufacturing, packaging and safety<br>• Impact of unseasonable weather |
| **Industry & Market** | |
| Risks relating to operating in the food industry including competitors, suppliers, customers, consumers and brands | • Strongly competitive market place<br>• Threat from rival products<br>• Dependency on key suppliers<br>• Availability of supplier credit insurance<br>• Concentration and strength of customers<br>• Promotional trade spend<br>• Changes in consumer preferences and consumption habits<br>• Failure to innovate or react to changing consumer trends<br>• Brand management<br>• Dependency on third party licences |
| **Strategic** | |
| Risks arising from the design and implementation of the Group's business model and strategy | • Business model<br>• Design and implementation of Group strategy<br>• Impact of and successful implementation of change management |
| **Operational** | |
| Risks arising from the internal operations of the Group, its manufacturing sites, people and systems | • Health & Safety<br>• Product quality and safety issues resulting in recalls, reputational damage<br>• Damage and disruption to sites, e.g. fire or flood<br>• Dependency on IT systems<br>• Project execution<br>• Failure of controls and delegated authority<br>• Employee relations |
| **Financial** | |
| Risks arising from the Group financial strategy, financing arrangements, funding and hedging | • Leverage<br>• Liquidity<br>• Interest rate swaps<br>• Currency exchange fluctuations<br>• Pension scheme funding and investment strategy |

| Mitigation | Development | Further information | Trend |
|---|---|---|---|
| | | | |
| • Broad portfolio of brands<br>• Group operates over 15 food categories<br>• Staple food products<br>• Wide customer base<br>• Ability to pass on increased input costs to customers<br>• Engagement with industry bodies on issues relating to food industry<br>• Monitoring of developments in regulatory environment<br>• Group Risk Management process | • Continuing adverse economic conditions<br>• Slowdown in markets<br>• Increase in inflation in raw materials and other input costs<br>• Increase in VAT<br>• New food regulations | • Chairman's statement<br>• Chief Executive's statement<br>• Our markets | **Up** |
| | | | |
| • Largest ambient grocery producer in the UK<br>• Focus on UK market<br>• Scale of business to develop relationships with customers<br>• Focus on consumer insight and UK consumer trends<br>• Product development and innovation<br>• Building contingency and holding stock<br>• Centralised procurement team<br>• Long term relationships with suppliers<br>• Regular review of size and availability of supply and where necessary contingency arrangements<br>• Long term relationships and agreements with licensees<br>• Active management of trade mark and patent portfolio | • Consolidation of customers base<br>• New innovation process<br>• Increase in promotional spend<br>• Registration of trade marks<br>• Renewal of third party trade mark licences | • Chief Executive's statement<br>• Our markets | **Level** |
| | | | |
| • Regular review of strategy by Board and Group Executive<br>• Review of major trends in food industry<br>• Review of performance against strategy, KPIs and forecasts<br>• Formal schedule of delegated authorities<br>• Group Risk Management process | • Annual Board review of Group strategy<br>• Regular Board reviews of brand strategy<br>• Group organisation restructuring | • Chairman's statement<br>• Chief Executive's statement | **Level** |
| | | | |
| • Food quality and safety embedded in Quality Management System<br>• Commitment to Health & Safety<br>• Whistle-blowing policy with external confidential call line<br>• Regular monitoring and review by management<br>• Project management tools<br>• Track record of successful project management<br>• Business continuity and disaster recovery plans<br>• Good communications with employees<br>• Group Risk Management process | • Successful completion of Grocery rationalisation<br>• Major capex projects<br>• Closure of final salary pension scheme<br>• Significant process and systems change programmes | • CSR<br>• Workplace | **Level** |
| | | | |
| • Board and Finance committee regularly reviews the Group's level of debt and liquidity levels<br>• Treasury Committee<br>• Interest rate swaps<br>• Selective use of currency hedging<br>• Regular review of Group treasury policy<br>• Regular review of pension fund deficit and investment strategy and performance | • Review of overall financial strategy<br>• Restructuring of swap portfolio<br>• Formal credit rating obtained<br>• Review of Pension fund investment strategy<br>• Debt reduction<br>• Business disposals | • Chairman's statement<br>• Operating and Financial reviews | **Down** |

# **Executive** directors.

## **Robert Schofield** (Aged 59)
Chief Executive Officer

Date of appointment: January 2002

Experience
Robert joined the Group in 2001 taking responsibility for its branded business. He was appointed Chief Executive Officer in January 2002. Robert has extensive manufacturing and operational experience gained at United Biscuits plc where he ultimately served as Managing Director of United Biscuits UK, directing both the McVities and KP Foods businesses. Previously he spent eight years with Nestlé International in the Far East. Robert served as Chairman of Burton's Foods Group Ltd between 2003 and 2005. He graduated from the University of East Anglia and completed postgraduate studies at IMD in Switzerland in 1994.

Other appointments
Robert currently has no external appointments.

Committee appointments
Robert is a member of the Finance Committee and regularly attends meetings of the other Board committees by invitation.

Board contribution
As Chief Executive Officer, Robert is responsible for formulating the Group's objectives and strategy for approval by the Board. Working with the CFO he sets the annual budget and medium-term plan and is responsible for reporting performance against plan to the Board. Robert also plays a key role in identifying and executing acquisitions and disposals.

## **Jim Smart** (Aged 51)
Chief Financial Officer

Date of appointment: October 2009

Experience
Prior to joining the Group, Jim served as Chief Financial Officer of Friends Provident plc between 2006 and 2008 and before that was Chief Financial Officer at Alliance Boots plc. Jim started his career at Abbey National plc where he spent 15 years holding a number of senior finance and operational roles including Group Financial Controller, Group Personnel and HR Director and Corporate Resources Director. He was trained as an Accountant with Coopers & Lybrand and is a Member of the Chartered Institute of Public Finance & Accountancy, the Chartered Association of Certified Accountants and holds an MBA.

Other appointments
Jim was previously a non-executive director of F&C Asset Management plc.

Committee appointments
Jim is a member of the Finance Committee and attends meetings of the Audit Committee by invitation.

Board contribution
Jim 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. Since joining the Group, Jim has undertaken a review of the financial strategy of the Group. This has resulted in the successful restructuring of the Group's swap portfolio and the obtaining of a credit rating.

## **Tim Kelly** (Aged 53)
Chief Operating Officer

Date of appointment: October 2008

Experience
Tim joined the Group in March 2007 following the Company's acquisition of RHM plc, where he was Chief Operating Officer, Cakes & Customer Partnerships. In December 2007 he assumed additional responsibility for the Group's Hovis division and in January 2011 took on the new role of Chief Operating Officer which combines all of the brands and commercial operations within both the Grocery and Hovis divisions. Tim originally joined RHM in 2002 and prior to that served as Chief Operating Officer at Constellation Brands, Inc. He previously held a number of senior marketing and sales roles at Diageo plc and Coca-Cola Schweppes Beverages Ltd.

Other appointments
Tim was until December 2010 a non-executive director and Remuneration Committee Chairman of CPP Group plc.

Committee appointments
Tim regularly attends Board committee meetings by invitation.

Board contribution
During the year Tim was responsible for the day-to-day operations of the Hovis and Chilled divisions including marketing and sales and for reporting progress on performance to the Board. Tim is undertaking a review of brand strategy for the Group following his appointment as Chief Operating Officer in January 2011.

## Committee Memberships:

Audit Committee
Ian McHoul (Chair)
David Beever
David Felwick

Remuneration Committee
Louise Makin (Chair)
David Beever
Ronnie Bell
David Felwick

Nomination Committee
Ronnie Bell (Chair)
David Beever
David Felwick
Ian McHoul
Louise Makin
Charles Miller Smith

Finance Committee
David Beever (Chair)
Ronnie Bell
Ian McHoul
Charles Miller Smith
Robert Schofield
Jim Smart

PREMIER FOODS

## **Suzanne Wise** (Aged 49)
General Counsel & Company Secretary

Date of appointment: January 2008

Experience
Suzanne joined the Group in January 2008. Ms Wise has extensive in-house legal experience gained within the listed company environment and joined the Company from Gallaher Group plc where she held the position of Group Head of Legal. Prior to Gallaher, she was solicitor in a private practice. Suzanne qualified as a solicitor with Lewis Silkin and was admitted to practice in 1987. She graduated from the University of East Anglia.

Suzanne also has responsibility for the internal audit, communications and CSR functions. She chairs the Risk Review Group and Policy Steering Group committees.

Other appointments
Suzanne currently has no external appointments.

Committee appointments
Suzanne is Secretary to the Board and its committees.

Board contribution
Suzanne's key responsibilities are to assist the Chairman with the management of the Board and to ensure that it operates in accordance with corporate governance best practice. As General Counsel Suzanne also provides legal advice on the key operational and strategic issues facing the Group.

# **Non-executive** directors.

## **Ronnie Bell** (Aged 60)
Non-executive Chairman

Date of appointment: October 2010

**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.

**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 appointments**
Ronnie chairs the Nomination Committee and is a member of the Finance and Remuneration committees.

**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.

## **Charles Miller Smith** (Aged 71)
Non-executive Deputy Chairman

Date of appointment: June 2009

**Experience**
Charles is a senior advisor 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 years of which he served as a Director of Finance. He held a wide range of financial and general management positions in the United Kingdom, 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.

**Other appointments**
Charles' other appointments include senior adviser to Deutsche Bank (RREEF Infrastructure) and to Defence Strategy & Solutions. Member of the international advisory council for Principal Financial in the USA and also Chairman of Firstsource Solutions UK Ltd.

**Committee appointments**
Charles was appointed as Deputy Chairman in October 2010 and is a member of the Finance and Nomination committees.

**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.

## **David Felwick CBE** (Aged 66)
Senior independent director

Date of appointment: July 2004

**Experience**
David served as Deputy Chairman and General Inspector of John Lewis Partnership plc between 2002 and 2004, having served as a Managing Director of Waitrose and Director for Trading (Food) for the John Lewis Partnership from 1991. He joined Waitrose in 1987 as Director of Selling having originally joined the John Lewis Partnership in 1982 as a Senior Management Trainee. Prior to that David was in the Royal Air Force, from which he retired as a Wing Commander. He was awarded a CBE for services to the retail industry in January 2004.

**Other appointments**
David previously served as Chairman of the British Retail Consortium, Product of the Year Ltd, and Leckford Estate Ltd. He is a Fellow of the Institute of Grocery Distribution.

**Committee appointments**
David is the Company's senior independent director and also a member of the Audit, Remuneration and Nomination committees.

**Board contribution**
David has significant marketing and commercial experience within the UK food industry. As senior independent director he has responsibility for meeting with the other non-executives to review the Chairman's performance and is available to shareholders to discuss their concerns. During the year David led the process for the selection of the Company's new Chairman. David will step down as a director at the AGM in 2011.

## **David Beever** (Aged 69)
Non-executive director

Date of appointment: January 2008

**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 has been 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.

**Other appointments**
David is currently Deputy Chairman of Royal Holloway College and a Member of the Board of Trustees, University of London.

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

**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. During the year the Finance Committee has reviewed the Group's financial strategy, swap portfolio and pension investment strategy. David will be appointed as senior independent director following David Felwick's retirement in April 2011.

## **Ian McHoul** (Aged 51)
Non-executive director

Date of appointment: July 2004

**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 and holding the position of Finance Director from 2001. Ian qualified as a Chartered Accountant with KPMG in 1985.

**Other appointments**
Ian currently has no other appointments.

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

**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.

## **Dr Louise Makin** (Aged 50)
Non-executive director

Date of appointment: October 2006

**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 and a PhD in Metallurgy from the University of Cambridge, and an MBA.

**Other appointments**
Louise currently has no other appointments.

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

**Board contribution**
Louise has significant commercial and management expertise within the Healthcare industry. She chairs the Remuneration Committee which over the year has reviewed and approved a major review of executive remuneration involving consultation with shareholders and investor bodies.

# **Group** Executive.

## **Brian Carlton** (Aged 54)
### Group HR Director

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.

## **Mark Hughes** (Aged 50)
### Group Procurement Director

Experience:
Mark joined Premier Foods and the Group Executive in 2007 following the acquisition of RHM. Mark Hughes 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 over £1.5bn of spend on ingredients, packaging, energy, machinery, facilities, engineering, marketing and all corporate spend. These 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.

## **Bob Spooner** (Aged 56)
### Group Operations Director

Experience:
Bob joined Premier Foods and the Group Executive in April 2007. 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 responsibility for operations strategy for the Group including line management responsibility for all manufacturing, logistics, health and safety, Group engineering and environmental management.

## **Paul Kitchener** (Aged 55)
### Group Technical and Innovation Director

Experience:
Paul joined Premier Foods and the Group Executive in September 2010 as Group Technical and Innovation Director. Paul has extensive operational and commercial experience within the UK Food Industry and was previously Chief Executive of Burtons Biscuits. Prior to this Paul was UK Chief Executive of Brakes Foodservice and before that he held a number of senior supply chain roles within United Biscuits.

Key responsibilities:
These include managing all food safety, regulatory and compliance testing as well as factory and supplier audits; leading the new product development technical teams; and developing and embedding the Group innovation process.

## **Ian York** (Aged 51)
### Group Sales Director

Experience:
Ian joined Premier Foods in 1994 as General Sales Manager for the Canned Foods division. He now has responsibility for all UK sales activities throughout the business having been appointed Group Sales Director in 2001. Previously, Ian held a variety of positions in the UK grocery market with Quaker Oats Ltd, Associated British Foods plc and Blue Crest.

Key responsibilities:
These include responsibility for 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.

## **Mark Vickery** (Aged 56)
### Group IS & Change Director

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 operational services and projects to the Group; programme director for the major system and change programmes in the business; and leading approaches change and project management for the Group.

## **Jon Goldstone** (Aged 43)
### Group Marketing Director

Experience:
Jon was appointed Group Marketing Director in January 2011. Prior to this Jon was Marketing Director for the Hovis division having joined Premier Foods in 2008. Prior to this he was with PepsiCo UK where he was Marketing VP for the Walkers Snacks business.

Key responsibilities:
These included responsibility for setting group marketing strategy, improving marketing process and capability and ensuring excellence in marketing execution.

PREMIER FOODS

## Directors' report

The directors present their report and audited financial statements of the Group for the year ended 31 December 2010.

### Business review

A review of the Group's business, activities, performance during the year, financial position at the end of the year and an indication of the likely future developments of the business are provided in the following sections of the annual report and are incorporated in this directors' report by reference:

- Our business (pages 1 to 17);
- Business review (pages 18 to 47);
- Environmental, employee, social and community issues (pages 36 to 43);
- Risk management and risk factors (pages 44 to 47); and
- Group key performance indicators (KPIs) (pages 18 to 19).

The corporate governance report forms part of this report and is incorporated into it by reference.

### Principal activities

Premier Foods plc (5160050) is a public limited company incorporated in England and Wales with its registered office at Premier House, Centrium Business Park, Griffiths Way, St Albans, Hertfordshire, AL1 2RE. The principal activities of the Group are food manufacturing, processing and distribution. Further information can be found within the overview of our business on pages 1 to 17.

### Financial statements

The audited financial statements are presented on pages 74 to 125.

### Profit and dividends

The results of the Group for the year are set out in the consolidated income statement on page 76. The loss on ordinary activities before tax for the year ended 31 December 2010 was £98.3m (2009: £41.8m profit). The directors do not recommend the payment of a dividend for the year ended 31 December 2010 (2009: £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 cost and to improve service to customers. Research and development costs of £10.6m (2009: £3.7m) were incurred in continuing operations during the year.

### Land and buildings

The directors are of the opinion that there is no significant difference between the book and market value of the land and buildings of the Group.

### Political donations

No political donations were made during the year (2009: £nil). The Group has a policy of not making donations to political organisations, independent election candidates or incurring political expenditure as defined in the Political Parties, Elections and Referendums Act 2000.

### Charitable donations

During the year the Group made charitable donations to the following charities: the Royal British Legion (£101,088) and the National Grocer Benevolent Fund (£20,000). Total charitable donations during the year amounted to £166,555 (2009: £167,000). Further information on charitable giving can be found on page 43.

### Directors and directors' interests

Biographies of the current directors are found on pages 48 to 49. Details of the directors who resigned within the year can be found on page 54.

Details of the directors' interests in the share capital of the Company as at 31 December 2010 are set out within the remuneration report on pages 69 to 71.

### Statement of directors' responsibilities for the annual report

The directors are responsible for preparing the annual report, the 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 (IFRS) as adopted by the EU and the parent company financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice (UKGAAP). 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 Company and the Group and of the profit or loss for that period.

In preparing those 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 applicable IFRS as adopted by the EU have been followed in the Group financial statements and whether applicable accounting standards have been followed in the Company financial statements, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the Group and Company financial statements on a going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's and 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 remuneration report comply with the Companies Act 2006 (the Act) 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.

The directors are responsible for the maintenance and integrity of the Company's website (www.premierfoods.co.uk). It should be noted that legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

### Directors' statement pursuant to the Disclosure and Transparency Rules

Each of the directors, whose names and functions are listed on pages 48 to 49, confirms that, to the best of each person's knowledge and belief:

- The Group financial statements, prepared in accordance with IFRS as adopted by the EU, and the Company financial statements, prepared in accordance with UK GAAP, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group and the Company; and
- The business review section in the annual report contains a fair review of the development and performance of the business and the position of the Group and the Company, together with a description of the principal risks and uncertainties they face.

### Auditors and the disclosure of information to auditors

The 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.

### 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 Company's website.

As at 7 March 2011, the Company has been notified (in accordance with DTRs) of the following interests of 3% or more in the ordinary shares of the Company:

| Shareholder | Ordinary shares | % of issued capital | Nature of holding |
|---|---|---|---|
| Warburg Pincus LLC | 378,847,258 | 15.84% | Indirect |
| Franklin Resources Inc | 282,830,605 | 11.79% | Indirect |
| Paulson Europe LLP | 269,049,683 | 11.22% | Indirect |
| AXA SA | 116,326,874 | 4.85% | Indirect |
| Legal & General Investment Management | 90,236,848 | 3.76% | Indirect |

### Share capital and control

The Company's ordinary shares are listed on the London Stock Exchange. All of the ordinary shares rank equally with respect to voting rights and the rights to receive dividends.

The holders of ordinary shares are entitled, amongst other rights, to receive the Company's annual reports and accounts; to attend and speak at general meetings of the Company; to appoint proxies; and to exercise voting rights. 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. No shares in issue have any special rights, including in respect of voting, dividends or distributions on a winding-up.

The Group has two offshore and one UK employee benefit trusts which are discretionary trusts for the benefit of Group employees. As at 31 December 2010 these trusts held 1,159,956 shares. The voting rights in respect of the shares held in these trusts are exercisable by the trustees. There are no known agreements or restrictions on share transfers or on voting rights other than as disclosed in contractual relationships below. Shares acquired through Company share schemes and plans rank *pari passu* with the shares in issue and have no special rights. The directors of the Company have general powers to manage its affairs in accordance with the Company's articles of association (the Articles) and applicable legislation.

At the AGM 2010 shareholders authorised the directors to make market purchases of ordinary shares. Any ordinary shares so purchased may be cancelled or held in treasury. This authority will expire at the conclusion of the AGM 2011 at which further authority will be sought. No share purchases were made during the year.

Changes to the Articles must be approved by the shareholders in accordance with the legislation in force from time to time.

Directors may be appointed or removed in accordance with the legislation in force from time to time, the relevant provisions of the Articles and as disclosed in contractual relationships below.

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 and plans may cause options and awards granted under such schemes and plans to vest.

## Contractual relationships

The Group has contractual arrangements with many parties including directors, employees, suppliers, customers, trade mark owners and banking groups. The following are considered significant in terms of their effect on the business of the Group as a whole.

The Group has a Term and Revolving Facilities Agreement originally for £2.1bn entered into in 2006 and a Receivables Purchasing Agreement and guarantee dated 30 December 2007.

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.

The Group entered into a Pensions Framework Agreement with the trustees of Premier's UK Defined Benefit Plans on 5 March 2009.

The Group has a licence for certain Cadbury's trade marks in connection with ambient packaged cakes and baking mixes for a period to expire not earlier than mid 2013. The Group also has an exclusive worldwide licence to use the Loyd Grossman name on sauces, oils and dressings, accompaniments, toppings and marinades for a term lasting until 2026.

These agreements include change of control provisions which in the event of a change of control could result in the agreements being renegotiated or terminated.

On 24 January 2011, the Company 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 £205m, 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 Company and Exponent have entered into an agreement for certain transitional services to be provided by the Group to the Exponent Group, and vice versa, for a period following closing.

On 7 February 2011, the Company 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 and subject to adjustments in respect of stock and a normalised level of debtors and creditors. Closing is conditional upon obtaining shareholder consent and antitrust/competition clearance. As part of the disposal the Company and Princes have entered into an agreement for certain transitional services to be provided by the Group to the Princes Group, and vice versa, for a period following closing.

## Employment policies

A summary of the Group's employment policies and the actions to involve employees is set out on pages 40 to 43.

## Health and safety policy

A summary of the Group's health and safety policy, risks and controls and actions taken is set out on pages 40 to 42.

## Creditor payment policy

The Company had no amounts owing to trade creditors at 31 December 2010 (2009: £nil). The Group's creditor days outstanding at 31 December 2010 were 68.8 days (2009: 64.0 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 Company's website (www.premierfoods.co.uk). Payment terms for purchases under major contracts are agreed as part of the contract negotiations.

## 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.

## Post-balance sheet events

Details of post-balance sheet events are set out in note 32 of the Group financial statements.

## Independent auditors

PricewaterhouseCoopers LLP (PwC) has indicated its willingness to continue as auditors; accordingly, the reappointment of PwC and the setting of their remuneration will be proposed at the AGM 2011.

## Going concern

The directors are satisfied that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt a going concern basis in preparing the accounts.

## AGM 2011

The AGM of the Company will be held at Haberdashers' Hall, 18 West Smithfield, London, EC1A 9HQ on 28 April 2011 at 10.00 am. The Notice convening the AGM will be issued separately, together with details of the business to be considered and full explanations of each resolution that is being proposed.

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 AGM 2010.

By order of the Board

**Suzanne Wise**
General Counsel & Company Secretary
7 March 2011

## Corporate governance report

We are the UK's largest ambient grocery producer; manufacturing, distributing and selling branded and non-branded food to the UK market. We strive for best practice in corporate governance to ensure this area reflects our position in the UK food industry. We believe in fairness and transparency in governance and in maintaining the highest ethical standards in all our business dealings.

The following corporate governance report forms part of the directors' report and is incorporated into it by reference. This report shows how the Group has applied the principles of good corporate governance as set out in section 1 of the 2008 Combined Code on Corporate Governance (the Code), which is available on the FRC's website. Except in relation to the temporary fall in membership levels on the remuneration committee (explained on page 63, footnote 4), the Company complied with all the provisions of the Code. This year we have decided to align this Report with the themes found in the Code:

- Leadership (pages 54 to 55)
- Effectiveness (pages 55 to 60)
- Accountability (page 60)
- Communication (page 61)
- Remuneration (found in the remuneration report on pages 62 to 72)

### LEADERSHIP

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

**A.** The most significant change in the year has been the appointment of Ronnie Bell as non-executive Chairman following the retirement of David Kappler in September 2010. An overview of all the directors who held office during the year is set out below:

| Director | Designation |
|---|---|
| Ronnie Bell | Non-executive Chairman |
| Charles Miller Smith | Non-executive Deputy Chairman |
| Robert Schofield | Chief Executive Officer |
| Jim Smart | Chief Financial Officer |
| Tim Kelly | Chief Operating Officer |
| David Beever | Independent non-executive director |
| David Felwick | Senior independent director |
| Louise Makin | Independent non-executive director |
| Ian McHoul | Independent non-executive director |
| David Kappler[1] | Non-executive Chairman |
| Christine Cross[2] | Independent non-executive director |

[1] Retired as a director on 30 September 2010.
[2] Retired as a director on 31 January 2010.

### Q. How is the Board structured?

**A.** On 31 December 2010 the Board consisted of a non-executive Chairman, three executive directors and five non-executive directors. In accordance with the Code separate individuals held the office of Chairman and Chief Executive Officer. Following his retirement David Kappler was retained on a three month consultancy contract to assist with the handover process to Ronnie Bell. At the AGM 2011 Ronnie Bell, Robert Schofield, David Beever and David Wild (appointed on 7 March 2011) will seek re-election. David Felwick will be stepping down at the AGM 2011.

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 covering marketing, sales, commercial, retail, corporate finance, general finance and corporate governance. The Board considers that the non-executive directors, with the exception of Charles Miller Smith (as noted below), are independent in character and judgement.

Under the terms of the Relationship Agreement between the Company and Warburg Pincus, Charles Milller Smith, a senior adviser to Warburg Pincus LLC, 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 the Board.

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 their service contract.

Biographies of the current directors and members of the Group Executive are provided on pages 48 to 50. Biographies of those directors seeking re-election at the forthcoming AGM 2011 can also be found in the Notice of AGM.

Details of the directors' service contracts, letters of appointment, emoluments, directors' interests and beneficial interests in Company shares and share options are found in the remuneration report on pages 62 to 72.

### Q. What are the Board's responsibilities?

**A.** The Board has an agreed schedule of matters reserved to it; these include:

- 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.

The Board delegates to the Group Executive responsibility for overseeing the implementation of the Group's policies and strategy.

## Q. What are the Chief Executive Officer's responsibilities?

**A.** Robert Schofield is responsible for the executive management of the Group and for ensuring the implementation of Board strategy and policy within the approved budgets and timescales. Jim Smart, Tim Kelly and the Group Executive (who head up the Group's principal operations and functions) assist Robert Schofield in meeting his responsibilities.

## Q. What are the Chairman's responsibilities?

**A.** The Chairman's responsibilities are primarily the leadership of the Board and ensuring its effectiveness. This is achieved by:

- Chairing Board meetings; setting the agendas in consultation with the Chief Executive Officer 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 Chief Executive Officer by providing support and advice whilst respecting executive responsibility; and
- Periodically holding meetings with the non-executive directors without the executive directors present.

## Q. Does the Chairman hold any other appointments?

**A.** Ronnie Bell is the non-executive Chairman of Milk Link Ltd and a director of The Edrington Group Ltd.

## Q. Does the Company arrange new director inductions?

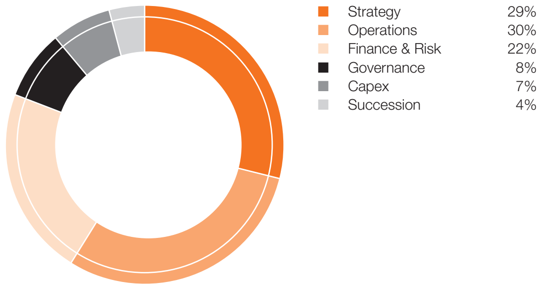
**A.** Yes, all directors receive an induction on joining the Board, covering their duties and responsibilities as directors. Non-executive directors also receive a full briefing document on all areas of the Company's business and they may request such further information as they consider necessary.

## Q. Does the Company have insurance to cover the directors?

**A.** Yes, the Company purchases directors' and officers' liability and indemnity insurance. 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?

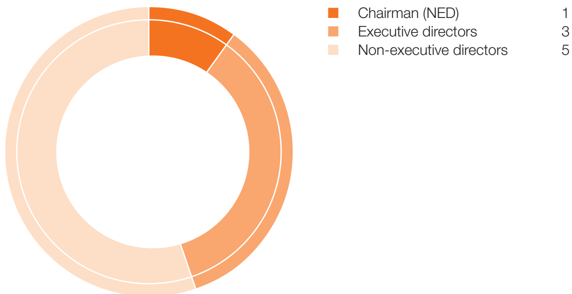
**A.** Below is a chart which summarises the approximate time the Board has spent discussing agenda items during the year to 31 December 2010:




## EFFECTIVENESS

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

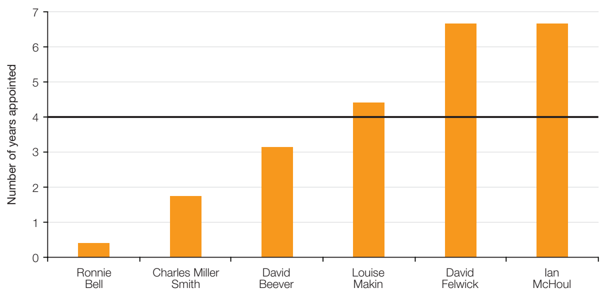
**A.** The directors believe that there should be an appropriate combination of executive and non-executive directors on the Board. The Code states that at least half the Board (excluding the Chairman) should comprise non-executive directors. The current mix of directors is shown below (excluding David Wild, appointed on 7 March 2011).




## 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 of length of service to ensure independent judgement and also an appropriate level of skills and experience. 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 four years.

In addition, shareholders must approve the reappointment of the directors and accordingly at each AGM one-third of the directors (rounded down) will retire by rotation and be eligible for re-election. The directors to retire will be those who wish to retire and those who have served on the Board the longest since their last appointment or reappointment. Under the Current Articles every director must offer themselves for re-election every three years.




Governance

### Q. Has the Company adopted the UK Corporate Governance Code's recommendations for the annual re-election of directors?

**A.** During the year the Company discussed its policy on the re-election of directors following the recommendations of the code. The Company is reviewing market practice in this area and intends to comply with the code requirements and adopt annual re-election with effect from the AGM 2012. During the transitional period re-election will continue to be governed by the Company's Articles.

### 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 Company Secretary. If any director were to have a concern over any unresolved business issue they are entitled to require the Company Secretary to minute that concern. Should they later resign over this issue the Chairman would bring these concerns to the attention of the Board.

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

#### Board and individual performance

Annually the Board carries out a performance review which measures its performance and that of its committees. It is the policy of the Board to conduct an external Board evaluation every three years. In 2009 an independent external review was conducted by Boardroom Review which involved one-to-one meetings with the Board and attendance at Board and committee meetings.

For 2010 the review was carried out by way of a questionnaire and the findings of this review will be presented to the Board in March 2011. Where possible the recommendations will be incorporated into the operation and practices of the Board and its committees. In addition, the Chairman carries out a performance review of each director on an annual basis. Appraisals are conducted by the Chairman for the Chief Executive Officer and by the Senior Independent Director (following discussions with the other non-executive directors) for the Chairman.

### Q. How frequently did the Board and committees meet in 2010?

**A.** The Board held 11 scheduled meeting in the year and in addition four meetings were convened for specific business. Meetings are usually held at the Company's head office in St Albans; however, twice a year the Board visits the Group's operating facilities to see the business in action and hold their meetings. Details of the attendance at scheduled Board and committee meetings of all directors who held office during 2010 are set out below:

| Director | Group Board | Audit Committee | Finance Committee | Nomination Committee | Remuneration Committee |
|---|---|---|---|---|---|
| Ronnie Bell[1] | 3/3 | 2/2[2] | 1/1 | 1/1 | 1/1[2,4] |
| Robert Schofield | 11/11 | 4/4[2] | 4/4 | 2/2[2] | 4/4[2] |
| Jim Smart | 11/11 | 4/4[2] | 4/4 | 2/2[2] | 1/1[2] |
| Tim Kelly | 11/11 | 4/4[2] | 1/1[2] | 2/2[2] | – |
| David Beever | 11/11 | 4/4 | 4/4 | 2/2 | 3/3[2,4] |
| David Felwick | 11/11 | 4/4 | 1/1[2] | 2/2 | 4/4 |
| Louise Makin | 11/11 | 4/4[2] | 1/1[2] | 2/2 | 4/4 |
| Ian McHoul | 11/11 | 4/4 | 4/4 | 2/2 | – |
| Charles Miller Smith | 11/11 | 3/3[2] | 4/4 | 2/2 | 2/2[2] |
| David Kappler[1] | 10/10 | 3/3[2] | 3/3 | 2/2 | 4/4[2] |
| Christine Cross[3] | 2/2 | – | – | – | 1/1 |

1 Ronnie Bell was appointed non-executive Chairman on 1 October 2010. David Kappler retired on 30 September 2010.
2 Denotes attendance by invitation.
3 Retired as a director on 31 January 2010.
4 No meetings have been held since their appointment to the remuneration committee on 25 November 2010.

## 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.

Each committee has its own terms of reference which are compliant with the Code and sets out its duties and responsibilities. Copies of these terms of reference are available on the Company's website (www.premierfoods.co.uk).

# Audit Committee.

**The Committee has responsibility for reviewing the effectiveness of the Group's financial reporting system 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 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 Company's website.**

## Q. Who is on the Committee?

| Committee member | Position | Comments |
|---|---|---|
| Ian McHoul | Chairman | Independent NED |
| David Beever | Member | Independent NED |
| David Felwick | Member | Senior independent director |

Both Ian McHoul and David Beever have recent and relevant financial experience, Ian McHoul as the Chief Financial Officer 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 met with the internal and external auditors twice in the year without the presence of management. During the year the Committee was convened on two further occasions to deal with specific business. Attendance at the scheduled meetings is shown in the table on page 56.

## 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 Company's internal controls and risk management systems;
- Review and update the whistle-blowing arrangements;
- Monitor and review the effectiveness of the Company's internal audit function, including the approval of any appointment or removal of the head of the internal audit function;
- Consider and make recommendations to the Board on the appointment, reappointment and removal of external auditors including the setting of their remuneration; and
- Review the external auditors' independence which includes reviewing the impact of any non-audit services provided by the Group's external auditors to the Board.

## 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 Company has with PwC and for the year ended 31 December 2010 the Committee considered that the relationship was working well and remains satisfied with their effectiveness. 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. There are no contractual obligations restricting the Company's choice of external auditors. At the AGM 2011 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 were employed to complete a number of projects as part of the Group's review of financing arrangements, most notably in connection with obtaining a formal credit rating and the restructuring of the Group's swap portfolio. Fees incurred during the year in relation to this work amounted to £1.2m.

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. In the case of work carried out during the year 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 likely cost.

The Committee is aware of the investor guidelines in respect of non-audit fees and has agreed with management to bring the levels of non-audit fees down in subsequent years.

### 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;
- Considered the external auditors' report for the year ended 31 December 2009 and reappointed the external auditors;
- 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;
- Reviewed the non-audit services spend policy and approved the engagement of PwC as an adviser in relation to certain internal projects;
- Approved the Company's risk management policy and key business risks; and
- Reviewed the Group's whistle-blowing service.

**Ian McHoul**
Chairman of the Audit Committee

## Finance Committee.

**The Committee is responsible for reviewing the Group's financial strategy and approving any changes to this strategy, it oversees 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 Company's website.**

### Q. Who is on the Committee?

| Committee member | Position | Comments |
|---|---|---|
| David Beever | Chairman | Independent NED |
| Ian McHoul | Member | Independent NED |
| Ronnie Bell | Member | Chairman (NED) |
| Charles Miller Smith | Member | Deputy Chairman (NED) |
| Robert Schofield | Member | Chief Executive Officer |
| Jim Smart | Member | Chief Financial Officer |
| Paul Leach | Member | Group Treasurer |

### Q. How many meetings were held during the year?

**A.** The Committee held four scheduled meeting in the year and additionally was convened on one further occasion for specific business. Attendance at the meetings is shown in the table on page 56.

### 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 Company's Treasury Committee and Treasury Risk Management Committee;
- Review the investment strategy and funding levels of the Group's pensions schemes;
- Review the Company's financial policy and strategy; and
- Monitor the Company'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 Company's financial strategy including the Group's swap arrangements and sources of funding;
- Reviewed the investments strategy of the Group's pension schemes in order to reduce risk;
- Approved amendments to the Group's Treasury Policy; and
- Reviewed the Group's directors' and officers' insurance cover.

**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 Company's website.**

**Q. Who is on the Committee?**

| Committee member | Position | Comments |
|---|---|---|
| Ronnie Bell | Chairman | Chairman (NED) |
| David Beever | Member | Independent NED |
| David Felwick | Member | Senior independent director |
| Ian McHoul | Member | Independent NED |
| Louise Makin | Member | Independent NED |
| Charles Miller Smith | Member | Deputy Chairman (NED) |

**Q. How many meetings were held during the year?**

**A.** The Committee held two scheduled meetings in the year and additionally was convened on six further occasions for specific business. Attendance at the meetings is shown in the table on page 56.

**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 Company and what skills and expertise would benefit the Board in the future; and
- Regularly review the structure, size and composition of the Board and make recommendations to the Board regarding changes.

**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 non-executive Chairman under the leadership of the Company's Senior independent director;
- Approved the appointment of Charles Miller Smith as Deputy Chairman;
- Approved the directors for reappointment at the AGM 2010;
- Undertook an annual review of the composition and expertise of the Board;
- Undertook a selection process to appoint an additional non-executive director to the Board;
- Reviewed the Group Executive performance appraisals; and
- Reviewed and approved proposals for a new Group management structure.

**Ronnie Bell**
Chairman of the Nomination Committee

# Remuneration Committee.

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

**The Committee's terms of reference are available on the Company's website.**

### Q. Who is on the Committee?

| Committee Member | Position | Comments |
|---|---|---|
| Louise Makin | Chairman | Independent NED |
| David Beever | Member | Independent NED |
| Ronnie Bell | Member | Chairman (NED) |
| David Felwick | Member | Senior independent director |

Information on the activities of the Remuneration Committee is set out in the remuneration report on pages 62 to 72.

**Louise Makin**
Chairman of the Remuneration Committee

## ACCOUNTABILITY

### Q. How does the Board ensure internal controls are effective?

**A.** The Board conducts an annual review of the Group's systems of internal control and their effectiveness in accordance with the Turnbull guidance. 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 controls and risk management systems in place throughout the year under review and 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.

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.

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

**A.** The internal control systems principally provide 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 systems are designed to manage rather than to eliminate risk and provide reasonable but not absolute assurance against material misstatement or loss. The system also supports management's decision-making, improves the reliability of business performance, and assists in the preparation of the Company's consolidated accounts.

### Q. How does the Company's internal audit programme work?

**A.** Each year the Audit Committee meets to discuss and approve the nature and scope of the 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. Occasionally additional audits are added to the schedule in circumstances such as the acquisition or disposal of a business or any other significant business development.

In addition, the completion of comprehensive internal control self assessment questionnaires are required from senior business managers within each business unit. These self assessment questionnaires are designed to ensure that any material control breakdowns are highlighted and the operation of internal controls are addressed within their respective business units. 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 the Group Executive prior to formal review by the Audit Committee.

Further information on risk management and risk factors can be found on pages 46 to 47.

## COMMUNICATION

### Q. How does the Company engage with shareholders?

**A.** The primary 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 Company.

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 Company's half year and year end results presentations are made to analysts and major shareholders to update them on the progress the Company has made towards its goals and invite them to ask questions.

Following the announcement of the Company's trading updates and interim management statements conference calls take place with analysts and major shareholders to update them on Company progress. Full reports on all shareholder presentations are available on the Group's website (www.premierfoods.co.uk). The website also contains all London Stock Exchange announcements released to the market.

The Chief Executive Officer and Chief Financial Officer are also available to meet with shareholders during the year. The Chairman, Deputy Chairman and Senior independent director are available to discuss the issues and concerns of shareholders and welcome questions posed to the Board and committees.

### 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 movements and analyst reports.

### Q. What happens at the AGM?

**A.** 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 shareholders receive the Notice of AGM, a copy of this Report (if they request a copy in writing) and a Form of Proxy.

The Notice of AGM sets out the proposed resolutions and a brief synopsis of each. 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 Company's website after the AGM.

## TAKEOVER DIRECTIVE

Information on the impact to the Company as required by the Takeover Directive is given in the directors' report (see page 53) and forms part of this corporate governance report.

## REMUNERATION

Details on remuneration are found in the remuneration report on pages 62 to 72.

**Ronnie Bell**
Chairman

# Directors' remuneration report

## PART 1: UNAUDITED INFORMATION

This report, prepared by the Remuneration Committee (the Committee) on behalf of the Board, has been prepared pursuant to Schedule 8 of the Large and Medium Sized Companies and Groups (Accounts and Reports) Regulations 2008 and the Listing Rules issued by the FSA.

### Dear Shareholders

This year the Remuneration Committee has undertaken a full-scale review of our approach to remuneration. This is the first time the remuneration structure has been fully reviewed since 2007, and the external market and the goals of Premier Foods have clearly changed over the past four years.

Although remuneration serves various functions such as attracting and retaining key talent, we approached the review with the intention that the outputs should be primarily driven by our corporate strategy. You will see that we have not looked to increase overall levels of variable pay as part of this review.

As stated elsewhere in the annual report, our current corporate priorities are:

- Growing our branded sales faster than their respective markets by strengthening our brands;
- Gaining a competitive advantage by utilising our consumer insight to deliver value to customers;
- Delivering efficiency benefits such that supply chain costs and overheads are held flat or decline while volumes grow; and
- Focusing on cash generation and debt reduction.

The combination of sales growth, improvements in margin and increasing trading profit will all help to reduce our debt levels, and this should ultimately be positive for shareholder value. As part of the review, our objective was to design a framework whereby management would be incentivised towards achieving these corporate goals.

Overall, we have looked to design a cohesive structure — a bonus plan linked to generating profit and cash flow, a deferred share bonus which is linked to branded sales volumes to increase our market share, and a long term plan which drives long term EPS growth and ultimately delivery of share price growth. Further details regarding the structure are set out in the remuneration report below.

In January 2011, the Committee carried out a consultation exercise with major shareholders and investor bodies and comments received as part of this exercise have been reflected in the proposals set out below. As part of the new arrangements the Company intends to seek shareholder approval for the new Long Term Incentive Plan at the AGM 2011.

This has undoubtedly been a busy year for the Remuneration Committee; however, we believe that the new remuneration structure will help to support the Company to successfully deliver its strategy over the short and longer term.

Louise Makin.

**Louise Makin**
Chairman of the Remuneration Committee

## THE COMMITTEE:

### Q. Who is on the Committee?

**A.** Below is a table identifying 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 their own terms and conditions of service or remuneration. Only independent, non-executive directors may become members of the Committee.

| Committee member | Position | Comments |
|---|---|---|
| Louise Makin | Chairman of the Committee | Independent NED |
| David Beever[1,4] | Member | Independent NED |
| Ronnie Bell[2,4] | Member | Chairman (NED) |
| David Felwick | Member | Senior independent director |
| Christine Cross[3] | Member | Independent NED |
| **Committee attendee** | **Position** | **Comments** |
| Robert Schofield | Chief Executive Officer | Attends by invitation |
| Brian Carlton | Group HR Director | Attends by invitation |
| Suzanne Wise | Company Secretary & General Counsel | Secretary to the Committee |
| Deloitte LLP (Deloitte) | — | Attend by invitation as the Committee's independent adviser |
| Hewitt New Bridge Street (HNBS) | — | Attend by invitation as the Company's adviser |

1 Appointed to the Committee on 25 November 2010.
2 Appointed to the Committee on 25 November 2010. Independent on appointment.
3 Retired from the Board on 31 January 2010
4 Following the retirement of Christine Cross, the number of Committee members temporarily fell below the recommended level of three. It was originally anticipated that an additional non-executive director would be appointed to the Board during the year, however this was postponed due to the appointment of the new Chairman and it was therefore agreed that David Beever and Ronnie Bell would be appointed in November 2010.

During the year the Committee held five meetings. Details of attendance at the meetings are shown in the attendance table on page 56.

### Q. Who advises the Committee?

**A.** Deloitte were appointed by the Committee as their retained advisers in 2005 and continue to provide advice to the Committee on matters relating to remuneration, including best practice. During the year Deloitte also provided tax and organisational consulting services to the Group. Additional advice in relation to remuneration was provided to the Company's senior management by HNBS.

### Q. What is the role of the Committee?

**A.** The Committee is committed 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 Combined Code on Corporate Governance and associated guidance.

The Committee has been delegated authority by the Board to:

- Determine and agree the remuneration strategy for executive directors and senior managers — it is vital to our business that we retain individuals and reward performance and contributions towards the success of the Company;
- Review and approve the remuneration packages for the Chairman, executive directors, Company Secretary and senior managers;
- Determine 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
- Review 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 full terms of reference for the Committee can be found on the Company's website (www.premierfoods.co.uk) or can be obtained from the Company Secretary.

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

**A.** During the year the Committee:

- Undertook a full-scale review of remuneration arrangements for senior executives, designed new incentive arrangements, and consulted with shareholders on the changes (a detailed summary of the proposed changes is set out below);
- Performed an annual review of executive directors' and senior managers' base salaries for 2010;
- Approved the 2010 awards under the CIP and LTIP;
- Reviewed and recommended executive directors' and senior executives' annual bonuses in respect of 2009 (including where appropriate deferral into the Deferred Bonus Scheme) and set the targets for the annual bonus in respect of 2010;

- Reviewed the performance outcome for CIP and LTIP awards granted in 2007;
- Carried out a review of executive director shareholding guidelines and achievement of these targets; and
- Granted awards for 2010 under the SAYE scheme, which included all eligible employees in the UK and Ireland.

## REMUNERATION POLICY

**Q. What is the overall remuneration policy?**

**A.** The broad policy of the Board and the Committee is to continue to set remuneration levels so as to attract and retain high calibre executives and to encourage and reward superior business performance.

Remuneration for executive directors is intended to reward against criteria that are relevant and realistic but also challenging, so that superior performance is encouraged. The remuneration policy is reviewed annually to ensure performance-related incentives, as well as annual salary, are supportive of operating objectives and conducive to delivery of shareholder value.

Our policy is 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. In relation to bonuses and long term incentive plans, the policy is to provide an opportunity for executives to earn more significant levels of total remuneration but only if stretching and demanding performance conditions are met.

The remuneration policy in place for senior executives is designed to complement the Company's overall corporate strategy and intended to place emphasis on delivery of key performance objectives. Executive directors should have sufficient focus on the long term performance of the Company and be aligned with the interests of shareholders and we are therefore committed to the use of equity-based performance-related schemes, and further encourage executives to build up meaningful shareholdings in the Company.

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 Company at large with the Chief Executive Officer.

During the year the Committee undertook a review of the remuneration arrangements for senior executives in the Group. The details of the arrangement are set out below. The revised remuneration arrangements remain consistent with the broad policy set out above.

**Q. Are there guidelines for executive directors to own shares in the Company?**

**A.** The Committee believes that shareholding guidelines can be an effective means of aligning directors' interests with those of shareholders. 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). Details of directors' shareholdings are set out on pages 69 to 71.

**Q. What is the balance between fixed and variable elements?**

**A.** Executive directors were remunerated through a combination of base salary, annual bonus, pension, benefits and share-based performance-related remuneration. The Committee believes that it is important for a significant proportion of their remuneration package to be performance-related.

At target performance around 57% of the package for executive directors is based on variable elements, increasing to around 71% where maximum targets are achieved. For the purpose of this comparison, fixed remuneration relates to base salary only, whilst the variable remuneration includes both annual bonuses and long term incentive arrangements.

## 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. Salaries for senior executives are generally reviewed annually and any changes take effect from 1 April, unless there is a significant change in role or areas of responsibility.

The Committee considers that the current salary levels are within an appropriate market range based on a review of salary levels prevalent amongst companies of a comparable revenue.

The Committee is sensitive to the pay and employment conditions elsewhere in the Group, especially when determining any base salary increases. Executive directors received no pay increases in 2010 (or in 2009 in respect of Robert Schofield). Where relevant, salary is the only pensionable component of remuneration. Bonuses are based on base pay i.e. excluding payments in lieu of pension.

| Name | Salary 2010 | Salary 2011 |
|---|---|---|
| Robert Schofield | £606,900 | £625,107 |
| Jim Smart | £430,000 | £442,900 |
| Tim Kelly | £352,275 | £399,357 |

Tim Kelly's salary was increased to £399,357 which recognised both his appointment as Chief Operating Officer with responsibility for both the Grocery and Hovis divisions with effect from 1 January 2011 and a 3% increase from 1 April 2011. All three executive directors will receive a 3% pay increase from 1 April 2011.

### Q. What pension benefits do the executive directors receive?

**A.** All pension figures are set out below in the audited section of the report. A brief overview of each director's benefits is detailed below:

#### 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 Premier Foods Pension Scheme (PFPS) for future service accrual. Instead he receives an allowance in lieu of pension accrual which increases in line with the increase in the PFPS "earnings cap". His benefit accrued up to 6 April 2006 continues to be linked to his final salary, subject to the PFPS "earnings cap". Robert Schofield has 80% of salary above the "earnings cap".

#### Jim Smart

Jim Smart receives an allowance in lieu of pension accrual, which increases in line with the increase in the PFPS "earnings cap". Jim Smart has 71% of salary above the "earnings cap".

#### Tim Kelly

Tim Kelly is a member of the RHM Pension Scheme (RHMPS) which is a funded, registered scheme that provides benefits on a defined benefit basis. Under the RHMPS he is entitled to pension at the rate of 1/25th of pensionable salary for each year of pensionable service. Pensionable salary for this purpose is subject to an "earnings cap" broadly related to that previously imposed by the Finance Act 1989. This pension is subject to certain restrictions set down in the Scheme Rules. In 2009 the Scheme restrictions applied and his accrual was restricted to 1/30th. The restrictions did not apply in 2010, so his accrual is 1/25th. He receives a salary supplement in lieu of receiving no pension in respect of these earnings above the "earnings cap". Tim Kelly has 65% of salary above the "earnings cap".

### 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, telecommunication services, relocation, memberships and an allowance for personal tax and financial planning.

## DIRECTOR REMUNERATION: VARIABLE PAY

During the year the Committee carried out a full review of all aspects of remuneration for the senior executive population which covers about 180 individuals. The main conclusion of this review was that the Company should have a new set of incentive arrangements for 2011 and future years, which better support the corporate strategy and are more effective from an HR perspective.

In January 2011, the Committee carried out a consultation exercise with major shareholders and investor bodies and comments received as part of this exercise have been reflected in the proposals set out below. As part of the new arrangements the Company intends to seek shareholder approval for a new Long Term Incentive Plan (new LTIP) at the AGM 2011.

#### Alignment of incentive arrangement with Group strategy

The proposals for the structure of 2011 incentives for the executive directors comprise four elements: annual cash bonus; deferred share bonus; new LTIP Performance Shares; and new LTIP Matching Shares. The driving factors behind the proposed changes are to improve line of sight so that executives can clearly see how their actions lead to their reward and to have incentives that have specific and clear goals, as described below:

- **Annual cash bonus** — This element will continue to be based on operational and individual performance targets.
- **New deferred share bonus (DSB)** — This award will be linked to a Group-wide strategic measure which for the 2011 financial year will be growth in sales volume of branded products. The awards will be deferred into shares to provide alignment with shareholders as well as enhance retention.
- **New LTIP** — Awards under this plan are made up of Performance Shares and Matching Shares. The new LTIP will initially be based on three-year adjusted EPS and absolute share growth targets for Performance Shares and Matching Shares respectively, which are aligned with the key areas of focus for shareholders.

The new structure is intended to support delivery of the corporate strategy and the proposals are not intended to increase overall levels of variable pay for executive directors. Award levels and participation below main Board level will be appropriately calibrated based on seniority. However, it is envisaged that the use of consistent metrics and targets across grades will harmonise areas of focus for the senior executive population as part of a unified remuneration strategy.

These proposals and the decision to seek shareholder approval for the new LTIP have been arrived at following a comprehensive review of remuneration. The proposed policy has the following key advantages:

- The new suite of incentives will be focused on the delivery of the corporate strategy;
- Participants will be provided with a more tangible and visible link between reward and performance which results in creation of shareholder value; and
- The structure and balance of incentives is also intended to be more conventional in nature and reflective of typical FTSE 350 market practices.

The proposed structure for 2011, performance conditions and their link to strategy are summarised in the table below:

| | Annual cash bonus | Deferred share bonus | New LTIP Performance Shares | New LTIP Matching Shares |
|---|---|---|---|---|
| **Target(s)** | Trading profit (60%), recurring cash flow (20%) and personal targets (20%) | Total volume sales of branded products growth | Adjusted earnings per share growth | For 2011, absolute share price growth (plus reinvested dividends) |
| **Underpins** | Quality of profit review; target recurring cash flow bonuses will have an affordability test; and personal bonuses require threshold profit to be attained | Growth in market share for total brands must be achieved for the bonus to become payable; the Group trading profit target must be met; and for a payout at levels above target the Committee retains a discretion to amend the payouts for reasons of affordability | Not considered necessary in light of wide and demanding range — see below | Remuneration Committee to be satisfied that the share price performance is reflective of the Company's underlying financial performance |
| **Reasons** | Trading profit is driven by sales and margin; cash flow repays debt | Clear link to the strategy of continuous improvement in the sales of branded products | Targets capture both improvements in the trading performance and the earning of cash to pay down debt and thus reduce interest charge | Same as for the performance shares, but also requires the Company's shares to be re-rated. Clear link to focus of the Company's largest shareholders |

## 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.

Performance targets for 2010 were set such that 60% of the bonus was based on the delivery of trading profit, 20% was linked to the year end debt figure and the remaining 20% linked to the achievement of personal performance targets.

The Committee believes the overall balance of the bonus plan has worked well and therefore, for 2011, the metrics and weightings for the bonus scheme will remain unchanged save that recurring cash flow will replace the target relating to the year end debt figure. The Committee believes that the combination of metrics are supportive of strategy since, trading profit is driven by sales and margin, while cash flow repays debt.

The annual cash bonus potentials for 2011 will remain at the 2010 level of 75% of salary for each of the executive directors.

In previous years, to help directors build up a significant shareholding in the Company, directors were provided with a facility to voluntarily defer a portion of the cash bonus into Company shares. Following the implementation of the DSB and long term incentive arrangements, it is not envisaged that any further deferrals will be made under this arrangement.

### Q. How will the DSB operate?

**A.** The DSB will operate alongside the cash annual 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 it is proposed that a target based on total volume sales of branded products growth is used, as it provides a clear link to the strategy of continuous improvement in the sales of branded products. For a deferred bonus to be payable the Group trading profit target must also be met. For above target payout the Committee shall also retain discretion to reduce the payouts for reasons of affordability.

For 2011 the maximum award to executive directors under this element will be 25% of salary.

In line with best practice, the Committee will also retain the ability to adjust unvested awards in the event that the Company's financial results for the relevant bonus year are found to have been materially misstated or if the basis for awards is found to have been made on inaccurate or misleading information.

## LONG TERM INCENTIVES

As noted above, during the year the Committee reviewed the structure of long term incentives. As a result of this review, it is proposed that a new long term incentive scheme will be implemented in 2011, and this plan will be presented to shareholders at the AGM 2011. Further details regarding the operational features of the new plan are set out in the Notice of AGM.

### Q. How will the new long term incentives be structured?

**A.** The awards under the new LTIP will have two elements:

- Performance Shares
- Matching Shares

Performance Shares will be based on adjusted EPS performance. The Matching Shares will require participants to make an investment into Company shares and will be based on absolute share price growth targets.

Under the rules of the new plan, the maximum grant of Performance Shares and Matching Shares will be 200% of salary. However these limits will not be utilised in the current year.

In respect of 2011, it is proposed that executive directors will be granted a Performance Share award of 75% of salary and will be allowed to invest up to 37.5% of salary in order to receive a maximum Matching Share award of up to 75% of salary. Overall, the maximum incentive opportunity under the long term incentive scheme has been reduced from awards granted under the Co-Investment Plan between 2007 and 2010.

In line with best practice and consistent with the approach taken for the DSB, the Committee will also retain the ability to adjust unvested awards in the event that the Company's financial results for a relevant performance year is found to have been materially misstated or if the basis for awards is found to have been made on inaccurate or misleading information.

### Q. What are the performance conditions for the Performance Shares?

**A.** For the 2011 grant, the Performance Share element of the new LTIP will be linked to growth in adjusted earnings per share (EPS) targets. EPS captures both improvements in the trading performance and the earning of cash to pay down debt, thus reducing the interest charge.

The Committee is proposing to set targets which would require delivery of outstanding performance in 2013, and considerable growth on adjusted EPS for 2010. Achievement of the EPS target needed for full vesting would require improvements in operating performance and a significant reduction in the Group's financing costs. In future years, the Committee will set targets of an equally challenging nature, but which are not likely to have the same high percentage growth numbers.

| Annual EPS growth in excess of RPI over the EPS performance period[1] | Vesting percentage |
|---|---|
| < RPI + 4% | 0% |
| RPI + 4% | 25% |
| Pro rata between RPI + 4% and +19% | pro rata 25% to 100% |
| RPI + 19% | 100% |

[1] EPS performance will be measured over three financial years commencing with the financial year in which a performance share award is granted.

### Q. What are the performance conditions for the Matching Shares?

**A.** For the 2011 grant, the Matching Share element will be subject to absolute share price growth targets. In order to fully recognise value created for shareholders, the targets will include reinvestment of dividends paid during the period. The Committee considered feedback from the Company's largest shareholders when selecting this metric, and concluded that for the current year absolute share price targets were more appropriate than relative performance hurdles which have been utilised under previous schemes.

As with the EPS performance condition, the share price targets will ultimately capture both improvements in the trading performance and the earning of cash to pay down debt. In addition, the achievement of the performance hurdles set for vesting will also require the Company's shares to be re-rated, thus providing a clear link with the priorities of the Company's largest shareholders. The Committee will continue to monitor whether this approach remains appropriate for grants in future years.

Under the terms of the plan, participants will be able to receive a match of up to 2:1 on shares invested into the scheme. The proposed targets and vesting schedule for Matching Shares for the 2011 awards are:

| Share price in 2014 (including reinvested dividends) | Vesting percentage for maximum Matching Shares |
|---|---|
| 37p or lower | 0% |
| Pro rata between 37p and 80p | pro rata 0% to 100% |
| 80p or higher | 100% |

The closing share price will be the average share price for the three months after the announcement of the 2013 preliminary results. In order for awards to vest, the Committee must be satisfied that the share price performance is reflective of the Company's underlying financial performance.

### Q. What executive share plans did the Company use in 2010?

**A.** In 2010, awards to executive directors and senior managers were granted under the Co-Investment Plan (CIP). At more junior levels, the Company granted awards under the old LTIP.

In summary, the CIP was 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 2010, the matching award was subject to EPS and relative TSR performance. Details of the 2010 CIP award were set out in full in the 2009 remuneration report.

It is not anticipated that any further awards would be granted under the CIP. Full details of outstanding CIP awards can be found on page 71.

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

**A.** The Company runs 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 approved by HMRC and is available to all employees (including executive directors) who meet certain basic eligibility criteria, and are not subject to any performance conditions. The SAYE schemes 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.

Due to differences in the applicable share scheme legislation in the UK and Ireland the Company offers two SAYE schemes; one to our UK employees and another identical scheme to our Irish employees.

### Q. What are the terms of the executive director service contracts?

**A.** The Committee periodically reviews its policy on the duration of notice periods and termination provisions of its executive directors and along with the Company believes that these entitlements continue to be appropriate.

Details of the service agreements of the executive directors of the Company appear below:

| Executive director | Notice period | Contract date | Unexpired term of contract |
|---|---|---|---|
| Robert Schofield | 12 months | 20 Jul 2004 | Rolling contract |
| Jim Smart | 12 months | 11 Feb 2009 | Rolling contract |
| Tim Kelly | 12 months | 5 Oct 2009 | Rolling contract |

### Q. Are the executive directors compensated in the event of termination of 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 (but is not obliged to) 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.

On-target bonus payments in lieu of notice are included in the service agreements for Robert Schofield and Jim Smart. The Committee believes that these entitlements continue to be appropriate in certain circumstances when recruiting executive directors. However, the Committee continues to monitor this policy in the context of evolving market practice in this area.

The service agreements of executive directors do not provide for any enhanced payments in the event of a change of control of the Company.

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

**A.** The Company 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. They are entitled to retain any fees they may receive. Tim Kelly was until 31 December 2010 a non-executive director to CPP Group plc and received fees of £47,000 p.a. for this role.

## Q. What are the appointment terms 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, in particular the need for periodic re-election.

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 are the non-executive directors notice periods?

**A.** During the year non-executive director notice periods were reviewed by the Company and it was agreed it was appropriate to increase these from one month to three months. Details of non-executive director appointment periods appear below:

| Non-executive director | Notice period | Date of current appointment | Expiry date |
|---|---|---|---|
| Ronnie Bell | 3 months | 1 Oct 2010 | AGM 2013 |
| David Beever | 3 months | 21 Jan 2011 | 20 Jan 2014 |
| David Felwick | 3 months | 1 Jul 2010 | AGM 2011 |
| Louise Makin | 3 months | 1 Oct 2009 | 30 Sep 2012 |
| Ian McHoul | 3 months | 19 Jul 2010 | 18 Jul 2013 |
| Charles Miller Smith[1] | 1 month | 12 Jun 2009 | – |

[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 month's notice in writing (see page 54 for further information).

## Q. What interests did the directors have in Company shares on 31 December 2010?

**A.** The beneficial interest in shares of the Board and connected persons as at 31 December 2010 are presented below:

| Director | Ordinary Shares as at 31 Dec 2010 | Ordinary shares as at 31 Dec 2009 |
|---|---|---|
| Robert Schofield[1] | 2,662,693 | 2,651,358 |
| Jim Smart | 750,000 | 750,000 |
| Tim Kelly[2] | 387,498 | 112,500 |
| Ronnie Bell[3] | – | – |
| David Beever | 169,000 | 168,750 |
| David Felwick | 235,737 | 235,737 |
| Louise Makin | 58,636 | 58,636 |
| Ian McHoul | 100,000 | 100,000 |
| Charles Miller Smith | 680,272 | 680,272 |

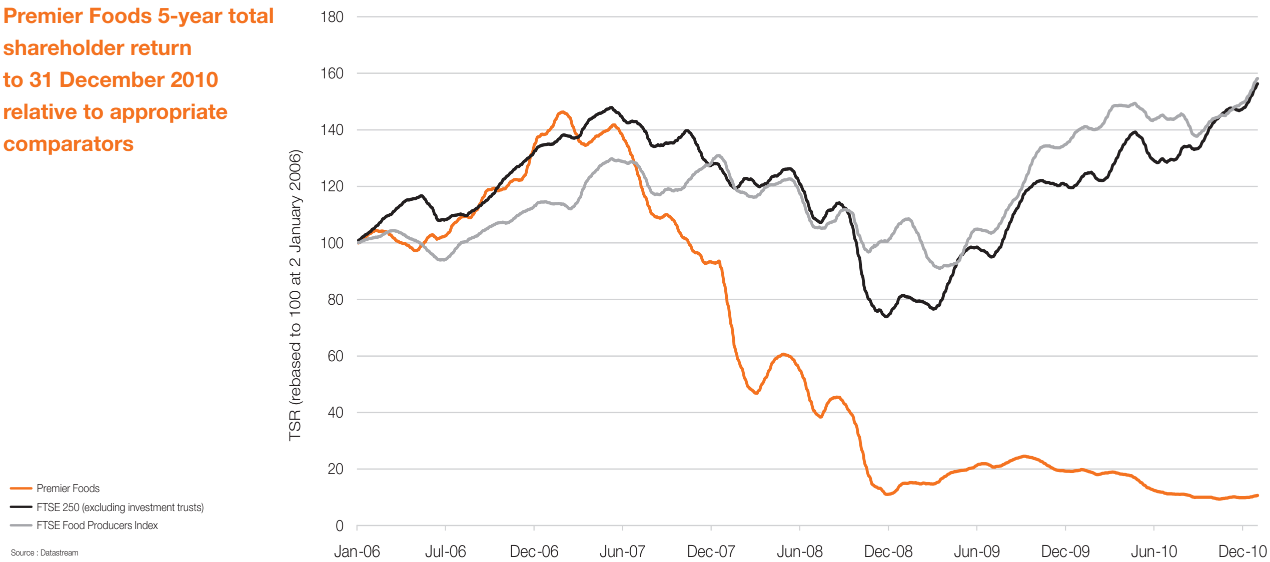
[1] Includes 11,335 and 23,623 shares under the Deferred Bonus Scheme 2006 and 2007.
[2] Includes 274,998 shares under the Deferred Bonus Scheme 2010
[3] Appointed 1 October 2010.

Between 31 December 2010 and 7 March 2011 the directors purchased the following Company shares: Ronnie Bell 854,700; Robert Schofield 207,038; and David Felwick 227,742.

### Five-year total shareholder returns

The graph below shows the value as at 31 December 2010 of a £100 investment in Premier Foods shares on 31 December 2005 compared with £100 invested in the FTSE 250 index and the FTSE Food Producers and Processors Index. The FTSE 250 index was chosen as the Company is a member of the FTSE 250, and the FTSE Food Producers and Processors Index, which was chosen as it contains the Company's key comparators.

**Premier Foods 5-year total shareholder return to 31 December 2010 relative to appropriate comparators**




Governance

## PART 2: AUDITED INFORMATION

### Directors' emoluments

The remuneration of each director, excluding long term, share-based incentive schemes and pensions, during the year ended 31 December 2010 compared to 2009 is shown below:

| Directors' emoluments | Salary/fee (£) | Annual bonus (£) | Benefits[4] (£) | **Total 2010 (£)** | Total 2009 (£) |
|---|---|---|---|---|---|
| **Executive directors** | | | | | |
| Robert Schofield[1] | 643,980 | 45,518 | 25,554 | **715,052** | 797,967 |
| Jim Smart[2] | 483,880 | 60,469 | 1,114 | **545,463** | 98,975 |
| Tim Kelly[3] | 393,172 | 29,079 | 28,456 | **450,707** | 520,274 |
| **Non-executive directors** | | | | | |
| Ronnie Bell[5] | 81,250 | — | — | **81,250** | — |
| David Kappler[6] | 175,950 | — | — | **175,950** | 234,600 |
| David Beever | 70,000 | — | — | **70,000** | 60,250 |
| Christine Cross[7] | 4,750 | — | — | **4,750** | 57,000 |
| David Felwick | 62,000 | — | — | **62,000** | 70,750 |
| Louise Makin | 67,500 | — | — | **67,500** | 58,750 |
| Ian McHoul | 70,000 | — | — | **70,000** | 70,000 |
| Charles Miller Smith | 65,250 | — | — | **65,250** | 30,875 |

1 Included in the figure for Mr Schofield's salary & fees is a supplement in lieu of pension of £37,080 (2009: £36,630).
2 Included in the figure for Mr Smart's salary & fees is a supplement in lieu of pension of £37,080 (2009: £7,584).
3 Included in the figure for Mr Kelly's salary & fees is a supplement in lieu of pension of £38,813 (2009: £38,813).
4 Benefits include payments made in relation to car and fuel cost, private health insurance, tax advice, relocation and memberships.
5 Appointed on 1 October 2010.
6 Retired on 30 September 2010. Following his retirement he was retained on a three month consultancy agreement for a fee of £58,650 for the period.
7 Retired on 31 January 2010.

The remuneration of the non-executive directors is determined by the Chairman and executive members of the Board. The remuneration of the Chairman is determined by the Committee.

Ronnie Bell was appointed as Chairman with effect from 1 October 2010, his basic fee was agreed as £325,000. Charles Miller Smith was appointed Deputy Chairman also with effect from 1 October 2010 and his basic fee was increased to £90,000 to reflect the additional commitments of the role. The basic fee for a non-executive director, which includes Committee membership fees, did not increase during the year remaining at £57,000 (2009: £57,000). The Chairman of the Remuneration Committee receives an additional £10,500 and the Chairmen of the Audit and Finance committees receive an additional £13,000. The senior independent director receives an additional fee of £5,000. There are no changes to the fees for the Chairman and other non-executive directors for 2011.

Annual bonuses were awarded to the executive directors for the meeting their personal targets. The Chairman and the other non-executive directors are not eligible to participate in the Company's bonus arrangements, share option schemes, long term incentive plans or pension arrangements. No director waived emoluments in respect of the year ended 31 December 2010 or 31 December 2009.

### Directors' interest in share options

At 31 December 2010, the following executive directors had options to subscribe for shares granted under the ESOS and SAYE Schemes:

| | Options as at 31 Dec 2009 | Options granted during the year | Options exercised during the year | Options forfeited during the year | **Options as at 31 Dec 2010** | 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 2009 | 25,208 | — | — | (25,208) | **—** | 36.00 | 1 Dec 2012 to 31 May 2013 |
| SAYE 2010 | — | 23,210 | — | — | **23,210** | 15.20 | 1 Dec 2013 to 31 May 2014 |
| **Tim Kelly** | | | | | | | |
| SAYE 2009 | 25,208 | — | — | (25,208) | **—** | 36.00 | 1 Dec 2012 to 31 May 2013 |
| SAYE 2010 | — | 23,210 | — | — | **23,210** | 15.20 | 1 Dec 2013 to 31 May 2014 |

The market price of a share in the Company on 31 December 2010 was 19.3 pence; the range during the 2010 financial year was 16.0 pence to 37.4 pence. There were no changes in the options held by the directors between 31 December 2010 and 7 March 2011. The Company's register of directors' interests (which is open to inspection) contains full details of directors' share interests.

### Directors' interests in long term incentive schemes

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

| | Date of award | Opening balance on 1 Jan 2010[1] | Granted during the year | Shares lapsed during the year | **Closing balance on 31 Dec 2010** | Share price on date of award (p) | Vesting date |
|---|---|---|---|---|---|---|---|
| **Robert Schofield** | | | | | | | |
| CIP 2007 | 16.05.07 | 1,230,418 | | (1,230,418)[2] | **—** | 315.50 | 16 May 2010 |
| CIP 2008 | 15.04.08 | 3,187,741 | | — | **3,187,741** | 125.50 | 15 Apr 2011 |
| CIP 2009 | 09.06.09 | 3,187,740 | | — | **3,187,740** | 40.50 | 9 Jun 2012 |
| CIP 2010 | 30.03.10 | — | 3,187,740 | — | **3,187,740** | 32.16 | 30 Mar 2013 |
| **Jim Smart** | | | | | | | |
| CIP 2009 | 13.11.09 | 2,250,000 | | — | **2,250,000** | 34.63 | 13 Nov 2012 |
| CIP 2010 | 30.03.10 | — | 2,032,671 | — | **2,032,671** | 32.16 | 30 Mar 2013 |
| **Tim Kelly** | | | | | | | |
| CIP 2007 | 16.05.07 | 315,360 | | (315,360)[2] | **—** | 315.50 | 16 May 2010 |
| CIP 2008 | 15.04.08 | 841,056 | | — | **841,056** | 125.50 | 15 Apr 2011 |
| CIP 2009 | 09.06.09 | 1,665,284 | | — | **1,665,284** | 40.50 | 9 Jun 2012 |
| CIP 2010 | 30.03.10 | — | 1,665,285 | — | **1,665,285** | 32.16 | 30 Mar 2013 |

1 The opening balance is the maximum matching award under each plan.
2 Lapsed during the year as vesting conditions were not met.

### Pension benefits

For each director, the total accrued benefit at 31 December 2010 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 2009.

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 director's pension benefits. They do not represent sums payable to the director and therefore cannot be added meaningfully to annual remuneration.

The increase in transfer value during the year is the increase in the transfer value of the accrued benefits at 31 December 2010 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 2010 of the increase in accrued benefits during the period (excluding inflation) less contributions made by the directors during the period.

The following table sets out the executive directors' pension benefits as members of the Company's defined benefit pension schemes as at 31 December 2010:

| | Age at 31 Dec 2010 | Accrued pension entitlement at 31 Dec 2009 (£) | **Accrued pension entitlement at 31 Dec 2010 (£)** | Additional pension earned during the year (£) | Additional pension earned during the year, excluding inflation (£) | Transfer value of accrued pension at 31 Dec 2009 (£) | **Transfer value of accrued pension at 31 Dec 2010 (£)** | Increase in transfer value of accrued pension during the year[2] (£) | Transfer value of the increase in accrued pension, excluding inflation (£) |
|---|---|---|---|---|---|---|---|---|---|
| Robert Schofield | 59 | 9,800 | **10,000** | 200 | — | 142,600 | **150,700** | 8,100 | — |
| Tim Kelly[1] | 53 | 25,800 | **30,100** | 4,300 | 3,300 | 409,200 | **494,400** | 77,000 | 43,500 |

1 Tim Kelly's transfer value at 31 December 2009 is based on total accrued benefit calculated using an accrual of 1/25th rather than 1/30th used in previous years.

2 Net of contributions paid by contributing member.

Louise Makin

**Louise Makin**
Chairman of the Remuneration Committee
7 March 2011

# Contents

# 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 2010 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 statement of directors' responsibilities set out on pages 51 to 52, 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.

## 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 2010 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 53, in relation to going concern;
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the June 2008 Combined 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 2010 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
7 March 2011

# 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 2010 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 statement of directors' responsibilities set out on pages 51 to 52, 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 2010;
- 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 2010.

**Ranjan Sriskandan**
(Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
7 March 2011

# Consolidated income statement

| | Note | Year ended 31 Dec 2010 £m | Year ended 31 Dec 2009 (Restated)[1,2] £m |
|---|---|---|---|
| **Continuing operations** | | | |
| Revenue | 4 | **2,438.0** | 2,529.7 |
| Cost of sales | | **(1,690.9)** | (1,771.4) |
| **Gross profit** | | **747.1** | 758.3 |
| Selling, marketing and distribution costs | | **(314.6)** | (332.7) |
| Administrative costs | | **(341.3)** | (241.8) |
| Net other operating income/(expenses) | 5 | **1.9** | (12.1) |
| **Operating profit** | 7 | **93.1** | 171.7 |
| Before exceptional items[2] | | **218.1** | 217.5 |
| Impairment of goodwill | 6 | **(125.0)** | – |
| Other exceptional items[2] | 6 | **–** | (45.8) |
| Interest payable and other financial charges | 9 | **(160.1)** | (179.7) |
| Interest receivable and other financial income | 9 | **12.0** | 11.1 |
| Net movement on fair valuation of interest rate financial instruments | 9 | **(43.3)** | 38.7 |
| **(Loss)/profit before taxation for continuing operations** | | **(98.3)** | 41.8 |
| Taxation credit/(charge) | 10 | **11.6** | (5.8) |
| **(Loss)/profit after taxation for continuing operations** | | **(86.7)** | 36.0 |
| Loss from discontinued operations | 12 | **(12.6)** | (10.8) |
| **(Loss)/profit for the year attributable to equity shareholders** | | **(99.3)** | 25.2 |
| Basic and diluted (loss)/earnings per share (pence) | 11 | **(4.1)** | 1.2 |
| Basic and diluted (loss)/earnings per share (pence) — continuing[1] | 11 | **(3.6)** | 1.7 |
| Basic and diluted loss per share (pence) — discontinued[1] | 11 | **(0.5)** | (0.5) |
| Adjusted earnings per share (pence) — continuing[1,2,3] | 11 | **4.5** | 5.1 |
| Adjusted earnings per share (pence) — continuing and Meat-free | 11 | **5.0** | 5.4 |

1 Comparatives have been restated to reflect the classification of the Meat-free business as a discontinued operation.

2 Comparatives have been restated to reflect the change in classification of certain exceptional items as business restructuring & investment costs which have now been included within trading profit.

3 Adjusted earnings per share is defined as trading profit less net regular interest payable, less a notional tax charge at 28% (2009: 28%) divided by the weighted average number of ordinary shares of the Company.

The notes on pages 81 to 121 form an integral part of the consolidated financial statements.

# Consolidated statement of comprehensive income

| | Note | Year ended 31 Dec 2010 £m | Year ended 31 Dec 2009 £m |
|---|---|---|---|
| (Loss)/profit for the year | | **(99.3)** | 25.2 |
| **Other comprehensive income** | | | |
| Actuarial gains/(losses) on pensions | 25 | **46.4** | (468.8) |
| Deferred tax (charge)/credit on actuarial gains/losses on pensions | 10 | **(29.9)** | 132.1 |
| Exchange differences on translation | | **(0.3)** | (4.4) |
| Fair value movement on net investment hedge | | **0.8** | 5.7 |
| Translation reserves relating to disposals | | **–** | (6.1) |
| Net investment hedge relating to disposals | | **–** | 7.2 |
| **Total other comprehensive income/(losses) for the year** | | **17.0** | (334.3) |
| **Total comprehensive losses attributable to owners of the Company** | | **(82.3)** | (309.1) |

The notes on pages 81 to 121 form an integral part of the consolidated financial statements.

# Consolidated balance sheet

| | Note | As at 31 Dec 2010 £m | As at 31 Dec 2009 £m |
|---|---|---|---|
| **ASSETS:** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 14 | **538.6** | 635.2 |
| Goodwill | 15 | **1,096.1** | 1,371.3 |
| Other intangible assets | 16 | **963.7** | 1,108.4 |
| Total non-current assets | | **2,598.4** | 3,114.9 |
| **Current assets** | | | |
| Assets held for sale | 13 | **406.3** | 1.8 |
| Inventories | 18 | **135.2** | 214.0 |
| Trade and other receivables | 19 | **356.3** | 347.0 |
| Financial assets — derivative financial instruments | 22 | **1.4** | 2.5 |
| Cash and cash equivalents | 27 | **1.9** | 19.4 |
| Total current assets | | **901.1** | 584.7 |
| **Total assets** | | **3,499.5** | 3,699.6 |
| **LIABILITIES:** | | | |
| **Current liabilities** | | | |
| Trade and other payables | 20 | **(496.2)** | (485.0) |
| Financial liabilities | | | |
| — short-term borrowings | 21 | **(190.1)** | (152.5) |
| — derivative financial instruments | 22 | **(29.6)** | (162.4) |
| — other financial liabilities at fair value through profit or loss | 22 | **(206.3)** | (36.8) |
| Accrued interest payable | | **(12.3)** | (13.7) |
| Provisions | 24 | **(10.5)** | (15.9) |
| Current income tax liabilities | | **(2.0)** | (2.5) |
| Liabilities held for sale | 13 | **(48.8)** | – |
| Total current liabilities | | **(995.8)** | (868.8) |
| **Non-current liabilities** | | | |
| Financial liabilities | | | |
| — long-term borrowings | 21 | **(1,091.8)** | (1,232.0) |
| Retirement benefit obligations | 25 | **(320.9)** | (428.5) |
| Provisions | 24 | **(28.4)** | (31.0) |
| Other liabilities | | **(17.0)** | (9.7) |
| Deferred tax liabilities | 23 | **(56.1)** | (64.7) |
| Total non-current liabilities | | **(1,514.2)** | (1,765.9) |
| **Total liabilities** | | **(2,510.0)** | (2,634.7) |
| **Net assets** | | **989.5** | 1,064.9 |
| **EQUITY:** | | | |
| **Capital and reserves** | | | |
| Share capital | 26 | **24.0** | 24.0 |
| Share premium | 26 | **1,124.7** | 1,124.7 |
| Merger reserve | 26 | **890.7** | 890.7 |
| Other reserves | 26 | **(9.3)** | (10.1) |
| Profit and loss reserve | 26 | **(1,040.7)** | (964.5) |
| **Capital and reserves attributable to the Company's equity shareholders** | | **989.4** | 1,064.8 |
| Non-controlling interest | 26 | **0.1** | 0.1 |
| **Total shareholders' funds** | | **989.5** | 1,064.9 |

The notes on pages 81 to 121 form an integral part of the consolidated financial statements.

Signed on behalf of the Board of directors, who approved the financial statements on 7 March 2011.

**Robert Schofield**
Director and
Chief Executive Officer

**Jim Smart**
Director and
Chief Financial Officer

# Consolidated statement of cash flows

| | Note | Year ended 31 Dec 2010 £m | Year ended 31 Dec 2009 £m |
|---|---|---|---|
| Cash generated from operating activities | 27 | **313.2** | 219.4 |
| Interest paid | | **(143.5)** | (162.5) |
| Interest received | | **12.5** | 10.8 |
| Taxation (paid)/received | | **(1.7)** | 0.6 |
| **Cash inflow from operating activities** | | **180.5** | 68.3 |
| | | | |
| Sale of subsidiaries | | **–** | 45.2 |
| Purchase of property, plant and equipment | | **(51.1)** | (57.3) |
| Purchase of intangible assets | | **(16.6)** | (27.6) |
| Sale of property, plant and equipment | | **5.2** | 9.4 |
| Sale of intangible assets | | **3.9** | – |
| **Cash outflow from investing activities** | | **(58.6)** | (30.3) |
| | | | |
| Repayment of borrowings | | **(116.2)** | (438.8) |
| Financing fees and other costs of finance | 27 | **(18.8)** | (26.1) |
| Proceeds from share issue | 26 | **–** | 403.9 |
| Share issue costs | 26 | **–** | (24.3) |
| **Cash outflow from financing activities** | | **(135.0)** | (85.3) |
| **Net outflow of cash and cash equivalents** | | **(13.1)** | (47.3) |
| Cash and cash equivalents at beginning of year | | **(15.1)** | 33.7 |
| Effect of movement in foreign exchange | | **(0.5)** | (1.5) |
| **Cash and cash equivalents at end of year** | 27 | **(28.7)** | (15.1) |

The notes on pages 81 to 121 form an integral part of the consolidated financial statements.

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 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)** |
| Other comprehensive income | **–** | **–** | **–** | **0.8** | **16.2** | **–** | **17.0** |
| 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** |
| **At 1 January 2009** | 8.5 | 760.6 | 890.7 | (23.0) | (645.1) | 0.1 | 991.8 |
| Profit for the year | – | – | – | – | 25.2 | – | 25.2 |
| Other comprehensive income | – | – | – | 12.9 | (347.2) | – | (334.3) |
| Shares issued | 15.5 | 388.4 | – | – | – | – | 403.9 |
| Cost of shares issued | – | (24.3) | – | – | – | – | (24.3) |
| Share-based payments | – | – | – | – | 2.6 | – | 2.6 |
| **At 31 December 2009** | 24.0 | 1,124.7 | 890.7 | (10.1) | (964.5) | 0.1 | 1,064.9 |

The notes on pages 81 to 121 form an integral part of the consolidated financial statements.

## 1. General information

Premier Foods plc (the "Company") is a public limited company incorporated and domiciled in England and Wales under the Companies Act 1985 (as amended and restated), 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.

These Group consolidated financial statements were authorised for issue by the Board of directors on 7 March 2011.

## 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 Group consolidated financial statements have been prepared on the going concern basis, which assumes that the Group will continue to be able to meet its liabilities as they fall due for the foreseeable future.

The consolidated financial statements of Premier Foods plc have been prepared in accordance with International Financial Reporting Standards ("IFRS") as endorsed by the European Union ("EU"), International Financial Reporting Interpretation Committee ("IFRIC") 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, defined benefit pension schemes and share-based payments which are incorporated using fair value. The principal accounting policies adopted are set out below.

The preparation of financial statements in conformity with 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:

IAS 1 (Revised) — "First Time Adoption of IFRS"
IFRS 1 (Amendment) — "Additional Exemptions"
IFRS 1/IAS 27 (Amendment) — "Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate"
IFRS 2 (Amendment) — "Share-based Payments — Group Cash-Settled Share-based Payment Transactions"
IFRS 3 (Revised) — "Business Combinations"
IAS 27 (Revised) — "Consolidated and Separate Financial Statements"
IAS 39 (Amendment) — "Financial Instruments: Recognition and Measurement on Eligible Hedged Items"
IFRIC 15 — "Agreement for the Construction of Real Estate"
IFRIC 16 — "Hedges of a Net Investment in a Foreign Operation"
IFRIC 17 — "Distributions of Non-Cash Assets to Owners"
IFRIC 18 — "Transfers of Assets From Customers"

The application of the 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

Up to and during the year ended 31 December 2010, the IASB and the IFRIC have issued the following standards and interpretations with an effective date (as endorsed by the EU) after the date of these financial statements:

| | | Effective for accounting periods beginning on or after: |
|---|---|---|
| **International Financial Reporting Standards** | | |
| IFRS 1 (Amendment) | First time Adoption of Financial Instrument Disclosures | 1 July 2010 |
| IAS 24 (Revised) | Related Party Disclosure | 1 January 2011 |
| IAS 32 (Amendment) | Financial Instruments: Presentation on Classification of Rights Issues | 1 February 2010 |
| **International Financial Reporting Interpretations Committee** | | |
| IFRIC 14 (Amendment) | Prepayments of a minimum funding requirement | 1 January 2011 |
| IFRIC 19 | Extinguishing financial liabilities with equity instruments | 1 July 2010 |

These standards will be adopted by the Group in future accounting periods.

The directors do not anticipate that the adoption of any of these standards and interpretations will have a material impact on the Group's 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 | |
|---|---|
| IFRS 1 (Amendment) | First Time Adoption on Hyperinflation and Fixed Dates |
| IFRS 7 (Amendment) | Financial Instruments: Disclosures |
| IFRS 9 | Financial Instruments |
| IAS 12 (Amendment) | Income Taxes on Deferred Tax |

### 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 purchase method of accounting is used for all acquisitions.

On acquisition, the assets and liabilities and contingent liabilities of a subsidiary are measured at their fair values as at that date. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recorded as goodwill.

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 disposed businesses into discontinued operations.

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

All inter-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 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. The 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. 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. It 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 in reserves as a separate component of equity. 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. Accounting policies continued

### 2.7 Dividends

Dividend distribution to the Group's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Group's shareholders, and for interim dividends, in the period in which they are paid.

### 2.8 Property, plant and equipment ("PPE")

Property, plant and equipment is initially recorded at cost. 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.

### 2.9 Business combinations and goodwill

On the acquisition of a business, fair values are attributed to the tangible and intangible assets and liabilities acquired. Goodwill arises when the fair value of the consideration for a business exceeds the fair value of the aggregate 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.

Items of PPE acquired as part of a business acquisition are stated at fair value at the date of acquisition using a market value or depreciated replacement cost model.

On acquisition, the Group undertakes a review of the accounting policies of the business acquired to ensure compliance both with IFRS and the accounting policies of the Group.

### 2.10 Intangible assets

In addition to goodwill the Group recognises the following intangible assets:

#### *Acquired intangibles*

Acquired trade marks, 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. A reputable independent specialist performs the valuations. 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 future economic benefits of the project can be regarded as reasonably certain and are in accordance with IAS 38 "Intangible Assets" ("IAS 38"), in which case they are capitalised and amortised over their estimated useful economic lives.

#### *Software development costs*

Assets acquired or internally developed, such as software, are capitalised when the future economic benefit is reasonably assured and the criteria within IAS 38 are met. Software development costs are capitalised and amortised over their estimated useful lives on a straight-line basis over a range of 3 to 10 years.

### 2.11 Impairment

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.

Intangible assets and property, plant and equipment are tested for impairment when an event that might affect asset values has occurred. An impairment loss is recognised, in the income statement, to the extent that the carrying amount cannot be recovered either by selling the asset or by the discounted future earnings from operating the assets in accordance with IAS 36 "Impairment of Assets".

Intangible assets with finite lives are subject to impairment testing on indication of impairment. Goodwill is tested annually for impairment. Any impairment losses are written off immediately.

### 2.12 Interest

#### (i) Interest expense

Borrowing costs are accounted for on an accruals basis in the income statement using the effective interest method.

#### (ii) Interest income

Interest 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. Accounting policies continued

### 2.13 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 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 under 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.

Rental costs under operating leases are charged to the income statement on a straight-line basis over the lease period.

### 2.14 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.

All inventories are reduced to net realisable value where the estimated selling price is lower than cost.

### 2.15 Taxation

The charge or credit for taxation is based on the profit or loss for the year and takes into account deferred taxation.

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.

### 2.16 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 annually by 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 to 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, hence 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.

### 2.17 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 but only when the reimbursement is virtually certain. Where material, the Group discounts its provisions.

### 2.18 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.

### 2.19 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 de-recognised 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 re-measured 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 re-measured at their fair value. Movements in fair value are recorded within the net movement on fair valuation of interest rate financial instruments. See notes 9 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 expenditure.

### 2.20 Investment in own shares

Investments in own shares are shown as a deduction in shareholders' funds.

## 3. Critical accounting policies, estimates and judgements

The following are areas of particular significance to the Group's financial statements and include the application of judgement, which is fundamental to the compilation of a set of financial statements.

### 3.1 Pensions

The present value of the Group's 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 IFRS. One such assumption is the assumption of mortality rates and how these are expected to change in the future. 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 3.8%. Each 0.1% decrease/increase in bond yields would increase/decrease the deficit by a further £51m/£49m. Each 0.1% increase/decrease in the assumed inflation rate would increase/decrease the deficit by a further £18m/£21m. Each of the underlying assumptions is set out in more detail in note 25.

### 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 ("CGU's") 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 CGU's carrying values. See note 15 for further details.

Acquired trade marks, 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 Exceptional items

Exceptional items are not explicitly addressed under IFRS. Accordingly, the Group has defined exceptional items as those items of sufficient financial significance to be disclosed separately in order to assist in understanding the financial performance achieved and in making projections of future results. Each of these items relates to events or circumstances that are material and non-recurring in nature, such as integration of an acquisition, disposal of a business or major asset, material impairments or refinancing related transactions. See note 6 for further details.

### 3.5 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. The Group anticipates that the receivables purchasing agreement will remain in place over the medium term and that de-recognition of the receivables subject to it will continue to be achieved, dependent upon ongoing review of the assessment of risk and reward transfer.

## 2. Accounting policies continued

### 3.6 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.

## 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 exceptional items, 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 segments are "Grocery", "Hovis", "Retailer Branded Chilled" and "Meat-free". The Group previously aggregated and reported the Retailer Branded Chilled and Meat-free operating segments in the "Other" segment, as they did not meet the relevant quantitative thresholds and did not have similar economic characteristics and therefore could not be aggregated into their own separate reporting segment under IFRS 8. As a result of the Group's announcement to sell the Meat-free business, results for the Meat-free operating segment are presented as discontinued operations in both the current year and prior year comparatives.

Subsequent to year end, the Group announced that it had reached an agreement to sell its East Anglian canned grocery operations, which is part of the Grocery segment. The results of the East Anglian canned grocery operations for the year ended 31 December 2010 are included within continuing operations as it is not a separate operating segment.

The Group reports the remaining operating segments on three continuing segments within the business: "Grocery", "Hovis" and "Retailer Branded Chilled".

The Grocery segment sells ambient food products. The Hovis segment sells bread, morning goods, flour products and frozen pizza bases and the Retailer Branded Chilled segment includes businesses which sell chilled ready meals and cakes.

The segment results for the year ended 31 December 2010 and for the year ended 31 December 2009 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 2010**

| | Grocery £m | Hovis £m | Retailer Branded Chilled £m | Total for Group £m |
|---|---|---|---|---|
| **Revenue from continuing operations** | | | | |
| External | 1,546.8 | 687.6 | 203.6 | 2,438.0 |
| Inter-segment | 3.9 | 27.7 | 2.5 | 34.1 |
| **Result** | | | | |
| **Trading profit/(loss)** | 256.2 | 38.8 | (0.1) | 294.9 |
| Amortisation of intangible assets | | | | (78.9) |
| Fair value movements on foreign exchange and other derivative contracts | | | | (2.0) |
| Pension financing credit | | | | 4.1 |
| **Operating profit before exceptional items** | | | | 218.1 |
| Exceptional items | | | | (125.0) |
| **Operating profit** | | | | 93.1 |
| Interest payable and other financial charges | | | | (160.1) |
| Interest receivable and other financial income | | | | 12.0 |
| Net movement on fair valuation of interest rate financial instruments | | | | (43.3) |
| **Loss before taxation for continuing operations** | | | | (98.3) |
| Depreciation | 25.9 | 17.3 | 4.4 | 47.6 |
| Amortisation | 47.4 | 18.3 | 13.2 | 78.9 |
| Impairment of property, plant and equipment | 0.7 | – | – | 0.7 |
| Impairment of goodwill | – | – | 125.0 | 125.0 |
| **Balance sheet** | | | | |
| Segment assets | 2,297.2 | 663.1 | 424.1 | 3,384.4 |
| Unallocated assets | | | | 115.1 |
| **Consolidated total assets** | | | | 3,499.5 |

## 4. Segmental analysis continued

| | Year ended 31 Dec 2009 (Restated)[1,2] | | | |
|---|---|---|---|---|
| | Grocery £m | Hovis £m | Retailer Branded Chilled £m | Total for Group £m |
| **Revenue from continuing operations** | | | | |
| External | 1,574.5 | 741.6 | 213.6 | 2,529.7 |
| Inter-segment | 4.0 | 27.0 | 4.4 | 35.4 |
| **Result** | | | | |
| **Trading profit** | 255.4 | 30.8 | 14.8 | 301.0 |
| Amortisation of intangible assets | | | | (75.4) |
| Fair value movements on foreign exchange and other derivative contracts | | | | (6.3) |
| Pension financing charge | | | | (1.8) |
| **Operating profit before exceptional items** | | | | 217.5 |
| Exceptional items | | | | (45.8) |
| **Operating profit** | | | | 171.7 |
| Interest payable and other financial charges | | | | (179.7) |
| Interest receivable and other financial income | | | | 11.1 |
| Net movement on fair valuation of interest rate financial instruments | | | | 38.7 |
| **Profit before taxation for continuing operations** | | | | 41.8 |
| Depreciation | 27.2 | 17.0 | 4.0 | 48.2 |
| Amortisation | 43.9 | 18.3 | 13.2 | 75.4 |
| Impairment of asset held for sale | – | 1.0 | – | 1.0 |

1 Comparatives have been restated to reflect the classification of the Meat-free business as a discontinued operation.
2 Comparatives have been restated to reflect the change in classification of certain exceptional items as business restructuring & investment costs which have now been included within trading profit.

| | | | | |
|---|---|---|---|---|
| **Balance sheet** | | | | |
| Segment assets | 2,414.2 | 694.0 | 564.0 | 3,672.2 |
| Unallocated assets | | | | 27.4 |
| **Consolidated total assets** | | | | 3,699.6 |

Revenues, on a continuing basis, of approximately £454.0m and £336.9m (2009: £478.3m and £340.2m) are derived from two external customers. These revenues are attributable across the three reporting 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, receivables and retirement benefit assets 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, derivative financial assets and head office assets. In 2010, this includes Group-wide software and hardware assets that were previously reported within the Grocery segment.

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 2010 £m** | Year ended 31 Dec 2009 (Restated)[1] £m |
|---|---|---|
| United Kingdom | **2,314.7** | 2,397.9 |
| Other Europe | **100.6** | 112.6 |
| Rest of world | **22.7** | 19.2 |
| **Total for Group** | **2,438.0** | 2,529.7 |

1 Comparatives have been restated to reflect the classification of the Meat-free business as a discontinued operation.

## 4. Segmental analysis continued

### Non-current assets

| | As at 31 Dec 2010 £m | As at 31 Dec 2009 £m |
|---|---|---|
| United Kingdom | 2,534.8 | 3,049.9 |
| Other Europe | 63.6 | 65.0 |
| Total for Group | 2,598.4 | 3,114.9 |

## 5. Net other operating (income)/expenses

| | Year ended 31 Dec 2010 £m | Year ended 31 Dec 2009 (Restated)[1] £m |
|---|---|---|
| Loss on mark to market valuation of foreign exchange contracts and other derivatives | 2.0 | 6.3 |
| (Gain)/loss on disposal of non-current assets | (4.7) | 1.2 |
| Net other operating expenses | 0.8 | 4.6 |
| Total net other operating (income)/expenses | (1.9) | 12.1 |

[1] Comparatives have been restated to reflect the classification of the Meat-free business as a discontinued operation.

## 6. Exceptional items

Up to 2009, the Group was incurring a large amount of spend for restructuring and investment in the business. These items were treated as exceptional items and excluded from trading profit. The level of restructuring is now likely to run at a normal level from 2010, and as a result, the Group has included the costs of restructuring and investment within trading profit. The comparatives for the year ended 31 December 2009 have been restated to reflect the change in this classification.

The Group has completed its major integration and manufacturing rationalisation programmes following the acquisitions of RHM and Campbell's. As a result, the Group has not incurred any exceptional expenditure during the year, other than the impairment charge recognised against the goodwill allocated to the Brookes Avana CGU (see note 15).

| | | Year ended 31 Dec 2010 £m | Year ended 31 Dec 2009 (Restated)[1] £m |
|---|---|---|---|
| **Exceptional items — continuing operations** | | | |
| Integration of RHM UK operations | (a) | – | 25.2 |
| Integration of Campbell's UK operations | (b) | – | 1.5 |
| Integration of Irish operations | (c) | – | 2.3 |
| Impairment of goodwill | (d) | 125.0 | – |
| **Total operating exceptional items** | | 125.0 | 29.0 |
| Refinancing costs | (e) | – | 16.8 |
| **Total exceptional items** | | 125.0 | 45.8 |

[1] Comparatives have been restated to reflect the change in classification of certain exceptional items as business restructuring & investment costs which have now been included within trading profit.

### (a) Integration of RHM UK operations

On 16 March 2007, the Group acquired RHM plc. During 2009, the Group completed its factory closure programme, but residual costs were incurred in the previous year from the commissioning of equipment and production transferred to remaining Group manufacturing sites. Redundancy and restructuring costs were also incurred in the previous year relating to the move of administrative functions to a Group-wide share service centre in Manchester and the integration of certain warehousing facilities to other Group warehouses. The adverse market conditions during 2009 also resulted in a charge to increase onerous property lease provisions.

### (b) Integration of Campbell's UK operations

The charge in the previous year primarily related to an increase in an onerous property lease provision to reflect the adverse market conditions.

### (c) Integration of Irish operations

The recession in Ireland has resulted in significant strategic changes by the Group's Irish customer base, with moves to sourcing products directly from the UK and a shift from primarily store-based trading to central purchasing and distribution. In the previous year a charge was recognised as the Group announced its decision to rationalise part of its Irish operations.

### (d) Impairment of goodwill

An impairment charge of £125.0m has been recognised against the goodwill allocated to the Brookes Avana CGU (see note 15).

### (e) Refinancing costs

Advisory fees were incurred during the previous year relating to the placing and open offer and firm placing, amended lending agreements, renegotiation of interest rate swaps and new pensions framework.

## 7. Operating profit for continuing operations

### 7a. Analysis of costs by nature

| | Year ended 31 Dec 2010 £m | Year ended 31 Dec 2009 (Restated)[1] £m |
|---|---|---|
| Cost of inventories sold | **1,386.6** | 1,457.3 |
| Employee benefits expense (note 8) | **494.5** | 503.9 |
| Depreciation of property, plant and equipment: | | |
| — owned assets | **45.2** | 48.0 |
| — under finance leases | **2.4** | 0.2 |
| Amortisation of intangible assets: | | |
| — software and licences | **13.2** | 9.7 |
| — brands and trade marks | **31.0** | 31.0 |
| — customer relationships | **34.7** | 34.7 |
| Impairment of inventory | **2.6** | 4.2 |
| Impairment of assets held for sale | **–** | 1.0 |
| Impairment of property, plant and equipment | **0.7** | – |
| Impairment of goodwill | **125.0** | – |
| Operating lease rental payments: | | |
| — plant and machinery | **12.8** | 16.9 |
| — land and buildings | **14.9** | 13.5 |
| Repairs and maintenance expenditure | **48.7** | 53.0 |
| Research and development costs | **10.6** | 3.7 |
| Gain on disposal of property, plant and equipment/intangible assets | **(4.7)** | (2.9) |
| Net foreign exchange gain | **(0.4)** | (9.8) |
| Auditor remuneration | **1.2** | 3.8 |

[1] Comparatives have been restated to reflect the classification of the Meat-free business as a discontinued operation.

Operating lease obligations are further disclosed in note 28.

### 7b. Auditor remuneration

| | Year ended 31 Dec 2010 £m | Year ended 31 Dec 2009 £m |
|---|---|---|
| Fees payable to the Company's auditor for the audit of the Parent Company and consolidated financial statements | **0.6** | 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 | **0.5** | 0.6 |
| — Services relating to corporate finance transactions | **1.2** | 2.3 |
| — Other services | **0.1** | – |
| **Total auditor remuneration** | **2.4** | 3.5 |

Included within total fees paid to the auditors of £2.4m (2009: £3.5m) were £1.2m of costs directly attributable to co-ordination support and advice on corporate finance transactions such as restructuring of the Group's interest rate swaps, financing negotiations and obtaining a credit rating. In 2010, £0.8m of the £1.2m relating to corporate finance transactions was held on the balance sheet at year-end. The remaining £0.4m was charged to exceptional write-off of financing costs. The total operating profit charge for auditors' remuneration was £1.2m (2009: £3.8m).

In 2009, included within total fees paid to the auditors of £3.5m of costs were £2.3m of costs which were directly attributable to the financing negotiations and equity raising.

In 2009, £10,750 was paid to the Company's auditors in respect of the audit and services in relation to the Group's pension schemes.

## 8. Employees

| | Year ended 31 Dec 2010 £m | Year ended 31 Dec 2009 (Restated)[1] £m |
|---|---|---|
| **Staff costs for the Group during the year for continuing operations** | | |
| Wages and salaries | 429.1 | 437.1 |
| Social security costs | 36.3 | 40.3 |
| Termination benefits | 2.9 | 12.5 |
| Share options granted to directors and employees | 6.9 | 2.6 |
| Pension current service costs — defined benefit plans (note 25) | 19.3 | 11.4 |
| **Total staff costs** | 494.5 | 503.9 |

[1] Comparatives have been restated to reflect the classification of the Meat-free business as a discontinued operation.

Average monthly number of people employed (including executive directors) for continuing operations:

| | 2010 Number | 2009 Number (Restated)[1] |
|---|---|---|
| Management | 948 | 1,000 |
| Administration | 1,491 | 1,307 |
| Production, distribution and other | 12,125 | 13,043 |
| **Total average headcount** | 14,564 | 15,350 |

[1] Comparatives have been restated to reflect the classification of the Meat-free business as a discontinued operation.

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 70 to 72, which form part of these financial statements.

## 9. Interest payable and receivable

### 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 all maturing in 2013. These new 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 fair value movements below includes the reclassification of fair value from interest rate derivatives to "Other financial liabilities at fair value through profit or loss" for those six swaps.

The total facility as at 31 December 2010 was £1,680m and will be amortised by £50m in both June and December of each year until December 2013.

2009

On 5 March 2009, the Group announced revised financing arrangements including a share issuance, changes to lending agreements to provide greater covenant and liquidity headroom and the extension of the maturity of the facility. These revised financing arrangements were approved by ordinary shareholders at an extraordinary general meeting on 23 March 2009.

The amendments to the Group's Term and Revolving Credit Facilities included a rephasing of the facilities to provide additional liquidity and covenant headroom and an extension of the maturity date to December 2013.

In respect of these amendments to the existing facilities and arrangement of the new facilities, the Group incurred costs of £26.1m, £3.0m of which were immediately charged to the income statement.

On 5 March 2009, the Group amended the break clauses in one of its long dated swaps to make it consistent with other long dated swaps.

At the same time the Group also restructured two other swaps into one new swap which resulted in an amendment to the payment terms and an amendment to the break clauses, being an optional break at August 2012 and a mandatory break at June 2013. The terms were also amended such that it will now settle at either break point for a mark to market payment to the counterparty bank. As a result of these amendments, a new contract was recognised which comprises both an underlying host as well as embedded derivatives. This hybrid instrument was classified within a new class of financial liabilities being "Other financial liabilities at fair value through profit or loss".

## 9. Interest payable and receivable continued

| | Year ended 31 Dec 2010 £m | Year ended 31 Dec 2009 (Restated)[1] £m |
|---|---|---|
| Interest payable on bank loans and overdrafts | **20.2** | 16.6 |
| Interest payable on term facility | **45.2** | 61.7 |
| Interest payable on revolving facility | **6.0** | 12.6 |
| Interest payable on interest rate derivatives | **59.5** | 60.7 |
| Interest payable on interest rate financial liabilities designated as other financial liabilities at fair value through profit or loss | **11.9** | 1.7 |
| Unwind of discount on provisions | **1.3** | 1.0 |
| Amortisation of debt issuance costs and deferred fees | **14.4** | 12.6 |
| | **158.5** | 166.9 |
| Exceptional write-off of financing costs | **1.6** | 3.0 |
| Accelerated amortisation of debt issuance costs | **–** | 9.8 |
| **Total interest payable and other financial charges** | **160.1** | 179.7 |
| Interest receivable on bank deposits | **(12.0)** | (10.4) |
| Interest receivable on interest rate derivatives | **–** | (0.7) |
| **Total interest receivable and other financial income** | **(12.0)** | (11.1) |
| Movement on fair valuation of interest rate derivatives | **(133.7)** | (75.5) |
| Movement on fair valuation of interest rate financial liabilities designated as other financial liabilities at fair value through profit or loss | **177.0** | 36.8 |
| **Net movement on fair valuation of interest rate financial instruments** | **43.3** | (38.7) |
| **Net interest payable** | **191.4** | 129.9 |

[1] Comparatives have been restated to reflect the classification of the Meat-free business as a discontinued operation.

The fair value of interest rate swaps and other financial liabilities at fair value through profit or loss has increased from a £198.7m liability at 31 December 2009 to a £234.5m liability at 31 December 2010 resulting in a net movement of £35.8m for the year. This constitutes an adverse change on fair value of £43.3m offset by a £7.5m cash payment relating to the restructuring of one swap within "Other financial liabilities at fair value through profit or loss" with a nominal value of £150m. 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 2010 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.

## 10. Tax on (loss)/profit on ordinary activities

Analysis of the (credit)/charge for the year:

| | Continuing operations £m | Discontinued operations £m | Total £m |
|---|---|---|---|
| **2010** | | | |
| Current tax | | | |
| — Current year | **(3.0)** | **3.1** | **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 (note 23) | | | |
| — Current year | **9.0** | **0.4** | **9.4** |
| — Prior years | **(14.3)** | **(2.2)** | **(16.5)** |
| — Adjustment to restate opening deferred tax at 27.0% | **(4.6)** | **(1.0)** | **(5.6)** |
| **Income tax (credit)/charge for the year** | **(11.6)** | **0.1** | **(11.5)** |
| **2009** (Restated)[1] | | | |
| Current tax | | | |
| — Current year | (1.3) | 1.3 | – |
| — Prior years | (5.8) | 3.2 | (2.6) |
| Overseas current tax | | | |
| — Current year | 0.7 | 0.7 | 1.4 |
| — Prior years | (0.2) | 0.9 | 0.7 |
| Deferred tax (note 23) | | | |
| — Current year | 15.1 | (15.7) | (0.6) |
| — Prior years | (2.7) | (2.2) | (4.9) |
| **Income tax charge/(credit) for the year** | 5.8 | (11.8) | (6.0) |

[1] Comparatives have been restated to reflect the classification of the Meat-free business as a discontinued operation.

## 10. Tax on (loss)/profit on ordinary activities continued

Tax relating to items recorded in equity for continuing operations was:

| | Year ended 31 Dec 2010 £m | Year ended 31 Dec 2009 £m |
|---|---|---|
| Deferred tax charge on reduction of corporate tax rate | **3.6** | – |
| Deferred tax charge/(credit) on pension movements | **12.4** | (117.7) |
| Current tax credit on pension movements | **–** | (14.4) |
| Deferred tax charge on losses relating to pensions | **13.9** | – |
| | **29.9** | (132.1) |

The tax charge for the year differs from the standard rate of corporation tax in the United Kingdom of 28.0% (2009: 28.0%).The reasons for this are explained below:

| | Year ended 31 Dec 2010 £m | Year ended 31 Dec 2009 (Restated)[1] £m |
|---|---|---|
| (Loss)/profit before taxation for continuing operations | **(98.3)** | 41.8 |
| Tax (credit)/charge at the domestic income tax rate of 28.0% (2009: 28.0%) | **(27.5)** | 11.7 |
| Tax effect of: | | |
| Non deductible exceptional items | **35.0** | 4.5 |
| Other disallowable items | **(0.7)** | 0.3 |
| Adjustment to reflect the abolition of tax relief for industrial buildings | **(1.0)** | – |
| Adjustment for share-based pay | **1.9** | 0.9 |
| Previously unrecognised losses utilised | **–** | (2.9) |
| Adjustment due to current year deferred tax being provided at 27.0% | **(0.4)** | – |
| Adjustment to restate opening deferred tax at 27.0% | **(4.6)** | – |
| Adjustments to prior years | **(14.3)** | (8.7) |
| **Income tax (credit)/charge** | **(11.6)** | 5.8 |

1 Comparatives have been restated to reflect the classification of the Meat-free business as a discontinued operation.

The Finance (No. 2) Act 2010, which was substantively enacted on 20 July 2010, includes legislation reducing the main rate of corporation tax from 28.0% to 27.0% from 1 April 2011. The 1.0% reduction for the 2011 financial year has been reflected in the financial statements for the year ended 31 December 2010 by restating the deferred tax liability at 31 December 2009 giving a reduction of £5.6m. In addition, the movements in deferred tax in the year have been reflected at 27.0%, being the rate at which the liabilities are expected to reverse, which has resulted in a £0.4m increase in the income tax credit.

Further reductions to the main rate of corporation tax are proposed to reduce the rate by 1.0% per annum to 24.0% by 1 April 2014. However, as these further reductions in the main rate of corporation tax have not been substantially enacted at the balance sheet date they are not reflected in the deferred tax recognised on the balance sheet.

## 11. Earnings Per Share

Basic (loss)/earnings per share has been calculated by dividing the profit attributable to ordinary shareholders of £99.3m loss (2009: £25.2m profit) by the weighted average number of ordinary shares of the Company.

| | Year ended 31 Dec 2010 | | | Year ended 31 Dec 2009 (Restated)[1] | | |
|---|---|---|---|---|---|---|
| | Basic | Dilutive effect of share options | Diluted | Basic | Dilutive effect of share options | Diluted |
| **Continuing operations** | | | | | | |
| (Loss)/profit after tax (£m) | **(86.7)** | **–** | **(86.7)** | 36.0 | – | 36.0 |
| Weighted average number of shares (m) | **2,398.0** | **–** | **2,398.0** | 2,079.0 | – | 2,079.0 |
| (Loss)/earnings per share (pence) | **(3.6)** | **–** | **(3.6)** | 1.7 | – | 1.7 |
| **Discontinued operations** | | | | | | |
| Loss after tax (£m) | **(12.6)** | **–** | **(12.6)** | (10.8) | – | (10.8) |
| Weighted average number of shares (m) | **2,398.0** | **–** | **2,398.0** | 2,079.0 | – | 2,079.0 |
| Loss per share (pence) | **(0.5)** | **–** | **(0.5)** | (0.5) | – | (0.5) |
| **Total** | | | | | | |
| (Loss)/profit after tax (£m) | **(99.3)** | **–** | **(99.3)** | 25.2 | – | 25.2 |
| Weighted average number of shares (m) | **2,398.0** | **–** | **2,398.0** | 2,079.0 | – | 2,079.0 |
| (Loss)/earnings per share (pence) | **(4.1)** | **–** | **(4.1)** | 1.2 | – | 1.2 |

[1] Comparatives have been restated to reflect the classification of the Meat-free 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 done 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 2010 and 31 December 2009, 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.

The issue of 1,553,416,776 ordinary shares during the previous year has been included in determining the weighted average for the previous year (see note 26).

No adjustment is made to the profit or loss in calculating undiluted and diluted (loss)/earnings per share.

| | 2010 Number | 2009 Number |
|---|---|---|
| Weighted average number of ordinary shares for the purpose of basic (loss)/earnings per share | **2,398,021,581** | 2,079,022,507 |
| Effect of dilutive potential ordinary shares: | | |
| — Share options | **–** | – |
| **Weighted average number of ordinary shares for the purpose of diluted (loss)/earnings per share** | **2,398,021,581** | 2,079,022,507 |

### 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 28.0% (2009: 28.0%) divided by the weighted average number of ordinary shares of the Company.

Trading profit is defined as operating profit before exceptional items, 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 non-cash items, namely exceptional 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 with which the shareholders can assess the Group's underlying trading performance.

## 11. Earnings Per Share continued

| | Year ended 31 Dec 2010 | | | | |
|---|---|---|---|---|---|
| | Continuing £m | Discontinued Meat-free business £m | Total continuing & Meat-free £m | Discontinued other £m | Total £m |
| **Operating profit/(loss)** | 93.1 | (12.1) | 81.0 | (0.2) | 80.8 |
| Exceptional items | 125.0 | 25.0 | 150.0 | – | 150.0 |
| **Operating profit/(loss) before exceptional items** | 218.1 | 12.9 | 231.0 | (0.2) | 230.8 |
| Pension financing credit | (4.1) | – | (4.1) | – | (4.1) |
| Fair value movements on foreign exchange and other derivative contracts | 2.0 | – | 2.0 | – | 2.0 |
| Amortisation of intangible assets | 78.9 | 3.3 | 82.2 | – | 82.2 |
| **Trading profit/(loss)** | 294.9 | 16.2 | 311.1 | (0.2) | 310.9 |
| Less net regular interest payable | (145.2) | (0.2) | (145.4) | – | (145.4) |
| **Adjusted profit/(loss) before tax** | 149.7 | 16.0 | 165.7 | (0.2) | 165.5 |
| Notional tax at 28.0% | (41.9) | (4.5) | (46.4) | 0.1 | (46.3) |
| Adjusted profit/(loss) after tax | 107.8 | 11.5 | 119.3 | (0.1) | 119.2 |
| Average shares in issue (m) | 2,398.0 | 2,398.0 | 2,398.0 | 2,398.0 | 2,398.0 |
| **Adjusted EPS (pence)** | 4.5 | 0.5 | 5.0 | – | 5.0 |
| **Net regular interest payable** | | | | | |
| Net interest payable | 191.4 | 0.2 | 191.6 | – | 191.6 |
| Exclude exceptional write-off of financing costs | (1.6) | – | (1.6) | – | (1.6) |
| Exclude fair value adjustments on interest rate financial instruments | (43.3) | – | (43.3) | – | (43.3) |
| Exclude unwind of discount on provisions | (1.3) | – | (1.3) | – | (1.3) |
| Net regular interest payable | 145.2 | 0.2 | 145.4 | – | 145.4 |

| | Year ended 31 Dec 2009 (Restated)[1,2] | | | | |
|---|---|---|---|---|---|
| | Continuing £m | Discontinued Meat-free business £m | Total continuing & Meat-free £m | Discontinued other £m | Total £m |
| **Operating profit/(loss)** | 171.7 | 4.8 | 176.5 | (27.4) | 149.1 |
| Exceptional items | 45.8 | – | 45.8 | 24.5 | 70.3 |
| **Operating profit/(loss) before exceptional items** | 217.5 | 4.8 | 222.3 | (2.9) | 219.4 |
| Pension financing charge | 1.8 | – | 1.8 | – | 1.8 |
| Fair value movements on foreign exchange and other derivative contracts | 6.3 | – | 6.3 | – | 6.3 |
| Amortisation of intangible assets | 75.4 | 3.3 | 78.7 | – | 78.7 |
| **Trading profit/(loss)** | 301.0 | 8.1 | 309.1 | (2.9) | 306.2 |
| Less net regular interest (payable)/receivable | (154.8) | 0.1 | (154.7) | – | (154.7) |
| **Adjusted profit/(loss) before tax** | 146.2 | 8.2 | 154.4 | (2.9) | 151.5 |
| Notional tax at 28.0% | (40.9) | (2.3) | (43.2) | 0.8 | (42.4) |
| **Adjusted profit/(loss) after tax** | 105.3 | 5.9 | 111.2 | (2.1) | 109.1 |
| Average shares in issue (m) | 2,079.0 | 2,079.0 | 2,079.0 | 2,079.0 | 2,079.0 |
| **Adjusted EPS (pence)** | 5.1 | 0.3 | 5.4 | (0.1) | 5.3 |
| **Net regular interest payable** | | | | | |
| Net interest payable/(receivable) | 129.9 | (0.1) | 129.8 | 0.1 | 129.9 |
| Exclude exceptional write-off of financing costs | (3.0) | – | (3.0) | – | (3.0) |
| Exclude accelerated amortisation of debt issuance costs | (9.8) | – | (9.8) | – | (9.8) |
| Exclude fair value adjustments on interest rate financial instruments | 38.7 | – | 38.7 | – | 38.7 |
| Exclude unwind of discount on provisions | (1.0) | – | (1.0) | (0.1) | (1.1) |
| Net regular interest payable/(receivable) | 154.8 | (0.1) | 154.7 | – | 154.7 |

1 Comparatives have been restated to reflect the classification of the Meat-free business as a discontinued operation.
2 Comparatives have been restated to reflect the change in classification of certain exceptional items as business restructuring & investment costs which have now been included within trading profit.

## 12. Discontinued operations

On 24 January 2011, the Group announced that it had reached an agreement to sell its Meat-free business to Exponent Private Equity and Intermediate Capital Group for £205.0m, before disposal costs. The sale of the Meat-free business is expected to complete during the first quarter of 2011.

The results of the Meat-free business for the year ended 31 December 2010 are included in discontinued operations in the Group's consolidated income statement. The results of discontinued operations for the year are as follows:

| | Year ended 31 Dec 2010 £m | Year ended 31 Dec 2009 (Restated)[1] £m |
|---|---|---|
| Revenue | 128.8 | 152.7 |
| Operating expenses | (141.1) | (150.8) |
| **Operating (loss)/profit, before loss on disposal** | (12.3) | 1.9 |
| Interest payable | (0.6) | (0.2) |
| Interest receivable | 0.4 | 0.2 |
| **(Loss)/profit before taxation** | (12.5) | 1.9 |
| Taxation charge | (0.1) | (1.7) |
| **(Loss)/profit after taxation on discontinued operations for the year** | (12.6) | 0.2 |
| Loss on disposal before taxation | – | (24.5) |
| Tax credit on loss on disposal | – | 13.5 |
| **Loss on disposal after taxation** | – | (11.0) |
| **Total loss arising from discontinued operations** | (12.6) | (10.8) |

1 Comparatives have been restated to reflect the classification of the Meat-free business as a discontinued operation.

Included in the operating expenses above is an impairment charge of £25.0m, recognised against the goodwill allocated to the Meat-free CGU.

The total loss in the previous year from discontinued operations included the results of the speciality bakery businesses.

During the year, discontinued operations contributed to a net inflow of £18.3m (2009: £1.8m inflow) to the Group's net operating cash flows, and a £1.2m outflow to investing activities (2009: £7.4m outflow).

## 13. Assets and liabilities held for sale

| | 2010 £m | 2009 £m |
|---|---|---|
| **Non-current assets:** | | |
| Property, plant and equipment | 114.2 | 1.8 |
| Goodwill | 125.2 | – |
| Other intangible assets | 77.4 | – |
| **Current assets:** | | |
| Inventories | 68.1 | – |
| Trade and other receivables | 21.4 | – |
| **Total assets held for sale** | 406.3 | 1.8 |
| **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** | 357.5 | 1.8 |

As at 31 December 2010, the assets and 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.

As at 31 December 2009, the non-operational property at Hull was classified as an asset held for sale. This disposal was completed in early 2010.

## 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 | Total £m |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At 1 January 2009 | 140.6 | 8.8 | 31.2 | 570.0 | 750.6 |
| Additions | 7.1 | – | – | 44.4 | 51.5 |
| Disposals | – | – | – | (4.6) | (4.6) |
| Reclassifications | (0.8) | – | (0.1) | 0.9 | – |
| Foreign exchange | – | – | – | (0.1) | (0.1) |
| **At 31 December 2009** | **146.9** | **8.8** | **31.1** | **610.6** | **797.4** |
| Additions | **3.5** | **–** | **–** | **65.0** | **68.5** |
| 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** |
| Transferred to Held for sale | **(27.9)** | **–** | **(2.7)** | **(122.3)** | **(152.9)** |
| **At 31 December 2010** | **133.4** | **11.1** | **28.3** | **542.6** | **715.4** |
| **Aggregate depreciation and impairment** | | | | | |
| At 1 January 2009 | 8.3 | 0.6 | 4.3 | 98.5 | 111.7 |
| Depreciation charge for the year | 5.7 | 0.5 | 0.8 | 45.3 | 52.3 |
| Disposals | – | – | – | (1.7) | (1.7) |
| Foreign exchange | – | – | – | (0.1) | (0.1) |
| **At 31 December 2009** | **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 | **–** | **–** | **–** | **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** |
| **Net book value** | | | | | |
| At 31 December 2009 | 132.9 | 7.7 | 26.0 | 468.6 | 635.2 |
| **At 31 December 2010** | **121.4** | **7.0** | **24.3** | **385.9** | **538.6** |

The net book value of the Group's vehicles, plant and equipment includes an amount of £21.2m (2009: £0.7m) in respect of assets held under finance leases. Included in the additions of £68.5m for the year are £21.0m of additions of 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.

At 31 December 2010, the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £8.6m (2009: £14.8m).

The Group's borrowings are secured on the assets of the Group including property, plant and equipment.

## 15. Goodwill

| | **2010 £m** | 2009 £m |
|---|---|---|
| **Carrying value** | | |
| At 1 January | **1,371.3** | 1,371.3 |
| Impairment — continuing | **(125.0)** | – |
| Impairment — discontinuing | **(25.0)** | – |
| Transferred to held for sale | **(125.2)** | – |
| **At 31 December** | **1,096.1** | 1,371.3 |

The CGU's for the Group are as follows:

| | **2010 £m** | 2009 £m |
|---|---|---|
| Grocery | **887.4** | 948.0 |
| Hovis | **185.4** | 185.4 |
| Brookes Avana | **23.3** | 148.3 |
| Meat-free | **–** | 89.6 |
| **Net carrying value of goodwill** | **1,096.1** | 1,371.3 |

## 15. Goodwill continued

### 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.

An impairment assessment of the carrying value of the goodwill assigned to the Meat-free business has been undertaken by assessing the fair value less costs to sell in light of the decision to dispose of this business. The goodwill assigned to the Meat-free business was tested for impairment prior to its classification as held for sale.

### Key assumptions

The key assumptions for calculating value in use are those relating to the cash flows, long-term growth rate and discount rate.

Fair value less costs to sell in respect of the Meat-free business has been determined by reference to the value of the offer received, less the expected costs of disposing the business.

#### *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 five years. Assumptions regarding these future cash flows are based upon actual results in prior periods and 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 five year management forecasts are extrapolated in perpetuity using growth assumptions relevant for the business sector. The growth rate applied is 2.25% (2009: 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 2010, the pre-tax rate used to discount the forecasted cash flows has been determined to be 12.3% (2009: 11.8%).

### Impairment

A total impairment charge of £150.0m has been recognised in the year (2009: £nil).

Included within this charge is £125.0m recognised against the goodwill allocated to the Brookes Avana CGU thereby reducing the carrying value of this CGU to its recoverable amount. This impairment has arisen as a result of adverse trading conditions and an increase in discount rate (as noted above). Any favourable change in assumptions in future periods will result in additional headroom however any adverse change would result in additional impairment.

A further charge of £25.0m is recognised against the goodwill allocated to the Meat-free business and has been recorded within discontinued operations. The residual goodwill attributable to the Meat-free business of £64.6m has been transferred to assets held for sale.

The current economic climate has increased the discount rate adopted by the Group due to the higher level of return expected by equity holders (due to the continued perceived risk and volatility in equity markets). The Group has considered this impact on the assumptions used and has conducted sensitivity analysis on the impairment test of the Hovis CGU's carrying value. This has not resulted in any impairment of the carrying value at 31 December 2010 as the CGU's recoverable amount exceeds its carrying value by £55.6m. However, the CGU's recoverable amount would be comparable to its carrying value if the discount rate were to increase by 1.0%. Any favourable change in assumptions in future periods will result in additional headroom.

With regards to the remaining Grocery CGU, the directors believe no reasonable change in the key assumptions used in the impairment testing would cause the carrying value to exceed its recoverable amount.

## 16. Other intangible assets

| | Software/ licences £m | Brands/ trade marks £m | Customer relationships £m | Total £m |
|---|---|---|---|---|
| **Cost** | | | | |
| At 1 January 2009 | 88.5 | 989.7 | 243.0 | 1,321.2 |
| Additions | 27.6 | – | – | 27.6 |
| Disposals | (1.1) | – | – | (1.1) |
| **At 31 December 2009** | **115.0** | **989.7** | **243.0** | **1,347.7** |
| Additions | **17.9** | **–** | **–** | **17.9** |
| Transfer to property, plant and equipment | **(3.8)** | **–** | **–** | **(3.8)** |
| Reclassifications | **1.0** | **–** | **–** | **1.0** |
| Transferred to held for sale | **–** | **(96.5)** | **–** | **(96.5)** |
| **At 31 December 2010** | **130.1** | **893.2** | **243.0** | **1,266.3** |
| **Amortisation** | | | | |
| At 1 January 2009 | 15.8 | 83.7 | 62.2 | 161.7 |
| Charge for the year | 9.7 | 34.3 | 34.7 | 78.7 |
| Disposals | (1.1) | – | – | (1.1) |
| **At 31 December 2009** | **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** |
| Net book value 31 December 2009 | 90.6 | 871.7 | 146.1 | 1,108.4 |
| **Net book value 31 December 2010** | **92.3** | **760.0** | **111.4** | **963.7** |

During the year, 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 trade marks 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.

Included in the software additions for the year above are £6.5m of internal costs (2009: £7.3m).

As at 31 December 2010, the Group's borrowings are secured on the assets of the Group including other intangible fixed assets.

The material brands held on the balance sheet are as follows:

| Brand/Trade mark | Carrying value at 31 Dec 2010 £m | Estimated useful life remaining years |
|---|---|---|
| *Bisto* | 157.0 | 26 |
| *Hovis* | 144.7 | 36 |
| *Oxo* | 97.9 | 36 |
| *Batchelors* | 82.7 | 26 |
| *Sharwood's* | 74.1 | 26 |
| *Mr Kipling* | 61.1 | 26 |

## 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 2010 | 2009 |
|---|---|---|---|---|
| **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% |
| Marlow Foods Limited | United Kingdom | Meat-free manufacturing | **100%** | 100% |
| **Other subsidiaries** | | | | |
| Premier Brands Foods Limited | United Kingdom | Intermediate holding company | **100%** | 100% |
| Premier Financing Limited | United Kingdom | Intermediate holding company | **100%** | 100% |
| Premier Foods (Holdings) Limited | United Kingdom | Intermediate holding company | **100%** | 100% |
| Premier Foods Investments Limited | United Kingdom | Financing company | **100%** | 100% |
| Premier Foods Investments No. 1 Limited | United Kingdom | Intermediate holding company | **100%** | 100% |
| Premier Foods Investments No. 2 Limited | United Kingdom | Intermediate holding company | **100%** | 100% |
| Premier Foods Investments No. 3 Limited | United Kingdom | Intermediate holding company | **100%** | 100% |
| RHM Limited | United Kingdom | Intermediate holding company | **100%** | 100% |

Premier Foods Investments No. 3 Limited is a direct wholly owned subsidiary undertaking of Premier Foods plc. All other subsidiary undertakings are held indirectly by Premier Foods plc.

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. A full list of subsidiary undertakings is available from the Company Secretary.

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.

On 24 January 2011, the Group announced the sale of its Meat-free business through the disposal of 100% of the shares in Marlow Foods Limited.

## 18. Inventories

| | 2010 £m | 2009 £m |
|---|---|---|
| Raw materials | **47.9** | 79.3 |
| Work in progress | **4.2** | 4.5 |
| Finished goods and goods for resale | **83.1** | 130.2 |
| **Inventories** | **135.2** | 214.0 |

The borrowings of the Group are secured against all the assets of the Group including inventory.

## 19. Trade and other receivables

| | 2010 £m | 2009 £m |
|---|---|---|
| Trade receivables | **317.8** | 308.2 |
| Trade receivables impaired | **(9.1)** | (7.7) |
| Net trade receivables | **308.7** | 300.5 |
| Prepayments | **25.9** | 22.3 |
| Interest receivable | **0.6** | 1.1 |
| Other tax and social security receivable | **16.0** | 13.2 |
| Other receivables | **5.1** | 9.9 |
| **Trade and other receivables** | **356.3** | 347.0 |

The borrowings of the Group are secured against all the assets of the Group including trade and other receivables.

## 20. Trade and other payables

| | 2010 £m | 2009 £m |
|---|---|---|
| Trade payables | 399.6 | 386.2 |
| Other tax and social security payable | 5.4 | 7.8 |
| Other payables and accruals | 91.2 | 91.0 |
| **Trade and other payables** | 496.2 | 485.0 |

## 21. Bank and other borrowings

| | 2010 £m | 2009 £m |
|---|---|---|
| **Due within one year:** | | |
| Secured Senior Credit Facility — Term (note a) | 100.0 | 100.0 |
| Debt issuance costs | (1.3) | (1.0) |
| | 98.7 | 99.0 |
| Bank overdrafts | 30.6 | 34.5 |
| Total bank borrowings due within one year | 129.3 | 133.5 |
| Finance lease obligations (note 22) | 7.4 | 0.5 |
| Other unsecured loans (note b) | 53.4 | 18.5 |
| Total borrowings due within one year | 190.1 | 152.5 |
| **Due after more than one year:** | | |
| Secured Senior Credit Facility — Revolving (note a) | 20.0 | 67.9 |
| Debt issuance costs | (6.5) | (5.0) |
| | 13.5 | 62.9 |
| Secured Senior Credit Facility — Term (note a) | 1,080.0 | 1,179.9 |
| Debt issuance costs | (13.5) | (11.7) |
| | 1,066.5 | 1,168.2 |
| Finance lease obligations (note 22) | 11.7 | 0.9 |
| Other unsecured loans | 0.1 | – |
| Total other | 11.8 | 0.9 |
| Total borrowings due after one year | 1,091.8 | 1,232.0 |
| **Total bank and other borrowings** | 1,281.9 | 1,384.5 |

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 and the legal rights to such offset in accordance with IAS 32 "Financial Instruments: Presentation".

### (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 £1,180m 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.

## 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, Swiss francs and Swedish kronor. 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. As at 31 December 2010, the Group has euro denominated borrowings of €nil (2009: €22.3m) designated as a hedge of euro denominated assets.

The principal foreign currency affecting the translation of subsidiary undertakings within the Group financial statements is the euro. The rates applicable are as follows:

| Principal rate of exchange EUR/£ | Year ended 31 Dec 2010 | Year ended 31 Dec 2009 |
|---|---|---|
| Year end | **1.1601** | 1.1185 |
| Average | **1.1584** | 1.1142 |

The majority of the Group's assets and liabilities are denominated in the functional currency of the relevant division or subsidiary.

The table below shows the Group's currency exposures as at 31 December 2010 and 2009 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 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** |
| **At 31 December 2009** | | | |
| Net foreign currency monetary assets/(liabilities) | | | |
| Sterling | – | 0.4 | 0.4 |
| Euro | (7.9) | – | (7.9) |
| US dollar | 0.7 | – | 0.7 |
| Other currencies | 0.2 | – | 0.2 |
| **Total** | (7.0) | 0.4 | (6.6) |

## 22. Financial instruments continued

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:

| | 2010 Payable/ (receivable) £m | 2009 Payable/ (receivable) £m |
|---|---|---|
| Euro | **42.6** | 46.0 |
| US dollar | **36.9** | 46.9 |
| Swiss franc | **(1.1)** | (1.8) |
| Swedish krona | **(1.5)** | (2.7) |
| Australian dollar | **(0.2)** | – |
| **Total** | **76.7** | 88.4 |

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 £3.3m (2009: £3.4m 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 £4.1m (2009: £4.9m 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 £3.1m (2009: £1.7m 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 £3.0m (2009: £2.7m 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.

If the euro were to weaken against sterling by 10 euro cents, the foreign exchange movement taken to equity in relation to the Net Investment Hedge would be an additional £nil (2009: £1.6m gain).

If the euro were to strengthen against sterling by 10 euro cents, the foreign exchange movement taken to equity in relation to the Net Investment Hedge would be an additional £nil (2009: £2.0m loss).

### (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.

### (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 re-set on a quarterly basis. As at 31 December 2010 the re-set rate was 0.7575% (2009: 0.605%).

The weighted average interest rate for these derivative financial instruments is as follows:

| | Weighted average interest rate (%) |
|---|---|
| **Currency: Sterling** | |
| **At 31 December 2010** | **5.7** |
| At 31 December 2009 | 6.0 |

## 22. Financial instruments continued

The following table reflects 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.

| | 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 |
|---|---|---|---|---|---|---|---|
| **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 |
| **2009** | | | | | | | |
| **Derivative financial liabilities:** | | | | | | | |
| Fixed rate | 125.0 | – | – | 50.0 | – | – | 175.0 |
| Cap and Floor Structure | – | – | 350.0 | – | – | – | 350.0 |
| Long dated callable Swaps | – | – | 225.0 | 150.0 | – | 25.0 | 400.0 |
| Other callable Swaps | – | – | – | 275.0 | – | – | 275.0 |
| **Other financial liabilities at fair value through profit or loss:** | | | | | | | |
| Other callable Swaps | – | – | 150.0 | – | – | – | 150.0 |
| | 125.0 | – | 725.0 | 475.0 | – | 25.0 | 1,350.0 |

Fixed rate derivative financial liabilities constitute one swap with a nominal value of £50m (2009: £175m) 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 (2009: £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 all of its five long dated swaps (nominal value £400m) and its two other callable swaps (nominal value £275m) into six new fixed rate swaps with a nominal value totalling £675m, all maturing in 2013. These new 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%). 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, £250m being currently callable and a further £150m becoming callable in September 2011.

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 2010 is £32.4m (2009: £36.8m), and based on the current yield curve the mark to market payment in August 2012 would be £29.4m (2009: £32.6m).

To compensate for the shorter maturity date these swaps have fixed bullet payments on maturity totalling £82m. 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 £38.9m as at 31 December 2010 (2009: £46.9m) include £14.1m relating to onerous leases (2009: £16.6m) which are considered to be floating rate financial liabilities. These cash flows are discounted where the effect is material.

At 31 December 2010, for every 50 basis points reduction in rates below the last floating reset rate of 0.7575% (based on three month LIBOR), with all other variables held constant, annualised net interest expense would decrease by £1.7m (2009: £2.8m increase).

At 31 December 2010, if interest rates were 200 basis points higher than the last floating reset rate of 0.7575% (based on three month LIBOR), with all other variables held constant, annualised net interest expense would increase by £6.8m (2009: £11.1m decrease).

The Group's other financial assets and liabilities are not exposed to material interest rate risk.

## 22. Financial instruments continued

### (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 2010, trade and other receivables of £49.9m (2009: £31.3m) 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 | | | | | |
|---|---|---|---|---|---|---|---|
| | Fully performing £m | 1–30 days £m | 31–60 days £m | 61–90 days £m | 91–120 days £m | 120+ days £m | Total £m |
| **Trade and other receivables** | | | | | | | |
| **2010** | **264.5** | **20.0** | **3.6** | **2.5** | **1.5** | **22.3** | **314.4** |
| 2009 | 280.2 | 17.6 | 4.3 | 1.9 | 1.7 | 5.8 | 311.5 |

At 31 December 2010, trade and other receivables of £9.1m (2009: £7.7m) were determined to be specifically impaired and provided for. The amount of the provision 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:

| | 2010 £m | 2009 £m |
|---|---|---|
| At 1 January | **7.7** | 6.0 |
| Receivables written off during the year as uncollectable | **(3.3)** | (2.4) |
| Provision for receivables released | **(1.8)** | – |
| Provision for receivables impairment raised | **6.5** | 4.1 |
| **At 31 December** | **9.1** | 7.7 |

The Group has benefited 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 de-link its own credit rating from that of the underlying assets and achieve a lower cost of funding.

### (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.

## 22. Financial instruments continued

The following table analyses the Group's financial liabilities into relevant maturity groupings based on the expected 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 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** |
| **At 31 December 2009** | | | | | | | |
| Trade and other payables | 477.2 | – | – | – | – | – | 477.2 |
| Bank overdraft | 34.5 | – | – | – | – | – | 34.5 |
| Bank Term Loan | 100.0 | 100.0 | 100.0 | 979.9 | – | – | 1,279.9 |
| Bank Revolver Facility (Drawn down) | – | – | – | 67.9 | – | – | 67.9 |
| Finance leases | 0.5 | 0.3 | 0.2 | 0.2 | 0.1 | 0.4 | 1.7 |
| Other loans | 18.5 | – | – | – | – | – | 18.5 |

The Bank Term Loan and Bank Revolver Facility are re-priced quarterly to LIBOR, and other liabilities are not re-priced before the maturity date.

The Group has £420.9m (2009: £387.6m) of facilities available and not drawn as at 31 December 2010 expiring between 2 and 3 years.

The borrowings are secured by a fixed and floating charge over all the assets of the Group.

The following table analyses the expected undiscounted cash flows of interest on the floating rate debt to maturity (based on the last fixed rate refix of 0.7575% (2009: 0.605%) 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** | | | | | | | |
| **2010** | **44.9** | **37.5** | **31.3** | **–** | **–** | **–** | **113.7** |
| 2009 | 51.0 | 45.1 | 38.5 | 33.6 | – | – | 168.2 |

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.

## 22. Financial instruments continued

| | 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 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)** |
| **At 31 December 2009** | | | | | | | |
| **Forward foreign exchange contracts:** | | | | | | | |
| Outflow | (85.4) | – | – | – | – | – | (85.4) |
| Inflow | 86.9 | – | – | – | – | – | 86.9 |
| Inflow on options | 0.4 | – | – | – | – | – | 0.4 |
| **Commodities:** | | | | | | | |
| Outflow | (10.7) | (1.0) | – | – | – | – | (11.7) |
| **Interest rate swaps:** | | | | | | | |
| Outflow | (80.0) | (77.6) | (330.6) | (105.9) | (1.1) | (26.2) | (621.4) |
| Inflow | 6.8 | 6.5 | 39.5 | 11.1 | 0.2 | 3.5 | 67.6 |
| **Other financial liabilities at fair value through profit or loss:** | | | | | | | |
| Outflow | (6.5) | (6.5) | (36.9) | – | – | – | (49.9) |
| Inflow | 4.5 | 4.5 | 3.0 | – | – | – | 12.0 |
| | (84.0) | (74.1) | (325.0) | (94.8) | (0.9) | (22.7) | (601.5) |

The above table incorporates the contractual cash flows of the interest rate derivatives with floating rates of interest calculated based on LIBOR of 0.7575% (2009: 0.605%) at the balance sheet date. In addition, the cash outflow between 2 and 3 years relating to "Other financial liabilities at fair value through profit or loss" includes £82m of fixed payments on maturity of the swaps in lieu of the post 2013 cash flows which have now been restructured. 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 (2009: 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.

| | **2010 Book and market value £m** | 2009 Book and market value £m |
|---|---|---|
| **Loans and receivables:** | | |
| Cash and cash equivalents | **1.9** | 19.4 |
| Trade and other receivables | **314.4** | 311.5 |
| **Financial assets at fair value through profit or loss:** | | |
| Derivative financial instruments | | |
| — Forward foreign currency exchange contracts/currency options | **0.7** | 2.0 |
| — Commodity and energy derivatives | **0.7** | 0.5 |
| **Financial liabilities at fair value through profit or loss:** | | |
| Derivative financial instruments | | |
| — Forward foreign currency exchange contracts/currency options | **(1.4)** | (0.5) |
| — Interest rate swaps | **(28.2)** | (161.9) |
| **Other financial liabilities at fair value through profit or loss:** | | |
| — Interest rate swaps | **(206.3)** | (36.8) |
| **Financial liabilities at amortised cost:** | | |
| Trade and other payables | **(490.8)** | (477.2) |
| Bank Term Loan | **(1,180.0)** | (1,279.9) |
| Bank Revolver Facility (Drawn down) | **(20.0)** | (67.9) |
| Bank overdraft | **(30.6)** | (34.5) |
| Finance leases | **(19.1)** | (1.4) |
| Other | **(53.5)** | (18.5) |
| Interest payable | **(12.3)** | (13.7) |

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2010 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.

| | **2010 Level 2** | 2009 Level 2 |
|---|---|---|
| **Financial assets at fair value through profit or loss:** | | |
| Derivative financial instruments | | |
| — Forward foreign currency exchange contracts/currency options | **0.7** | 2.0 |
| — Commodity and energy derivatives | **0.7** | 0.5 |
| **Financial liabilities at fair value through profit or loss:** | | |
| Derivative financial instruments | | |
| — Forward foreign currency exchange contracts/currency options | **(1.4)** | (0.5) |
| — Interest rate swaps | **(28.2)** | (161.9) |
| **Other financial liabilities at fair value through profit or loss:** | | |
| — Interest rate swaps | **(206.3)** | (36.8) |

### 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 £2.2m has been debited to the income statement in the year (2009: £18.6m debit).

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 £0.2m (2009: £11.7m credit) has been credited 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 £133.7m has been credited to the income statement in the year (2009: £75.5m 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 £177.0m has been charged to the income statement in the year (2009: £36.8m charge).

## 22. Financial instruments continued

### *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 | |
|---|---|---|---|---|
| | **2010 £m** | 2009 £m | **2010 £m** | 2009 £m |
| Not later than one year | **7.4** | 0.5 | **7.4** | 0.5 |
| Later than one year but not later than five years | **12.8** | 0.8 | **11.5** | 0.6 |
| Later than five years | **0.3** | 0.4 | **0.2** | 0.3 |
| | **20.5** | 1.7 | **19.1** | 1.4 |
| Less: Future finance charges | **(1.4)** | (0.3) | **n/a** | n/a |
| Present value of lease obligations | **19.1** | 1.4 | **19.1** | 1.4 |
| Less: Amounts due for settlement within 12 months | | | **(7.4)** | (0.5) |
| Amounts due for settlement after 12 months | | | **11.7** | 0.9 |

It is the Group's policy to lease certain items of plant and equipment under finance leases. The average lease term is two years, the longest being 7 years.

For the year ended 31 December 2010, the average effective borrowing rate was 3.9% (2009: 8.2%).

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.

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.

The gearing ratios at 31 December 2010 and 31 December 2009 were as follows:

| | **2010 £m** | 2009 £m |
|---|---|---|
| Total borrowings | **1,281.9** | 1,384.5 |
| Less cash and cash equivalents | **(1.9)** | (19.4) |
| Net borrowings | **1,280.0** | 1,365.1 |
| Total equity | **989.5** | 1,064.9 |
| Total capital | **2,269.5** | 2,430.0 |
| Gearing ratio | **56%** | 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 during the year, and at year end.

Financial statements

## 23. 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 27.0% (2009: 28.0%) except for an asset of £0.7m (2009: £1.0m) relating to Irish retirement benefit obligations where the local rate of 12.5% has been used.

| | **2010 £m** | 2009 £m |
|---|---|---|
| At 1 January | **64.7** | 193.1 |
| (Credited)/charged to the income statement | **(12.7)** | 10.3 |
| Debited/(credited) to equity | **29.9** | (132.1) |
| Transferred to held for sale | **(25.8)** | – |
| Disposal of subsidiaries/businesses | **–** | (6.6) |
| **At 31 December** | **56.1** | 64.7 |

Due to the unpredictability of future profit streams the Group has not recognised deferred tax assets of £48.1m (2009: £48.1m) relating to capital losses, £9.3m (2009: £nil) relating to UK corporation tax losses, £nil (2009: £0.4m) Irish corporate tax losses and £34.8m (2009: £34.8m) relating to ACT. Under current legislation these losses can generally be carried forward indefinitely.

| **Deferred tax liabilities** | Accelerated tax depreciation £m | Intangibles £m | Total £m |
|---|---|---|---|
| **At 1 January 2009** | 72.8 | 254.4 | 327.2 |
| Current year credit | (0.6) | (14.8) | (15.4) |
| Prior years credit | (34.5) | (6.2) | (40.7) |
| Disposal of subsidiaries/businesses | (6.6) | – | (6.6) |
| **At 31 December 2009** | **31.1** | **233.4** | **264.5** |
| Prior years restatement of opening balances | **(1.1)** | **(8.3)** | **(9.4)** |
| Current year charge/(credit) | **17.6** | **(13.3)** | **4.3** |
| Deferred tax charge/(credit) on discontinued activities | **(0.9)** | **(0.9)** | **(1.8)** |
| Prior year credit | **(29.9)** | **–** | **(29.9)** |
| Transfer to held for sale | **(6.4)** | **(20.3)** | **(26.7)** |
| **At 31 December 2010** | **10.4** | **190.6** | **201.0** |

| **Deferred tax assets** | Retirement benefit obligation £m | Share-based payments £m | Financial instruments £m | Losses £m | Other £m | Total £m |
|---|---|---|---|---|---|---|
| **At 1 January 2009** | (1.2) | (0.1) | (63.3) | (62.5) | (7.0) | (134.1) |
| Current year (credit)/charge | – | (0.3) | 8.9 | 15.2 | 6.8 | 30.6 |
| Prior year charge/(credit) | 0.3 | (0.1) | (0.4) | 34.1 | 1.9 | 35.8 |
| Debited to equity | (117.7) | – | – | (14.4) | – | (132.1) |
| **At 31 December 2009** | **(118.6)** | **(0.5)** | **(54.8)** | **(27.6)** | **1.7** | **(199.8)** |
| Prior years restatement of opening balances | | | | | | |
| — To income statement | **1.5** | **–** | **1.9** | **0.5** | **(0.1)** | **3.8** |
| — To equity | **2.7** | **–** | **–** | **0.5** | **0.4** | **3.6** |
| Current year charge/(credit) | **16.2** | **(0.1)** | **(12.2)** | **0.6** | **0.2** | **4.7** |
| Prior years charge/(credit) | | | | | | |
| — To income statement | **–** | **0.3** | **1.4** | **12.4** | **1.5** | **15.6** |
| — To equity | **–** | **–** | **–** | **13.9** | **–** | **13.9** |
| Credited to equity | **12.4** | **–** | **–** | **–** | **–** | **12.4** |
| Transferred to held for sale | **–** | **–** | **–** | **–** | **0.9** | **0.9** |
| **At 31 December 2010** | **(85.8)** | **(0.3)** | **(63.7)** | **0.3** | **4.6** | **(144.9)** |

| **Net deferred tax liability** | £m |
|---|---|
| **At 31 December 2010** | **56.1** |
| At 31 December 2009 | 64.7 |

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.

## 24. Provisions for liabilities and charges

| | Restructuring £m | Other £m | Total £m |
|---|---|---|---|
| **At 1 January 2009** | 38.2 | 13.5 | 51.7 |
| Utilised during the year | (29.3) | (4.5) | (33.8) |
| Additional charge in the year | 21.6 | 11.7 | 33.3 |
| Unwind of provision | 0.7 | 0.4 | 1.1 |
| Released during the year | (2.8) | (2.6) | (5.4) |
| **At 31 December 2009** | **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** |

| 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** |

| Analysis of total provisions: | | | 2009 £m |
|---|---|---|---|
| Current | 8.9 | 7.0 | 15.9 |
| Non-current | 19.5 | 11.5 | 31.0 |
| | 28.4 | 18.5 | 46.9 |

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. Other than onerous lease provisions, which range from 3 to 22 years, it is anticipated that the majority of these provisions will be utilised during 2011.

At 31 December 2009, restructuring and redundancy provisions have been raised in respect of the integration and restructuring of the Group's Irish operations and onerous lease provisions in respect to properties to reflect the current adverse market conditions. Other than onerous lease provisions, which range from 3 to 23 years, it is anticipated that the majority of these provisions will be utilised during 2010.

Other provisions at 31 December 2010 and 2009 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 4.4% and 5.1%. The unwinding of the discount is charged to the income statement under interest payable.

## 25. 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 final 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 during the previous year, and the Premier Foods Ireland Van Sales Scheme which was wound up during the year.

The exchange rates used to translate the overseas euro based schemes are £1.00 = €1.1584 for the average rate during the year, and £1.00 = €1.1601 for the closing position at 31 December 2010.

Under all the schemes detailed above, the employees are entitled to retirement benefits which vary as a percentage of final salary on retirement. The assets of all schemes are held by the trustees of the respective schemes and are independent of the Group's finances.

Financial statements

## 25. Retirement benefit schemes continued

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 2010** | **RHM schemes 2010** |
|---|---|---|
| Discount rate | **5.45%** | **5.45%** |
| Inflation | **3.45%** | **3.45%** |
| Expected salary increases | **4.45%** | **3.30%** |
| Future pension increases | **2.20%** | **2.20%** |

| | Premier schemes 2009 | RHM schemes 2009 |
|---|---|---|
| Discount rate | 5.80% | 5.80% |
| Inflation | 3.50% | 3.50% |
| Expected salary increases | 4.50% | 3.50% |
| Future pension increases | 2.20% | 2.20% |

For the smaller overseas schemes the discount rate used was 5.50%, expected salary increases of 3.00%, and future pension increases of 1.75%.

The mortality assumptions are based on standard mortality tables which allow for future mortality improvements. The assumptions are as follows:

| **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** |

| **2009 Life expectancy** | Premier schemes | RHM schemes | Total |
|---|---|---|---|
| Male pensioner, currently aged 65 | 85.9 | 85.0 | 85.2 |
| Female pensioner, currently aged 65 | 88.4 | 87.3 | 87.6 |
| Male non-pensioner, currently aged 45 | 87.2 | 86.2 | 86.4 |
| Female non-pensioner, currently aged 45 | 89.6 | 88.4 | 88.7 |

The fair values of plan assets split by type of asset are as follows:

| **Pension scheme assets** | Premier schemes £m | RHM schemes £m | Total £m |
|---|---|---|---|
| **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** |
| **Assets at 31 December 2009** | | | |
| Equities | 116.5 | 483.1 | 599.6 |
| Government bonds | 12.4 | 7.4 | 19.8 |
| Corporate bonds | 71.7 | 303.3 | 375.0 |
| Property | 2.0 | 164.0 | 166.0 |
| Absolute/target return products | 209.1 | 313.1 | 522.2 |
| Interest rate and inflation swaps | 25.3 | (38.8) | (13.5) |
| Cash/other | 40.1 | 820.8 | 860.9 |
| **Fair value of scheme assets** | 477.1 | 2,052.9 | 2,530.0 |

The schemes invest in interest rate and inflation swaps to protect from fluctuations in interest and inflation.

## 25. Retirement benefit schemes continued

The expected rates of return on assets were:

| | Premier schemes | RHM schemes | Total |
|---|---|---|---|
| **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 |
| **2006 (for 2007 return)** | | | |
| Expected rate (%) | 7.5 | – | 7.5 |
| Market value (£m) | 465.7 | – | 465.7 |

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 8.5% (2009: 17.5% gain) for Premier schemes, and a gain of 14.4% for RHM schemes (2009: 0.2% loss).

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 |
|---|---|---|---|
| **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) |
| **2006** | | | |
| Present value of funded obligations | (550.4) | – | (550.4) |
| Fair value of plan assets | 465.7 | – | 465.7 |
| **Deficit in scheme** | (84.7) | – | (84.7) |

The aggregate deficit has decreased by £107.6m 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 5.80% to 5.45%.

## 25. 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 |
|---|---|---|---|
| **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)** |
| **2009** | | | |
| Opening defined benefit obligation | (587.7) | (1,952.1) | (2,539.8) |
| Current service cost | (8.0) | (3.6) | (11.6) |
| Past service cost | – | (1.2) | (1.2) |
| Interest cost | (36.1) | (119.9) | (156.0) |
| Actuarial loss | (81.2) | (295.1) | (376.3) |
| Other costs/exchange differences | 3.6 | 1.4 | 5.0 |
| Curtailments | 0.1 | 0.9 | 1.0 |
| Contributions by plan participants | (4.7) | (11.5) | (16.2) |
| Benefits paid | 28.5 | 108.1 | 136.6 |
| **Closing defined benefit obligation** | (685.5) | (2,273.0) | (2,958.5) |

Changes in the fair value of plan assets were as follows:

| | Premier schemes £m | RHM schemes £m | Total £m |
|---|---|---|---|
| **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** |
| **2009** | | | |
| Opening fair value of plan assets | 415.4 | 2,112.9 | 2,528.3 |
| Expected return | 30.2 | 131.6 | 161.8 |
| Administrative and life insurance costs | (2.2) | (5.4) | (7.6) |
| Actuarial gain/(loss) | 42.5 | (135.0) | (92.5) |
| Contributions by employer | 17.7 | 46.8 | 64.5 |
| Contributions by plan participants | 4.7 | 11.5 | 16.2 |
| Other income/exchange differences | (2.7) | (1.4) | (4.1) |
| Benefits paid | (28.5) | (108.1) | (136.6) |
| **Closing fair value of plan assets** | 477.1 | 2,052.9 | 2,530.0 |

## 25. Retirement benefit schemes continued

The history of the plans for the current and prior years is as follows:

| | Premier schemes £m | RHM schemes £m | Total £m |
|---|---|---|---|
| **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)** |
| **2009** | | | |
| Actuarial loss on plan liabilities | (81.2) | (295.1) | (376.3) |
| Actuarial gain/(loss) on plan assets | 42.5 | (135.0) | (92.5) |
| Net actuarial loss for the year | (38.7) | (430.1) | (468.8) |
| **Cumulative actuarial loss** | (225.0) | (118.1) | (343.1) |
| **2008** | | | |
| Actuarial gain on plan liabilities | 23.3 | 214.8 | 238.1 |
| Actuarial loss on plan assets | (131.6) | (50.3) | (181.9) |
| Net actuarial (loss)/gain for the year | (108.3) | 164.5 | 56.2 |
| **Cumulative actuarial (loss)/gain** | (186.3) | 312.0 | 125.7 |
| **2007** | | | |
| Actuarial gain on plan liabilities | 2.6 | 135.8 | 138.4 |
| Actuarial (loss)/gain on plan assets | (14.8) | 11.7 | (3.1) |
| Net actuarial (loss)/gain for the period | (12.2) | 147.5 | 135.3 |
| **Cumulative actuarial (loss)/gain** | (78.0) | 147.5 | 69.5 |
| **2006** | | | |
| Actuarial gain on plan liabilities | 4.4 | – | 4.4 |
| Actuarial gain on plan assets | 11.7 | – | 11.7 |
| Net actuarial gain for the year | 16.1 | – | 16.1 |
| **Cumulative actuarial loss** | (65.8) | – | (65.8) |

The actual return on plan assets was a £335.0m gain (2009: £69.3m gain), which is £156.0m more (2009: £92.5m less) than the expected return on plan assets of £179.0m (2009: £161.8m) at the start of the relevant periods.

The actuarial loss on liabilities of £109.6m (2009: £376.3m loss) comprises a gain on member experience of £36.8m (2009: £8.9m gain) and an actuarial loss due to changes in assumptions of £146.4m (2009: £385.2m loss).

The net actuarial gains taken to the statement of comprehensive income were £46.4m (2009: £468.8m losses). These were £34.2m (2009: £336.7m loss) net of taxation (with tax at 27.0% for UK schemes, and 12.5% for Irish schemes).

The Group expects to contribute approximately £77.1m (2010: £66.0m) to its defined benefit plans in 2011, £28.8m (2010: £28.0m) of regular contributions and expenses and £48.3m (2010: £38.0m) of additional contributions to fund the scheme deficits.

The total amounts recognised in the Group's income statement are as follows:

| | Premier schemes £m | RHM schemes £m | Total £m |
|---|---|---|---|
| **2010** | | | |
| Current service cost | **(13.2)** | **(7.5)** | **(20.7)** |
| Past service credit | **6.7** | **4.9** | **11.6** |
| Administrative and life insurance costs | **(3.1)** | **(3.5)** | **(6.6)** |
| Interest cost | **(39.2)** | **(129.1)** | **(168.3)** |
| Expected return on plan assets | **37.6** | **141.4** | **179.0** |
| Loss on curtailment | **–** | **(0.1)** | **(0.1)** |
| **Total (expense)/income** | **(11.2)** | **6.1** | **(5.1)** |
| **2009** | | | |
| Current service cost | (8.0) | (3.6) | (11.6) |
| Past service cost | – | (1.2) | (1.2) |
| Administrative and life insurance costs | (2.2) | (5.4) | (7.6) |
| Interest cost | (36.1) | (119.9) | (156.0) |
| Expected return on plan assets | 30.2 | 131.6 | 161.8 |
| Losses on curtailment | 0.1 | 0.9 | 1.0 |
| **Total (expense)/income** | (16.0) | 2.4 | (13.6) |

## 25. Retirement benefit schemes continued

### 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 £1.1m (2009: £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.

## 26. 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.

### 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 | 2010 £m | 2009 £m |
|---|---|---|
| **Authorised** | | |
| 3,500,000,000 (2009: 3,500,000,000) ordinary shares of 1 pence each | **35.0** | 35.0 |
| **Issued and fully paid** | | |
| 2,398,021,581 (2009: 2,398,021,581) ordinary shares of 1 pence each | **24.0** | 24.0 |

### 2009

On 24 March 2009, the Group raised approximately £379.6m, net of expenses, through the issue of 1,553,416,776 new 1 pence ordinary shares. The issue was structured as a placing and open offer of 1,055,756,006 new ordinary shares at a price of 26 pence per share, and a firm placing of 497,660,770 new ordinary shares at a price of 26 pence per share.

### 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 84.4 million 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 2010, 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 3 and 10 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.

2. A Savings Related Share Option Scheme for employees. The employees involved in the scheme have the right to subscribe for up to 63.5 million 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 8.5 million 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 3 years.

   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 2007 award lapsed in full in April 2010.

## 26. Reserves and Share capital continued

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 3 years.

   The vesting of matching awards is conditional on achievement against a combination of EPS and TSR performance targets. During the year the performance conditions were not met and so the 2007 CIP award lapsed in full.

   As set out in the Directors' remuneration report the Company is proposing to adopt new Executive remuneration arrangements in 2011 and no further awards are expected under either the CIP or LTIP.

During the previous year, the Group modified its outstanding share option and award schemes following the placing and open offer and firm placing in March 2009. The Group decreased the exercise price by 4.87% for certain schemes and increased the number of share options/awards for all schemes by 5.12%. The incremental fair value granted resulting from these modifications was £0.2m increase in charge over the remaining vesting periods of the schemes. The incremental fair value granted was measured using pricing models consistent with the Group's other schemes.

Details of the share options of the Premier Foods ESOS are as follows:

| | | **2010** | | 2009 | |
|---|---|---|---|---|---|
| | Year of expiry | **Options** | **Weighted average exercise price (p)** | Options | Weighted average exercise price (p) |
| Outstanding at beginning of year | | **1,600,782** | **162** | 2,559,360 | 162 |
| Granted from placing and open offer and firm placing | | **–** | **–** | 128,597 | 162 |
| Forfeited during the year | | **(40,663)** | **162** | (1,087,175) | 162 |
| Outstanding at the end of the year | 2014 | **1,560,119** | **162** | 1,600,782 | 162 |
| Exercisable at the end of the year | | **1,560,119** | **162** | 1,600,782 | 162 |

The options outstanding at 31 December 2010 had a weighted average exercise price of 162 pence (2009: 162 pence), and a weighted average remaining contractual life of 3.6 years (2009: 4.6 years).

Details of the share options of the Premier Foods Savings Related Share Option Schemes are as follows:

| | **2010** | | 2009 | |
|---|---|---|---|---|
| | **Options** | **Weighted average exercise price (p)** | Options | Weighted average exercise price (p) |
| Outstanding at beginning of year | **58,771,948** | **45** | 20,783,748 | 89 |
| Granted from placing and open offer and firm placing | **–** | **–** | 854,871 | 89 |
| Granted during the year | **47,756,192** | **15** | 50,685,147 | 36 |
| Forfeited during the year | **(43,062,225)** | **43** | (13,551,818) | 81 |
| Outstanding at the end of the year | **63,465,915** | **24** | 58,771,948 | 45 |
| Exercisable at the end of the year | **975,564** | **186** | 9,700 | 177 |

During the year, 47.8 million (2009: 50.7 million) options were granted under the Savings Related Share Option Schemes, with a weighted average exercise price at the date of exercise of 15.2 pence per ordinary share.

The options outstanding at 31 December 2010 had a weighted average exercise price of 24 pence (2009: 45 pence), and a weighted average remaining contractual life of 2.6 years (2009: 2.7 years).

**26. Reserves and Share capital** continued

Details of the share awards of the Premier Foods LTIP are as follows:

| | 2010 Awards | 2010 Weighted average exercise price (p) | 2009 Awards | 2009 Weighted average exercise price (p) |
|---|---|---|---|---|
| Outstanding at beginning of year | **6,130,231** | **1** | 5,035,277 | 1 |
| Granted from placing and open offer and firm placing | **–** | **–** | 128,400 | 1 |
| Granted during the year | **4,373,565** | **1** | 3,991,150 | 1 |
| Forfeited during the year | **(2,000,378)** | **1** | (3,024,596) | 1 |
| Outstanding at the end of the year | **8,503,418** | **1** | 6,130,231 | 1 |
| Exercisable at the end of the year | **–** | **–** | – | – |

During the year, 4.4m (2009: 4.0m) of awards were granted under the LTIP, with a weighted average share price at the date of exercise of 1 pence. The awards outstanding at 31 December 2010 had a weighted average remaining contractual life of 1.7 years (2009: 1.9 years).

The weighted average fair value of awards granted during the year was 39 pence per award (2009: 49 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:

| | 2010 | 2009 |
|---|---|---|
| Weighted average share price (p) | **32** | 41 |
| Annual risk-free interest rate (%) | **1.7** | 2.5 |
| Expected dividend at grant date (%) | **–** | – |
| Expected award life (years) | **3** | 3 |
| Expected volatility (%) | **37** | 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:

| | 2010 Awards | 2010 Weighted average exercise price (p) | 2009 Awards | 2009 Weighted average exercise price (p) |
|---|---|---|---|---|
| Outstanding at beginning of year | **8,265,837** | **1** | 4,427,418 | 1 |
| Granted from placing and open offer and firm placing | **–** | **–** | 226,684 | – |
| Granted during the year | **4,520,685** | **1** | 5,236,033 | 1 |
| Forfeited during the year | **(1,888,282)** | **1** | (1,624,298) | 1 |
| Outstanding at the end of the year | **10,898,240** | **1** | 8,265,837 | 1 |
| Exercisable at the end of the year | **–** | **–** | – | – |

The awards outstanding at 31 December 2010 had a weighted average remaining contractual life of 2.1 years (2009: 1.9 years). The weighted average fair value of awards granted during the year was 39 pence per award (2009: 48 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:

| | 2010 | 2009 |
|---|---|---|
| Weighted average share price (p) | **32** | 40 |
| Annual risk-free interest rate (%) | **1.7** | 2.5 |
| Expected dividend (%) | **–** | – |
| Expected award life (years) | **3** | 3 |
| Expected volatility (%) | **37** | 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.

In 2010, the Group's continuing operations recognised an expense of £6.9m (2009: £2.6m), related to all equity-settled share based payment transactions.

## 26. Reserves and Share capital continued

A summary of the range of exercise price and weighted average remaining contractual life is shown below:

| | 31 Dec 2010 | | | 31 Dec 2009 | | |
|---|---|---|---|---|---|---|
| | 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 | **19,393,324** | **1.9** | **1** | 14,396,068 | 2.2 | 1 |
| £0.01 to £0.99 | **62,498,685** | **2.6** | **22** | 55,951,636 | 2.8 | 40 |
| £1.00 to £2.00 | **2,535,683** | **2.2** | **171** | 4,421,094 | 1.9 | 170 |
| **Total** | **84,427,692** | **2.5** | **21** | 74,768,798 | 2.6 | 40 |

## 27. Notes to the cash flow statement

### Reconciliation of operating profit to cash flows from operating activities

| | Year ended 31 Dec 2010 £m | Year ended 31 Dec 2009 (Restated)[1] £m |
|---|---|---|
| **Continuing operations** | | |
| Operating profit | **93.1** | 171.7 |
| Depreciation of property, plant and equipment | **47.6** | 48.2 |
| Amortisation of intangible assets | **78.9** | 75.4 |
| Impairment and (gain)/loss on disposal of property, plant and equipment | **(0.2)** | (1.9) |
| Gain on disposal of intangible assets | **(3.9)** | – |
| Impairment of goodwill | **125.0** | – |
| Revaluation losses on financial instruments | **2.0** | 6.3 |
| Share based payments | **6.9** | 2.6 |
| Net cash inflow from operating activities before interest and tax and movements in working capital | **349.4** | 302.3 |
| Decrease in inventories | **6.5** | 24.7 |
| Increase in trade and other receivables | **(25.2)** | (10.7) |
| Increase/(decrease) in trade and other payables and provisions | **25.1** | (47.8) |
| Movement in net retirement benefit obligations | **(60.9)** | (50.9) |
| **Cash generated from continuing operations** | **294.9** | 217.6 |
| Discontinued operations | **18.3** | 1.8 |
| **Cash generated from operating activities** | **313.2** | 219.4 |
| Exceptional items cash flow | **(6.9)** | (71.3) |
| Cash generated from operations before exceptional items | **320.1** | 290.7 |

[1] Comparatives have been restated to reflect the classification of the Meat-free business as a discontinued operation.

### Additional analysis of cash flows

| | Year ended 31 Dec 2010 £m | Year ended 31 Dec 2009 £m |
|---|---|---|
| Interest paid | **(143.5)** | (162.5) |
| Interest received | **12.5** | 10.8 |
| Financing fees and other costs of finance | **(18.8)** | (26.1) |
| **Return on financing** | **(149.8)** | (177.8) |
| **Sale of subsidiaries/businesses** | **–** | 45.2 |

### Reconciliation of cash and cash equivalents to net borrowings

| | Year ended 31 Dec 2010 £m | Year ended 31 Dec 2009 £m |
|---|---|---|
| Net outflow of cash and cash equivalents | **(13.1)** | (47.3) |
| (Increase)/decrease in finance leases | **(17.7)** | 0.3 |
| Decrease in borrowings | **121.7** | 464.0 |
| Other non-cash changes | **(5.8)** | (15.3) |
| **Decrease in borrowings net of cash** | **85.1** | 401.7 |
| Total net borrowings at beginning of year | **(1,365.1)** | (1,766.8) |
| **Total net borrowings at end of year** | **(1,280.0)** | (1,365.1) |

## 27. Notes to the cash flow statement continued

### Analysis of movement in borrowings

| | As at 1 Jan 2010 £m | Cash flow £m | Other non-cash changes £m | **As at 31 Dec 2010 £m** |
|---|---|---|---|---|
| Bank overdrafts | (34.5) | 3.9 | – | **(30.6)** |
| Cash and bank deposits | 19.4 | (17.0) | (0.5) | **1.9** |
| Net cash and cash equivalents | (15.1) | (13.1) | (0.5) | **(28.7)** |
| Borrowings — term facilities | (1,279.9) | 99.9 | – | **(1,180.0)** |
| Borrowings — revolving credit facilities | (67.9) | 47.1 | 0.8 | **(20.0)** |
| Finance leases | (1.4) | 4.2 | (21.9) | **(19.1)** |
| Other | (18.5) | (35.0) | – | **(53.5)** |
| Gross borrowings net of cash[1] | (1,382.8) | 103.1 | (21.6) | **(1,301.3)** |
| Debt issuance costs | 17.7 | 9.7 | (6.1) | **21.3** |
| **Total net borrowings[1]** | (1,365.1) | 112.8 | (27.7) | **(1,280.0)** |

1 Borrowings excludes derivative financial instruments and other financial liabilities fair valued through profit or loss.

## 28. 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.

| | **2010** | | 2009 | |
|---|---|---|---|---|
| | **Property £m** | **Plant and equipment £m** | Property £m | Plant and equipment £m |
| Within one year | **13.0** | **14.6** | 14.7 | 14.9 |
| Between two and five years | **46.2** | **18.4** | 50.1 | 28.2 |
| After five years | **74.4** | **0.1** | 84.7 | 2.1 |
| **Total operating lease commitments** | **133.6** | **33.1** | 149.5 | 45.2 |

The Group sub-lets various properties under non-cancellable lease arrangements.

## 29. Capital commitments

| | **2010 £m** | 2009 £m |
|---|---|---|
| Contracts placed for future capital expenditure not provided in the financial statements | **8.6** | 14.8 |

## 30. 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. The legal position and the potential methods of calculation of the liability is, as yet, uncertain. In the event that it materialises, the impact on net assets is not expected to be significant and the cash impact would be spread over several years in line with the agreed pension deficit recovery period for the Scheme agreed by the Group and Trustees.

There were no other material contingent liabilities at 31 December 2010. Other contingencies and guarantees in respect of the Parent Company are described in note 8 of the Parent Company financial statements.

## 31. Related party transactions

Key management personnel of the Group are considered to be the executive and non-executive directors, the Operations Board and the Company Secretary.

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 70 to 72.

| | **Year ended 31 Dec 2010 £m** | Year ended 31 Dec 2009 £m |
|---|---|---|
| Salaries and other short term benefits | **4.4** | 5.1 |
| Post employment benefits | **–** | 0.3 |
| Termination benefits | **–** | 1.3 |
| Share based payments | **1.5** | 0.9 |
| **Total** | **5.9** | 7.6 |

WP X Investments Limited ("Warburg Pincus") is considered to be a related part of the Group by virtue of its 15.8% (2009: 15.7%) 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.

## 32. Post balance sheet events

On 24 January 2011, the Group announced that it had reached an agreement to sell its Meat-free business to Exponent Private Equity and Intermediate Capital Group for £205.0m, before disposal costs. The sale completed on 7 March 2011.

The results of the Meat-free business for the year ended 31 December 2010 are included in discontinued operations in the Group's consolidated income statement.

At 31 December 2010, the Group has recognised an impairment charge of £25.0m against the carrying value of its goodwill and as a result, no material loss on disposal is expected in the Group's 2011 results.

On 31 January 2011, the Group purchased £18.8m of plant and machinery that was held as a finance lease at 31 December 2010.

On 8 February 2011, the Group announced that it had reached an agreement to sell its East Anglian canned grocery operations, which is part of the Grocery segment, to Princes Limited for £182.2m before disposal costs. The sale is subject to receiving European Commission merger control clearance and shareholder consent. The sale is expected to complete during the second quarter of 2011.

The results of the East Anglian canned grocery operations for the year ended 31 December 2010 are included within continuing operations as it is not a separate operating segment. At 31 December 2010, the assets of the operations were recognised within Assets held for sale. No material profit on disposal is expected from the sale in the Group's 2011 results.

# Premier Foods plc Company financial statements

The following statements reflect the financial position of the Company, Premier Foods plc as at 31 December 2010 and 2009. 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 profit and loss account for the Company alone.

## Balance sheet

| | Note | As at 31 Dec 2010 £m | As at 31 Dec 2009 £m |
|---|---|---|---|
| **ASSETS:** | | | |
| **Fixed assets** | | | |
| Investments | 3 | **1,749.7** | 1,743.7 |
| Deferred tax assets | | **0.6** | 0.3 |
| **Current assets** | | | |
| Debtors | 4 | **636.7** | 624.5 |
| Cash at bank and in hand | | **0.3** | 0.3 |
| **Total assets** | | **2,387.3** | 2,368.8 |
| **LIABILITIES:** | | | |
| **Current liabilities** | | | |
| Creditors: amounts falling due within one year | 5 | **(51.9)** | (47.0) |
| **Total liabilities** | | **(51.9)** | (47.0) |
| **Total assets less total liabilities** | | **2,335.4** | 2,321.8 |
| **EQUITY:** | | | |
| **Capital and reserves** | | | |
| Called up share capital | 6 | **24.0** | 24.0 |
| Share premium account | 6 | **1,124.7** | 1,124.7 |
| Merger reserve | 6 | **1,027.5** | 1,027.5 |
| Profit and loss account | 6 | **159.2** | 145.6 |
| **Total shareholders' funds** | | **2,335.4** | 2,321.8 |

The notes on pages 123 to 125 form an integral part of the financial statements.

Signed on behalf of the Board of directors, who approved the financial statements on 7 March 2011.

**Robert Schofield**
Director and
Chief Executive Officer

**Jim Smart**
Director and
Chief Financial Officer

## 1. Accounting policies

### Basis of preparation

The financial statements have been prepared in accordance with the Companies Act 2006 and applicable accounting standards in the United Kingdom ("UK GAAP"), under the historical cost convention, with the exception of share based payments which are incorporated using fair value. The profit for the year of £6.7m (2009: £8.1m) 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 Company has taken exemption under Financial Reporting Standard 1 "Cash Flow Statements" ("FRS 1") to not prepare a cash flow statement. The Company is also 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.

## 2. Operating profit

Audit fees in respect of the Company are £nil (2009: £nil).

At 31 December 2010, the Company had 3 employees (2009: 3), and their remuneration totalled £2.7m (2009: £3.1m). This excludes the Company's 6 (2009: 7) non-executive directors whose remuneration totalled £0.6m (2009: £0.6m).

## 3. Investments

| | **2010 £m** | 2009 £m |
|---|---|---|
| **Shares in subsidiary undertakings** | | |
| At 1 January | **1,743.7** | 1,741.5 |
| Additions | **6.0** | 2.2 |
| **At 31 December** | **1,749.7** | 1,743.7 |

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.

During 2010, a capital contribution of £6.0m (2009: £2.2m) 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 on page 100 in the Group financial statements for a list of the principal subsidiary undertakings. A full list of subsidiary undertakings is available from the Company Secretary.

## 4. Debtors

| | 2010 £m | 2009 £m |
|---|---|---|
| **Amounts falling due within one year:** | | |
| Amounts owed by Group undertakings | **636.7** | 624.5 |
| **Total debtors falling due within one year** | **636.7** | 624.5 |

The above balances are not subject to interest rate risk as they are interest free with the exception of £295.9m (2009: £283.9m) which attracted interest at a rate of LIBOR plus 3.0% (2009: LIBOR plus 1.875%). Carrying value approximates fair value.

## 5. Creditors

| | 2010 £m | 2009 £m |
|---|---|---|
| **Amounts falling due within one year:** | | |
| Amounts owed to Group undertakings | **42.4** | 40.8 |
| Current tax | **9.5** | 6.2 |
| **Total creditors falling due within one year** | **51.9** | 47.0 |

The above balances are not subject to interest rate risk as they are interest free with the exception of £35.8m (2009: £34.4m) which attracted interest at a rate of LIBOR plus 3.0% (2009: LIBOR plus 1.875%). Carrying value approximates fair value.

## 6. Share capital and other reserves

| | Share capital £m | Share premium £m | Merger reserve £m | Profit and loss reserve £m | Total £m |
|---|---|---|---|---|---|
| **At 1 January 2009** | 8.5 | 760.6 | 1,027.5 | 134.9 | 1,931.5 |
| Share issue (a) | 15.5 | 388.4 | – | – | 403.9 |
| Share issue costs (a) | – | (24.3) | – | – | (24.3) |
| Profit for the year | – | – | – | 8.1 | 8.1 |
| Share based payments (b) | – | – | – | 2.6 | 2.6 |
| **At 31 December 2009** | 24.0 | 1,124.7 | 1,027.5 | 145.6 | 2,321.8 |
| Profit for the year | **–** | **–** | **–** | **6.7** | **6.7** |
| Share based payments (b) | **–** | **–** | **–** | **6.9** | **6.9** |
| **At 31 December 2010** | **24.0** | **1,124.7** | **1,027.5** | **159.2** | **2,335.4** |

### Share capital

| | 2010 £m | 2009 £m |
|---|---|---|
| **Authorised** | | |
| 3,500,000,000 (2009: 3,500,000,000) ordinary shares of 1 pence each | **35.0** | 35.0 |
| **Issued and fully paid** | | |
| 2,398,021,581 (2009: 2,398,021,581) ordinary shares of 1 pence each | **24.0** | 24.0 |

### (a) Share issue

**2009**

On 24 March 2009, the Group raised approximately £379.6m, net of expenses, through the issue of 1,553,416,776 new 1 pence ordinary shares. The issue was structured as a placing and open offer of 1,055,756,006 new ordinary shares at a price of 26 pence per share, and a firm placing of 497,660,770 new ordinary shares at a price of 26 pence per share.

### (b) Share based payments

**2010 and 2009**

These costs reflect the cost of the Company's share option schemes in operation. Further details are available per note 26 of the Group's consolidated financial statements. In respect of the Company, the charge relating to its employees amounted to £0.9m (2009: £0.6m).

## 7. Operating lease commitments

At 31 December 2010, the Company had annual commitments under non-cancellable operating leases in respect of land and buildings as follows:

| | 2010 £m | 2009 £m |
|---|---|---|
| After five years | **0.3** | 0.3 |
| **Total** | **0.3** | 0.3 |

The lease expense has been borne by a subsidiary company.

## 8. 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 2010 is £1.7bn (2009: £1.8bn).

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. The legal position and the potential methods of calculation of the liability is, as yet, uncertain. In the event that it materialises, the impact on net assets is not expected to be significant and the cash impact would be spread over several years in line with the agreed pension deficit recovery period for the Scheme agreed by the Group and Trustees.

## 9. Post balance sheet events

On 24 January 2011, the Group announced that it had reached an agreement to sell its Meat-free business to Exponent Private Equity and Intermediate Capital Group for £205.0m, before disposal costs. The sale completed on 7 March 2011.

The results of the Meat-free business for the year ended 31 December 2010 are included in discontinued operations in the Group's consolidated income statement.

At 31 December 2010, the Group has recognised an impairment charge of £25.0m against the carrying value of its goodwill and as a result, no material loss on disposal is expected in the Group's 2011 results.

On 31 January 2011 the Group purchased £18.8m of plant and machinery that was held as a finance lease at 31 December 2010.

On 8 February 2011, the Group announced that it had reached an agreement to sell its East Anglian canned grocery operations, which is part of the Grocery segment, to Princes Limited for £182.2m before disposal costs. The sale is subject to receiving European Commission merger control clearance and shareholder consent. The sale is expected to complete during the second quarter of 2011.

The results of the East Anglian canned grocery operations for the year ended 31 December 2010 are included within continuing operations as it is not a separate operating segment. At 31 December 2010, the assets of the operations were recognised within Assets held for sale. No material profit on disposal is expected from the sale in the Group's 2011 results.

### Electronic communications with shareholders

In 2008 shareholders agreed that the Company could use its website as its main method of communication with shareholders. If you are looking for information about our heritage, our social, environmental and ethical responsibilities, our approach to governance, financial reports or the latest press releases please go to our website **www.premierfoods.co.uk**.

Furthermore, much of the information requested from our shareholder helpline can be found in the investor section of our website. Shareholders can also sign up for News Alerts to receive an email when news on the Company is released. These include additional financial news releases throughout the year, which are not mailed to shareholders.

Shareholders can also register at **www.shareview.co.uk** or contact the registrar (contact details below) to receive an email notifying them of new Company publications. Shareview also enables shareholders to view details of their own shareholding or electronically appoint a proxy to vote on their behalf on any poll that may be held at the forthcoming AGM.

Information made available on the website does not constitute part of this annual report. The directors are responsible for the maintenance and integrity of the financial information on our website. The information has been prepared under the relevant accounting standards and legislation.

### 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.

### Managing your shares

The Company's register of shareholders is maintained by our registrar, Equiniti. Shareholders with queries relating to their shareholding should contact Equiniti directly using the details 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 group and would like to combine your accounts, please contact Equiniti.

### Shareholder FAQs

#### 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 notify 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.

#### AGM 2011

Date & time: 28 April 2011 at 10.00 am
Venue: Haberdashers' Hall, 18 West Smithfield, London, EC1A 9HQ.

#### Documents on display

The articles of association, memorandum of the Company and other documents referred to in this annual report are available for inspection at the registered office.

### Key contacts

#### Registered office and Head Office

Premier Foods plc, Premier House, Centrium Business Park, Griffiths Way, St Albans, Hertfordshire, AL1 2RE. Tel: +44 (0)1727 815850.

For consumer relations tel: 0800 0327111.

#### Registrar

Equiniti, Aspect House, Spencer Road, Lancing, West Sussex, BN99 6DA. Tel: 0871 384 2030 or +44 (0)121 415 7047, www.equiniti.com.

For shareholders with hearing difficulties a text phone number is available, 0871 384 2255 or +44 (0)121 415 7028.

#### Investor Relations

Gwyn Tyley, Premier Foods plc, Premier House, Centrium Business Park, Griffiths Way, St Albans, Hertfordshire, AL1 2RE.
email: investor.relations@premierfoods.co.uk,
Tel: +44 (0)1727 815850.

#### General Counsel & Company Secretary

Suzanne Wise

#### Auditors

PricewaterhouseCoopers LLP, 1 Embankment Place, London, WC2N 6RH.

#### Lawyers

Slaughter and May, One Bunhill Row, London, EC1Y 8YY.

#### Principal bankers

The Group's principal bankers are: Barclays Bank PLC; Bayerische Landesbank; BNP Paribas; Lloyds TSB Bank plc; Rabobank, London; and The Royal Bank of Scotland plc.

#### Corporate brokers

CitiGroup Global Markets Ltd, CitiGroup Centre, 25 Canada Square, Canary Wharf, London, E14 5LB.

RBS Hoare Govett Ltd, 250 Bishopsgate, London, EC2M 4AA.

**Adjusted earnings per share**
Adjusted earnings per share is defined as Adjusted Profit before tax less a notional tax rate for the Group divided by the weighted average number of shares in issue during the period (see note 11 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.

**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.

**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.

**Code**
The 2008 Combined Code on Corporate Governance published by the FRC.

**Chief Operating Decision Maker**
A function or person that is responsible for allocating resources to, and assessing the performance of operating segments.

**Companies Act**
The Companies Act 2006.

**Company (the)**
Premier Foods plc.

**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.

**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.

**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 to be proposed 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 non-cash items, namely exceptional 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.

**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.

**RIDDOR**
Reporting of Injuries, Diseases and Dangerous Occurrences Regulations.

**Retailer branded**
Also known as "private label" or "own label" products.

**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).

**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 exceptional items, 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 in 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.

Cadbury is a trade mark of Cadbury Ltd, Erin is a trade mark of Erin Foods Limited, Ormo is a trade mark of A H Foods Ltd and Rose's is a trade mark of L. Rose & Company Limited, all of which are used under licence. The Group has an exclusive worldwide licence to use the Loyd Grossman name on certain products.

### 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 and accounts should be construed as a profit forecast.

In this 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.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