Premier Foods plc

15 February 2011

PREMIER FOODS PLC

PRELIMINARY UNAUDITED RESULTS FOR THE YEAR ENDED 31 DECEMBER 2010

Premier Foods announces its results for the year to 31 December 2010.

	2010	2009	Change
Sales (£m)	2,567	2,661	-3.5%
Trading profit[2] (£m)	311	309	+0.6%
Pro forma adjusted profit before tax[3] (£m)	166	156	+6.4%
Pro forma adjusted earnings per share[4] (pence)	5.0	4.7	+6.4%

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

Highlights

- **Sales down 3.5% due to lower non branded sales**
  - **Branded sales volume up 3.1%, ahead of the market[1]**

- **Trading profit[2] of £311m up 0.6% on last year**
  - **Grocery and Hovis both recorded improved trading profit**
  - **£12m pension credit reduces year on year pension cost by £3m**
  - **£15m fall in trading profit at Brookes Avana**

- **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. After proceeds of Canning and Meat-free disposals, pro forma net debt[5] will be below £900m**

- **£125m goodwill impairment at Brookes Avana resulting in pre-tax operating loss of £98m (2009: £42m profit restated[6]) on a continuing basis. Basic EPS was a loss of 3.6p (2009: earnings of 1.7p)**

- **Recurring cash generation of £124m, ahead of £100m target**

Commenting on the results Chief Executive Officer, Robert Schofield said

“2010 has been an important year in the history of Premier Foods. During the year we set out a financial strategy which we have progressively implemented 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 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. There is more to do in each of these areas and we have aligned the organisational structure behind the strategy of growing our brands. We would expect our focus to enable the Group to show progress from our new base after the disposals without a further deterioration in the consumer environment”.

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A presentation to analysts and investors will take place on Tuesday, 15 February 2011 at 9.30am at RBS, 250 Bishopsgate, London, EC2M 4AA. The presentation will also be webcast at www.premierfoods.co.uk.

1. Source: IRI Infoscan, Total Grocery Outlets, 52 weeks ending 25 December 2010.

2. 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.

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 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.

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

Notes for editors:

Premier Foods is the UK's largest food producer, which manufactures, sells and distributes a wide range of branded and retailer branded foods. 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, Mr. Kipling, Batchelor's, Quorn, Bisto, Ambrosia, Sharwood's, Branston, Oxo, Hartley's and many more. The business employs around 15,000 people and operates from over 60 sites across the UK and Ireland.

For High resolution images, please go to www.premierfoods.co.uk/media/image-gallery/

STRATEGY

Introduction

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

The Group's business strategy to deliver this growth 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 difficult consumer environment we have been able to advance in each of these business and financial strategy areas 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 information 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 5 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 Trades Unions 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 and Canning 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 3.74 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.

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 implemented a new organisation structure in which Tim Kelly is appointed Chief Operating Officer. 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

OPERATING AND FINANCIAL REVIEW

All financial metrics are presented before adjustment to reflect the disposal of the Meat-free and Canning businesses unless otherwise stated.

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	362	361	
Net debt (£m)	1,261	1,364	
Net debt / EBITDA (times)	3.48x	3.78x	
Average debt (£m)	1,529	1,651	
Average debt / EBITDA (times)	4.22x	4.57x	

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
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.

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.

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
Sub total – Drive brands	**865**	**840**	**3.0**
Batchelor's	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)
Sub total – 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.

Gross profit

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

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.

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 by sufficient 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).

Corporate Social Responsibility

As the UK's largest food manufacturer we place a high value on the labour, ingredients and natural resources used in the manufacture of our products. We believe that practising good environmental and social stewardship and running an efficient and successful business are complementary.

We are particularly proud of our support for UK farmers – for example, over 80% of all the vegetables we use in the manufacture of our products are sourced from UK farms. In addition, after carrying out extensive field trials of Canadian Red Wheat in Britain, we now source 100%

British grown wheat across the entire Hovis product range. The new strain of wheat has resulted in a tastier, better quality, all British Hovis loaf.

In 2010, we set out six key operational environmental key performance indicators (KPIs) in order to drive efficiencies and reduce waste across all our operations. Our performance against these KPIs is set out below:

Environmental priority	**2010 Target Reduction**	**2010 Actual Reduction**
Energy consumption (kWh / tonne)	3%	4.1%
Carbon (CO2) emissions (kg / tonne)	3%	6.2%
Delivery miles (miles / tonne)	5%	5.4%
Water usage (excluding water embedded in our products) (m^3 / tonne)	2.5%	8.7%
Waste to landfill (kg / tonne)	20%	48.3%

Note: All targets were against a 2008 baseline and are relative to tonnes of product manufactured

We are particularly pleased with the 48.3%, year on year, reduction we achieved diverting waste from UK landfill sites in 2010. Looking back to 2008, we were sending 29,368 tonnes of waste to UK landfill sites. In 2010, we sent 10,246 tonnes to landfill, a 65% overall reduction since 2008. We are well positioned to achieve our long-term goal of sending zero waste to landfill by 2015.

While much has been achieved, there's always more we can do to reduce our operational environmental impacts, which in turn helps to deliver commercial benefits. We have set the following stretching targets for 2011.

Environmental priority	**2011 Target Reduction**
Energy consumption (kWh / tonne)	3%
Carbon (CO2) emissions (kg / tonne)	4%
Delivery miles (miles / tonne)	5%
Water usage (excluding water embedded in our products) (m^3 / tonne)	3%
Waste to landfill (kg / tonne)	20%
Packaging embedded CO2e (CO2e / tonne)	3%

DIVISIONAL ANALYSIS

Grocery

	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**

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.

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.

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 underway. 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 £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)
Total 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**

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.

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 25.9% 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 £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)**

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.

OTHER FINANCIAL INFORMATION

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.

	2010 £m	2009 £m	10 v 09 %
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	**3.48x**	**3.78x**	**0.30x**

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	**4.22x**	**4.57x**	**0.35x**

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	-

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

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)

	2010		2009	
Mark to market of financial instruments	**Nominal £m**	**MtM £m**	**Nominal £m**	**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)
Sub total - 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)
Sub total - 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 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	89	119
Net deficit (IAS 19)	**(232)**	**(310)**

At the end of 2010, the deficit was £321m on an IAS19 basis which is equivalent to £232m 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
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 is 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 IAS19 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 8 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

Profit after tax	2010 £m	2009 £m	10 v 09 %
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	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

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 @ 28% (£m)	(47)	(44)	
Pro forma adjusted profit after tax (£m)	119	112	
Pro forma shares in issue ('000)	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.

APPENDICES

1. Sales Analysis

Sales Analysis 2010	Branded £m	Non Branded £m	Total £m
Grocery	**1,146**	**401**	**1,547**
Hovis			
Bakery	376	140	516
Milling	22	150	172
Total Hovis	**398**	**290**	**688**
Other			
Meat-free	129	-	129
Brookes Avana	-	203	203
Total Other	**129**	**203**	**332**
Total	**1,673**	**894**	**2,567**

Sales Analysis 2009	Branded £m	Non Branded £m	Total £m
Grocery	**1,153**	**421**	**1,574**
Hovis			
Bakery	370	179	549
Milling	24	169	193
Total Hovis	**394**	**348**	**742**
Other			
Meat-free	131	-	131
Brookes Avana	-	214	214
Total Other	**131**	**214**	**345**
Total	**1,678**	**983**	**2,661**

2010 v 2009	Branded %	Non Branded %	Total %
Grocery	**(0.6)**	**(5.0)**	**(1.8)**
Hovis			
Bakery	1.7	(22.1)	(6.1)
Milling	(6.0)	(11.3)	(10.6)
Total Hovis	**1.2**	**(16.8)**	**(7.3)**
Other			
Meat-free	(1.9)	-	(1.9)
Brookes Avana	-	(4.7)	(4.7)
Total Other	**(2.0)**	**(4.7)**	**(3.6)**
Total	**(0.3)**	**(9.1)**	**(3.5)**

2. Reconciliation of Continuing + Meat-free P&L from management to statutory

2010	**Trading profit** **£m**	**Impairment of goodwill** **£m**	**Other** **£m**	**Statutory profit for Continuing & Meat-free** **£m**
Sales	2,567	-	-	2,567
Cost of sales	(1,778)	-	-	(1,778)
Gross margin	**789**	**-**	**-**	**789**
Gross margin %	30.7	-	-	30.7
Operating expenses	(478)	(150)	(80)	(708)
Operating profit	**311**	**(150)**	**(80)**	**81**

2009	**Trading profit** **£m**	**Exceptional items – integration, refinancing** **£m**	**Other** **£m**	**Statutory profit for Continuing & Meat-free** **£m**
Sales	2,661	-	-	2,661
Cost of sales	(1,857)	(6)	-	(1,863)
Gross margin	**804**	**(6)**	**-**	**798**
Gross margin %	30.2	-	-	30.0
Operating expenses	(495)	(40)	(86)	(621)
Operating profit	**309**	**(46)**	**(86)**	**177**

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.

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.

Other items include amortisation, impairment of intangible fixed assets, 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.

3. Pro forma excluding Meat-free and Canning businesses

2010	Continuing + Meat-free £m	Meat-free business £m	Excluding Meat-free £m	Canning £m	Excluding Meat-free and Canning £m
Branded sales	1,673	(129)	1,544	(147)	1,397
Non branded sales	894	-	894	(187)	707
Sales	**2,567**	**(129)**	**2,438**	**(334)**	**2,104**
Cost of sales	(1,778)	87	(1,691)	284	(1,407)
Gross margin	**789**	**(42)**	**747**	**(50)**	**697**
Gross margin %	30.7	32.1	30.6	15.0	33.1
Operating expenses	(478)	26	(452)	22	(430)
Trading profit	**311**	**(16)**	**295**	**(28)**	**267**
Pro forma net regular interest	(145)	7	(138)	6	(132)
Pro forma adjusted profit before tax	**166**	**(9)**	**157**	**(22)**	**135**
Notional tax	(47)	3	(44)	6	(38)
Pro forma adjusted profit after tax	**119**	**(6)**	**113**	**(16)**	**97**
Pro forma adjusted EPS	5.0	(0.3)	4.7	(0.6)	4.1

2010 Divisional Analysis Trading profit	Continuing + Meat-free £m	Meat-free business £m	Excluding Meat-free £m	Canning £m	Excluding Meat-free and Canning £m
Grocery	256	-	256	(28)	228
Hovis	39	-	39	-	39
Chilled	16	(16)	-	-	-
Trading profit	**311**	**(16)**	**295**	**(28)**	**267**

2010 Cash flow	Continuing + Meat-free £m	Meat-free business £m	Excluding Meat-free £m	Canning £m	Excluding Meat-free and Canning £m
Trading profit	**311**	**(16)**	**295**	**(28)**	**267**
Depreciation	51	(3)	48	(4)	44
Other non-cash items	7	-	7	-	7
Interest	(131)	7	(124)	6	(118)
Tax	(2)	-	(2)	-	(2)
Pension	(57)	-	(57)	-	(57)
Regular capital expenditure	(68)	1	(67)	2	(65)
Working capital	13	-	13	(7)	6
Cash flow before non-recurring items	**124**	**(11)**	**113**	**(31)**	**82**

2010 Debt / EBITDA	Continuing + Meat-free £m	Meat-free business £m	Excluding Meat-free £m	Canning £m	Excluding Meat-free and Canning £m
EBITDA	**362**	**(19)**	**343**	**(32)**	**311**
Net debt – year end	1,261	(201)	1,060	(170)	890
Net debt/EBITDA	3.48x		3.09x		2.86x
Average debt	1,529	(201)	1,328	(170)	1,158
Average debt/EBITDA	4.22x		3.87x		3.72x

Adjusted EPS is defined as: Trading profit less net regular interest payable, less a notional tax charge at 28.0% (2009: 28.0%), divided by weighted average number of ordinary shares of the company. 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 swaps and the unwind of the discount on provisions.

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.

Pro forma EPS shows what the Adjusted EPS would have been if the disposals of the Meat-free and Canning businesses had taken place at the start of 2010. We believe this will be useful for comparative purposes. Adjusted net regular interest to account for lower debt levels following receipt of the disposal proceeds.

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

4. Aggregation of Continuing business and Meat-free business

2010	**Total Continuing & Meat-free** **£m**	**Discontinued Meat-free business** **£m**	**Continuing** **£m**
Branded sales	**1,673.0**	(128.8)	1,544.2
Non branded Sales	**893.8**	-	893.8
Sales	**2,566.8**	**(128.8)**	**2,438.0**
Cost of sales	**(1,778.3)**	87.4	(1,690.9)
Gross margin	**788.5**	**(41.4)**	**747.1**
Gross margin %	**30.7%**	32.1%	30.6%
Selling, marketing & distribution	**(334.7)**	20.1	(314.6)
Administration	**(374.7)**	33.4	(341.3)
Net other operating income/expense	**1.9**	-	1.9
Operating profit/(loss)	**81.0**	**12.1**	**93.1**
Impairment of goodwill	**150.0**	(25)	125.0
Operating profit/(loss) before exceptional items	**231.0**	**(12.9)**	**218.1**
Pension financing credit	**(4.1)**	-	(4.1)
Fair value movements on foreign exchange and other derivative contracts	**2.0**	-	2.0
Amortisation of intangible assets	**82.2**	(3.3)	78.9
Trading profit	**311.1**	**(16.2)**	**294.9**
Less net regular interest payable	**(145.4)**	0.2	(145.2)
Adjusted profit/(loss) before tax	**165.7**	**(16.0)**	**149.7**
Notional tax at 28.0%	**(46.4)**	4.5	(41.9)
Adjusted profit /(loss) after tax	**119.3**	**(11.5)**	**107.8**
Average shares in issue (m)	**2,398.0**	2,398.0	2,398.0
Adjusted EPS (pence)	**5.0**	**(0.5)**	**4.5**
Net regular interest payable			
Net interest payable	**191.6**	(0.2)	191.4
Exclude exceptional write-off of financing costs	**(1.6)**	-	(1.6)
Exclude fair value adjustments on interest rate financial instruments	**(43.3)**	-	(43.3)
Excluding unwind of discount on provisions	**(1.3)**	-	(1.3)
Net regular interest payable	**145.4**	**(0.2)**	**145.2**

2009	**Total Continuing & Meat-free** £m	**Discontinued Meat-free business** £m	**Continuing** £m
Branded sales	1,677.6	(131.3)	1,546.3
Non branded Sales	983.4	-	983.4
Sales	**2,661.0**	**(131.3)**	**2,529.7**
Cost of sales	**(1,863.0)**	91.6	(1,771.4)
Gross margin	**798.0**	**(39.7)**	**758.3**
Gross margin %	30.0%	30.2%	30.0%
Selling, marketing & distribution	(356.0)	23.3	(332.7)
Administration	(253.2)	11.4	(241.8)
Net other operating income/expense	(12.3)	0.2	(12.1)
Operating profit/(loss)	**176.5**	**(4.8)**	171.7
Exceptional items	45.8	-	45.8
Operating profit/(loss) before exceptional items	**222.3**	**(4.8)**	**217.5**
Pension financing credit	1.8	-	1.8
Fair value movements on foreign exchange and other derivative contracts	6.3	-	6.3
Amortisation of intangible assets	78.7	(3.3)	75.4
Trading profit	**309.1**	**(8.1)**	**301.0**
Less net regular interest payable	(154.7)	(0.1)	(154.8)
Adjusted profit/(loss) before tax	**154.4**	**(8.2)**	**146.2**
Notional tax at 28.0%	(43.2)	2.3	(40.9)
Adjusted profit /(loss) after tax	**111.2**	**(5.9)**	**105.3**
Average shares in issue (m)	2,079.0	2,079.0	2,079.0
Adjusted EPS (pence)	**5.4**	**(0.3)**	**5.1**
Net regular interest payable			
Net interest payable	129.8	0.1	129.9
Exclude exceptional write-off of financing costs	(3.0)	-	(3.0)
Exclude accelerated amortisation of debt issuance costs	(9.8)	-	(9.8)
Exclude fair value adjustments on interest rate financial instruments	38.7	-	38.7
Excluding unwind of discount on provisions	(1.0)	-	(1.0)
Net regular interest payable	**154.7**	**0.1**	**154.8**

Consolidated income statement (unaudited)

	Note	Year ended 31 Dec 2010 £m	Year ended 31 Dec 2009 (Restated)[1] £m
Continuing operations			
Revenue	2	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)		1.9	(12.1)
Operating profit		93.1	171.7
Before exceptional items[2]		218.1	217.5
Impairment of goodwill	3	(125.0)	-
Other exceptional items[2]		-	(45.8)
Interest payable and other financial charges	4	(160.1)	(179.7)
Interest receivable and other financial income	4	12.0	11.1
Net movement on fair valuation of interest rate financial instruments	4	(43.3)	38.7
(Loss)/profit before taxation for continuing operations		(98.3)	41.8
Taxation credit/(charge)	5	11.6	(5.8)
(Loss)/profit after taxation for continuing operations		(86.7)	36.0
Loss from discontinued operations	7	(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)	6	(4.1)	1.2
Basic and diluted (loss)/earnings per share (pence) - continuing[1]	6	(3.6)	1.7
Basic and diluted loss per share (pence) - discontinued[1]	6	(0.5)	(0.5)
Adjusted earnings per share (pence) - continuing[1,2,3]	6	4.5	5.1
Adjusted earnings per share (pence) - continuing and Meat-free	6	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.

Consolidated statement of comprehensive income (unaudited)

	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	10	46.4	(468.8)
Deferred tax (charge)/credit on actuarial gains/losses on pensions	5	(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)

Consolidated balance sheet (unaudited)

	Note	As at 31 Dec 2010 £m	As at 31 Dec 2009 £m
ASSETS:			
Non-current assets			
Property, plant and equipment		538.6	635.2
Goodwill		1,096.1	1,371.3
Other intangible assets		963.7	1,108.4
Total non-current assets		2,598.4	3,114.9
Current assets			
Assets held for sale	8	406.3	1.8
Inventories		135.2	214.0
Trade and other receivables		356.3	347.0
Financial assets – derivative financial instruments		1.4	2.5
Cash and cash equivalents	11	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		(496.2)	(485.0)
Financial liabilities			
– short term borrowings	9	(190.1)	(152.5)
– derivative financial instruments		(29.6)	(162.4)
– other financial liabilities at fair value through profit or loss		(206.3)	(36.8)
Accrued interest payable		(12.3)	(13.7)
Provisions		(10.5)	(15.9)
Current income tax liabilities		(2.0)	(2.5)
Liabilities held for sale	8	(48.8)	-
Total current liabilities		(995.8)	(868.8)
Non-current liabilities			
Financial liabilities			
– long term borrowings	9	(1,091.8)	(1,232.0)
Retirement benefit obligations	10	(320.9)	(428.5)
Provisions		(28.4)	(31.0)
Other liabilities		(17.0)	(9.7)
Deferred tax liabilities		(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		24.0	24.0
Share premium		1,124.7	1,124.7
Merger reserve		890.7	890.7
Other reserves		(9.3)	(10.1)
Profit and loss reserve		(1,040.7)	(964.5)
Capital and reserves attributable to the Company's equity shareholders		989.4	1,064.8
Non-controlling interest		0.1	0.1
Total shareholders’ funds		989.5	1,064.9

Consolidated statement of cash flows (unaudited)

	Note	Year ended 31 Dec 2010 £m	Year ended 31 Dec 2009 £m
Cash generated from operating activities	11	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	11	(116.2)	(438.8)
Financing costs		(18.8)	(26.1)
Proceeds from share issue		-	403.9
Share issue costs		-	(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	11	(28.7)	(15.1)

Consolidated statement of changes in equity (unaudited)

	Share capital	Share premium	Merger reserve	Other reserves	Profit and loss reserve	Non-controlling interest	Total
	£m	£m	£m	£m	£m	£m	£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

1. Basis of preparation

The financial information in this announcement does not constitute the Group's statutory accounts for the years ended 31 December 2010 or 2009. The preliminary results for the year ended 31 December 2010 have been extracted from unaudited consolidated financial statements. The financial information for the year ended 31 December 2009 is derived from the statutory accounts for that year, restated to classify the Meat-free business as a discontinued operation. Comparatives have also been restated to reflect the change in classification of certain exceptional items as business restructuring and investment costs, which have now been included in trading profit.

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, 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 pension schemes and share based payments, that are incorporated using fair value.

2. 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 information are as follows:

				Year ended 31 Dec 2010
	Grocery	**Hovis**	**Retailer Branded Chilled**	**Total for Group**
	£m	**£m**	**£m**	**£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 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

	Year ended 31 Dec 2009 (Restated)[1]			
	Grocery	**Hovis**	**Retailer Branded Chilled**	**Total for Group**
	£m	**£m**	**£m**	**£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.

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

3. 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.

		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 exceptional items before refinancing costs		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.

(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.

4. 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.

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. The total facility as at 31 December 2009 was £1,780m and will be amortised by £50m in both June and December of each year until 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".

	Year ended 31 Dec 2010	**Year ended 31 Dec 2009 (Restated)[1]**
	£m	**£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 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. 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.

5. Tax on loss/(profit) on ordinary activities

Analysis of the (credit)/ charge for the year:

	Continuing operations £m	Dis-continued 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			
- 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			
- 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.

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 for overseas results taxed at a different rate	(1.0)	-
Adjustment for share based payments	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.

6. 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.

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.

	Year ended 31 December 2010				
	Continuing	**Discontinued Meat-free business**	**Total continuing & Meat-free**	**Discontinued other**	**Total**
	£m	**£m**	**£m**	**£m**	**£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 December 2009 (Restated)[1,2]				
	Continuing	**Discontinued Meat-free business**	**Total continuing & Meat-free**	**Discontinued other**	**Total**
	£m	**£m**	**£m**	**£m**	**£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/(receivable)					
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 and receivables	(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.

7. 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 £205m, 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).

8. 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.

9. 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	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	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: Disclosure and 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 the 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.

10. 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 Euros for the average rate during the year, and £1.00 = 1.1601 Euros 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.

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%
	2009	**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	RHM schemes	Total
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.

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%.

Changes in the present value of the defined benefit obligation were as follows:

	Premier schemes	RHM schemes	Total
	£m	£m	£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	RHM schemes	Total
	£m	£m	£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

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 was £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: £26.0m) of regular contributions and expenses and £48.3m (2010: £40.0m) of additional contributions to fund the scheme deficits.

The total amounts recognised in the Group's income statement are as follows:

	Premier schemes	RHM schemes	Total
	£m	£m	£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)

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.

11. 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 costs 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)

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.

12. 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.

13. 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 of the Meat-free business is subject to shareholder consent. The sale 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.

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 all consents required from lenders under the Group's banking facilities, European Commission merger control clearance and shareholder consent. The sale is expected to complete during the first 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.