PREMIER FOODS PLC

Annual report and accounts 2006

PREMIER FOODS

Financial highlights

TURNOVER
£959.4m
(2005: £789.7 million)

TRADING PROFIT
£132.5m
(2005: £107.3 million)

OPERATING PROFIT
£97.6m
(2005: £95.3 million)

EARNINGS PER SHARE – CONTINUING
12.7p
(2005: 11.9 pence)

DIVIDENDS PER SHARE
12.0p
(2005: 11.25 pence)

MAKING GOOD PROGRESS

We have acquired the UK and Irish businesses of Campbell Soup Company and announced the acquisition of the RHM Group transforming Premier Foods into the No.1 food producer in the UK.

INSIDE THIS SECTION

CHAIRMAN'S STATEMENT

DAVID J KAPPLER
CHAIRMAN

2006 was an exciting year for your company one that will be seen as transformational in the life of Premier Foods plc.

The year confirms the Group's strengths: strong management, energetic brand and strategy development and sound financial management.

Consequently, in tricky conditions, sales of our branded products (prior to acquisitions) increased by more than 5%. Overlaying acquisitions, underlying earnings per share rose by 6.7%.

In August we acquired the UK and Irish businesses of Campbell Soup Company ("Campbell's"), bringing *Oxo, Batchelor's* and *Homepride* into the Groups' portfolio of products and will shortly complete the acquisition of the RHM Group. The acquisition of RHM will transform Premier Foods into the UK's leading food supplier adding *Hovis, Mr Kipling, Sharwoods* and *Bisto* to the brand portfolio. It will broaden Premier's category reach, adding No.1 positions in the bread and cakes categories and significantly enhance our chilled and frozen capabilities.

Shareholders strongly supported these deals with a £458m rights issue last year and the share issue to RHM shareholders this year, and we thank them for their support.

There were other opportunities we investigated but did not pursue when they failed to meet our strict financial criteria. Acquisitions now, however, take a much lower priority as management drive for growth and achievement of acquisition synergies.

Organic development

Once again I am delighted to report on the success of our "drive" brands. Sales in these brands grew by 12.4% in 2006, following on from 10% growth the previous year. This success led to an overall growth in branded sales of 5.6% despite the unseasonably warm weather during the second half of last year. We have continued to invest in our brands with innovation and variation contributing to sales growth. In our Spreads, Desserts and Beverages product group, sales have been driven by innovation in *Ambrosia* snacking formats and *Hartley's* jams and jellies. Loyd Grossman continues to provide excitement at mealtimes with sales increasing by 25%, and we have extended the Loyd Grossman licence until 2026. We are particularly pleased with the performance of our Meat-free business, with exceptional sales and profit growth. The 13.2% growth in sales of Quorn driving an overall increase in like-for-like sales of 10.2%, whilst like-for-like trading profit in this category rose by 25.0%.

In order to support these growth rates we continue to invest in our infrastructure. We acquired a new site at Methwold, Norfolk, where we have invested £9m in 2006, increasing the capacity to manufacture *Quorn* & *Cauldron* meat-free products. We have also recently improved our Lynn Road, Wisbech distribution facility, where we have refurbished and extended the warehouse facilities. This investment will help to drive out costs, improve manufacturing capability and customer service.

As part of Premier's future growth plans a major change programme was initiated. Following a scoping and planning exercise in the last quarter of 2005, Project Fusion began in the first half of 2006. This project focuses on upgrading Premier Foods' core systems and processes and is based on the implementation of a new ERP software suite. We have currently invested £13m, and are happy to report that the first modules were

Chairman's statement
continued

successfully introduced at the end of the year. Other modules will "go-live" during 2007 and 2008 and we expect the project to be fully integrated across our business by 2009.

Acquisitions and disposals Campbell's is an excellent fit with Premier Foods occupying seven category leading positions and including the iconic British brands of *Oxo, Batchelor's, Fray Bentos* and *Homepride*. With combined retail sales over £200m and over 100 years of history these brands provide us with platforms for category extension and exciting new product launches.

The acquisition will create a more efficient business and removing the overlap in manufacturing facilities and administrative functions will generate pre-tax savings of £28m. Significant progress in integrating the business has been made. We have already consolidated administrative functions and announced the closure of two sites at King's Lynn and Ashford and significant investment in three other sites. Management systems integration is underway and remains on track for completion at the end of March 2007.

Employees As always we are indebted to all of our employees. The attitude they bring to challenges they are set is exemplary. Premier Foods competes in a fast moving environment and our culture allows the company to maintain its competitive edge:

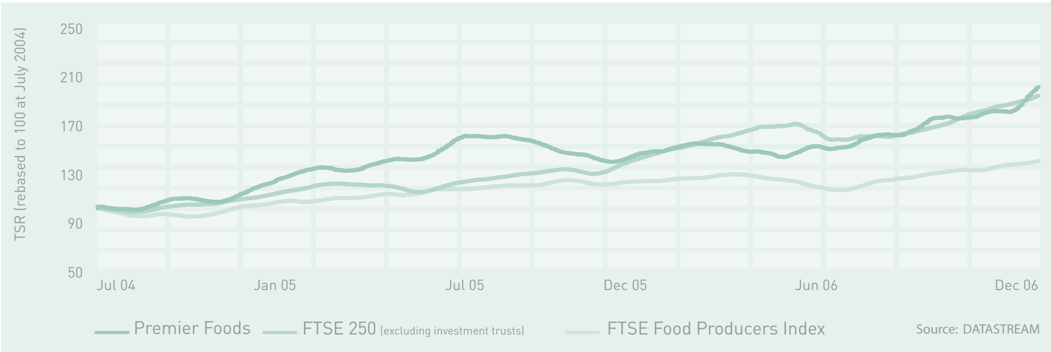
- Our Histon site has initiated two projects, to improve production efficiency and plant maintenance skills. This approach has also benefited health and safety performance, with a 50% reduction in accidents at this site.
- The extension at our Lynn Road site was put up in record time and added 200,000 square feet of floor space to the existing 400,000 square feet.
- A combined project team relaunched our *Hayward's* and *Branston* pickles with new see-through "transparent pressure sensitive" labelling, giving a modern, up to date, but traditional look to the products.
- A cross-party group has worked to establish food production at our Methwold site in the six months to 31 December 2006. Full production of *Quorn* and *Cauldron* products will be phased in by the third quarter of 2007.

These are a few examples of the spirit of the people who work in Premier Foods and the contribution they make to the success of the business, and I would like to thank them for their efforts.

Shareholder Return Premier Foods' share price rose well ahead of other Food Producers in 2006 and continued to offer good shareholder returns, with shareholder value doubling since our listing in 2004.

The directors are pleased to recommend the payment of a final dividend, in respect of the year ended 31 December 2006, of 2.55p per share. The first interim dividend of 5p per share was paid in January 2007 and the second interim dividend, of 5.5p, was paid in February 2007. The final dividend will be paid on 6 July 2007 to shareholders on the register on 8 June 2007.

Our dividend policy is to ensure that Shareholders benefit from the successful growth and anticipated strong cash flow of the business whilst providing sufficient funds for investment purposes. Following completion of the RHM acquisition, we shall seek to maintain a progressive dividend policy, which will reflect the effect of the anticipated synergies arising from the transaction, as well as continuing organic growth.



Board changes I would like to welcome Dr Louise Makin to the Board as a non-executive Director. Dr Makin was appointed on 1 October 2006, and will also sit on both the Remuneration and Nomination Committees.

Dr Makin is currently Chief Executive Officer of BTG plc, an international medical innovations company and brings a wealth of scientific knowledge and experience to the Board.

At the AGM on 10 May 2007, Mr Ian Ramsay will retire from the Board. He joined the Group on its listing in 2004 and has provided wise counsel, based upon his long food industry experience, for which we are all very grateful.

Looking to the future The trading environment for food companies continues to be tough and inflationary pressures remain a concern. However, the Board continues to follow its business strategy of using its scale to drive the business, managing costs and driving brands through marketing and innovation.

The acquisition of RHM makes Premier Foods the No.1 Food Producer in the UK. We will have approximately 19,700 employees, with 10 Grocery Category No.1 positions, and annual retail sales of £2.5bn. We will remain focused on maintaining our high standards of product quality and customer service, and achieving our financial targets. I am confident that the quality and strength of the combined management teams and employees will deliver a successful company and drive value for all our stakeholders.

DAVID J KAPPLER
CHAIRMAN

BOARD OF DIRECTORS

Executive Directors

1. Robert Schofield, Aged 55
Joined the Group in 2001 taking responsibility for its branded business. He was appointed Chief Executive in January 2002. Robert Schofield has extensive manufacturing and operational experience gained at United Biscuits plc where he ultimately served as Managing Director of United Biscuits UK, directing both the McVities and KP Foods businesses.

2. Paul Thomas, Aged 51
Joined the Group in 2002 as Finance Director. Prior to this he served as Finance Director of Coors Brewers (formerly Bass Brewers). Previously, he was the Director of Planning and Business Development in the retail division of Grand Metropolitan plc. He is a Chartered Accountant.

Non-executive Directors

3. David Kappler, Aged 60
Joined the Group on flotation in 2004 as Chairman. Mr Kappler was previously Finance Director of Cadbury Schweppes plc. He is a Chartered Management Accountant and is currently a non-executive director of Shire Pharmaceuticals Group plc and Intercontinental Hotels Group plc. He resigned as a non-executive Director of HMV Group plc in July 2006.

4. Ian McHoul, Aged 47
Joined the Group on flotation in 2004 and is currently the Group Finance Director of Scottish & Newcastle plc. He was previously the Finance and Strategy Director of the Inntrepreneur Pub Company Limited and prior to that he spent 10 years with Courage Limited and its parent company Fosters Brewing Group in a variety of roles. Mr McHoul is a Chartered Accountant.

5. David Felwick CBE, Aged 62
Joined the Group on flotation in 2004. Prior to this he was Deputy Chairman of the John Lewis Partnership and Chairman of the British Retail Consortium. He was previously Managing Director of Waitrose and is currently Chairman of Product of the Year Ltd, and Leckford Estate Ltd.

6. Ian Ramsay, Aged 67
Joined the Group on flotation in 2004. Mr Ramsay was formerly President of European Operations and President of Europe, Africa and the Middle East at Bestfoods Europe. Prior to this, he was Senior Vice President of Finance and Human Resources.

7. Sharon Hintze, Aged 62
Joined the Group on flotation in 2004, she is currently a non-executive director of HSBC Holdings plc. Miss Hintze resigned as a trustee of the Society of Genealogists in May 2006, and was formerly a non-executive director of Safeway plc and Senior Vice President responsible for the Petcare strategic business unit at Nestlé SA in Switzerland. Prior to this she worked for Mars Incorporated and a number of its subsidiaries in the United States, the United Kingdom and Switzerland.

8. Louise Makin, Aged 46
Dr Makin, who was appointed to the Board on 1 October 2006, is currently Chief Executive Officer of BTG plc, an international medical innovations company. Prior to that she was President, Biopharmaceuticals Europe of Baxter Healthcare, responsible for Europe, Africa, and the Middle East. In 2000 Dr Makin joined Baxter Healthcare as Vice President, Strategy & Business Development Europe. Before joining Baxter, she was Director of Global Ceramics at English China Clay and prior to that she held a variety of roles at ICI between 1985 and 1998. Dr Makin holds an MA in Natural Sciences and a PhD in Metallurgy from the University of Cambridge, and an MBA.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DRIVING THE BUSINESS FORWARD

Our aim is to have a brand on every table, in every home in Britain

18 GROWTH – ALWAYS STAYING FRESH AND RELEVANT

20 INTEGRATION – MIXING TO CREATE VALUE

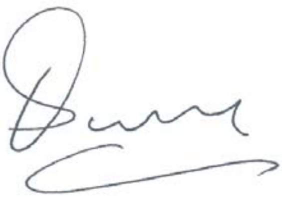
22 INNOVATION – SIMPLY MAKING THINGS BETTER

24 PEOPLE – CONSISTENTLY ATTRACTING AND RETAINING THE BEST

INSIDE THIS SECTION

CHIEF EXECUTIVE'S SUMMARY

ROBERT SCHOFIELD
CHIEF EXECUTIVE



Premier Foods continues to follow its strategy of using its scale to drive the business, managing its brands proactively, concentrating on integration and driving out synergies.

Description of the business Premier will be the UK's No.1 food producer following its acquisition of RHM plc, which will complete in March 2007. Following completion the Group will manufacture a range of market leading branded and own-label products across many food categories including Bread, Cakes, Preserves, Convenience Foods, Ambient Desserts, Meat-free foods, Cooking Sauces, Stocks, Gravies, Flour, Chilled Ready Meals, Meat Pies, Frozen Pies and Desserts. It will employ approximately 19,700 people.

Currently the Group operates in two primary segments, Grocery and Fresh Produce. Within Grocery, the Group is organised around its Convenience Foods, Pickles, Sauces & Meat-free and Spreads, Desserts & Beverages product groupings. Our Fresh Produce business comprises potato and fresh produce packing and marketing operations supplying the retail, foodservice, food manufacturing and potato growing markets.

Strategy The Group's strategy remains as it always has been; to use its scale to drive the business in three key areas: organic consumer-focused branded growth; growth through customer relationships; and cost savings and business simplification, to manage the retailer brand products proactively. Premier believes that retailer brand business is an important complement to its branded offering, significantly leveraging its efficient cost base.

The acquisition of Campbell's in August 2006 increased our branded business to 66% of total grocery sales, on a pro forma basis, with the inclusion of *Batchelor's* and *Oxo* in our "Drive" brands.

The expected acquisition of RHM in March will add further category leading brands to our portfolio, bringing with it *Hovis*, the leading bread brand, *Mr Kipling*, the leading cake brand, *Bisto*, the leading gravy brand and *Sharwoods*, the leading brand in the 'Asian Foods' category. Approximately 50% of RHM's sales were of branded products, leading to a pro forma branded sales mix of the enlarged group of approximately 57%.

Operational review

	2006 £m	2005 £m
Sales		
Grocery	**844.8**	683.4
Fresh Produce	**114.6**	106.3
Total Sales	**959.4**	789.7

2006 has been a year of transformation for Premier. The acquisition of Campbell's in August enhanced our brand portfolio and branded business. *Batchelor's* and *Oxo* have been included within our Drive brand categories, *Homepride* has been placed within Core brands and *Fray Bentos* with Classic brands. Following this, in December 2006, we announced an agreed offer for RHM plc. These acquisitions will transform Premier into the UK's leading food supplier, offering us unparalleled opportunities for developing our brands and manufacturing efficiency.

We are delighted by the progress of our Drive brands, which have continued to perform well, with sales up 12.4% on 2005. Excluding the Campbell's brands, which were acquired during 2006, our like-for-like branded sales grew by 5.5% and sales overall, including retailer branded products, grew by 2.5%.

We continue to invest in our brands, both in extension and innovation; we launched a range of *Branston* table sauces in the first quarter of 2006 and saw total *Branston* sales increase by 16%. We have extended our worldwide licence to use the *Loyd Grossman* name on sauces, oils and dressings, accompaniments, toppings and marinades to 2026 and sales of *Loyd Grossman* products rose 25% on last year. The number of households buying *Quorn* has increased by another 440,000 so that 1 in every 5 households now buys *Quorn* on a regular basis leading to a 13% increase in its sales. In addition, new varieties of *Hartley's* jelly and *Ambrosia* custard led to increases in sales of *Hartley's* and *Ambrosia* of 7% and 6% respectively.

On the downside in 2006, we, like other businesses, have seen significant levels of inflation across a range of our input costs, particularly energy-related costs and raw material ingredients. We have been successful in recouping some of these costs, however the "cost

Chief Executive's Summary
continued

environment" remains difficult. In addition, the extended period of warm weather through the Autumn impacted sales in a number of our more weather-dependent categories.

The trading environment for food retailers and food manufacturers remains very competitive. Our strategy is to try to work closely with our customers by focusing on exciting product innovations and promotions, which also drives consumer loyalty and demand for our brands.

Acquisitions and disposals We are pleased by the progress we have made on integrating the Campbell's business into Premier, which is proceeding according to plan. We have announced the closure of the Cambourne head office and the integration of administrative functions into our Long Sutton site. Accordingly, we expect to complete the integration of the business control elements of Campbell's into Premier by the end of the first quarter of 2007.

The manufacturing review to optimise efficiency across our manufacturing network concluded that we should consolidate the production of our "dry savoury" products into our Worksop factory and our canned production into our Long Sutton and Wisbech factories. This will result in the closure of our Ashford and King's Lynn factories, which we anticipate to complete by the middle of 2008. Whilst closing factories is never a decision we take lightly, we need to ensure that Premier remains competitive and the closures will enable us to invest behind growing our brands and our business. The proximity of King's Lynn to our other canning factories will enable us to offer continued employment to a significant number of the King's Lynn employees.

The acquisition of RHM will enable Premier to build on the complementary strategies of Premier and RHM from a position of significantly enhanced scale and efficiency. We believe that it will enable us to take advantage of top-line growth opportunities through strong innovation and brand investment, while also delivering substantial cost savings to enhance efficiency and competitiveness.

Enhancing reporting to shareholders The Group provides information to shareholders in a manner that makes it transparent and accessible.

We have:
- provided an in-depth explanation of trading and financial performance, along with background information for both new and existing investors in our business review on pages 13 to 25;
- developed a cohesive and efficient approach to achieve the Group's corporate governance objectives, as outlined on pages 39 to 49;
- explained improvements in our approach to risk management on pages 44 to 45, following the risk review process operated in Group businesses during the year;
- incorporated our principles of good corporate responsibility within the objectives of the risk review group to ensure we meet the operational and information reporting challenges facing the Group and other public companies, outlined on pages 45 to 49;
- reviewed the composition of the Board and our responsibilities to shareholders, explained on pages 39 to 43 and
- explained our underlying remuneration principles and senior management incentive plans in our directors' remuneration report on pages 50 to 60.

Outlook Overall trading performance for the year to the date of this report has been in line with our expectations. The trading environment remains highly competitive and energy-related inflationary pressure remain an issue. The integration of Campbell's continues to proceed smoothly and we are now into the detailed planning phase for the integration of RHM.

Environmental issues are now predominant amongst customers and consumers and, with greenhouse gas emissions of particular concern, the Group has initiated a review of its energy strategy to identify ways in which we can reduce the carbon footprint of our businesses over the forthcoming years. We are confident that we will be able to continue to develop the business in line with our strategy, focusing on driving our branded sales growth whilst maintaining a tight control on our cost base and addressing environmental concerns.

ROBERT SCHOFIELD
CHIEF EXECUTIVE

Principal activities

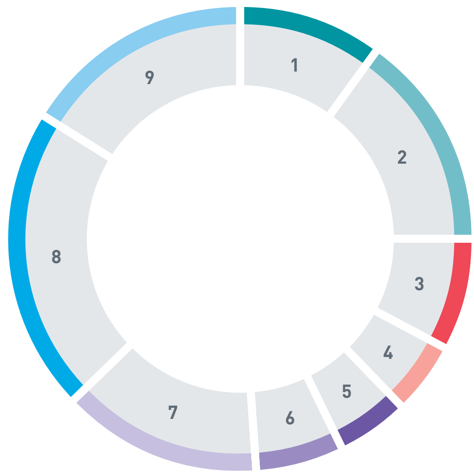
Premier Foods is a leading supplier of foods and beverages to the UK retail grocery and foodservice markets. The Group manufactures a range of market leading branded and own-label products in two primary segments: Grocery and Fresh Produce. Within Grocery, the Group is organised around its Convenience Foods, Pickles, Sauces & Meat-free and Spreads, Desserts & Beverages product groupings. Our Fresh Produce business comprises potato and fresh produce packing and marketing operations supplying the retail, foodservice, food manufacturing and potato growing markets.

Premier's branded products include *Batchelor's* soups, noodles, rice, pasta and vegetables, *Quorn* and *Cauldron* meat alternatives, *Ambrosia* custard and milk puddings, *Oxo* stocks and gravies, *Bird's* and *Angel Delight* desserts, *Branston* pickles, baked beans and pasta, *Hartley's* preserves and desserts, *Homepride* cooking sauces, *Gale's* honey and lemon curd, *Crosse & Blackwell* convenience foods, *Sun-Pat* peanut butter, *Sarsons* vinegar, *Fray Bentos* meat pies, *Haywards* pickles, *Smash* instant mashed potato, *Marvel* powdered milk creamer and *Waistline* salad dressings, soups and cooking sauces. In addition, the Company produces *Loyd Grossman* cooking sauces and soups under licence. Premier also produces a range of retailer brand products, principally for the major multiple retailers.

Background to the business In the main, the UK food retail market comprises well-known major retailers and smaller convenience stores. Whilst the smaller operations offer some additional distribution channels for our branded products the greater volume of sales comes from the major retailers who stock our brands and their own-branded products. The food retail market is highly competitive demanding consistent product quality and reliable supply whilst seeking more competitive pricing and innovative new products.

Suppliers look to generate economies of scale to reduce production costs to support promotional activity, investment in building brand awareness with the consumer and new product development. We also supply the food service, cash & carry and food manufacturing markets in the UK and a small proportion of our sales are through exports.

In general, supply to the UK food retail market is influenced by macro-economic factors such as consumer confidence, consumer price inflation, commodity and utility prices and sector wage inflation. A more detailed discussion of the factors affecting our business can be found on pages 44 to 45.



What's driving us?

1	Ambrosia	10%
2	Batchelor's	15%
3	Branston	8%
4	Hartley's	5%
5	Loyd Grossman	5%
6	Oxo	6%
7	Quorn	14%
8	Core	21%
9	Classic	16%

Business Review
continued

We offer our customers a detailed insight into their consumers, reflected in our innovation, a focus on service levels to ensure reliable supply and competitive prices from our low cost base. This mix gives Premier a unique competitive position to manage the categories in which we operate.

Operating review – continuing operations

	2006 £m	2005 £m	
Sales			
Grocery	**844.8**	683.4	23.6%
Fresh Produce	**114.6**	106.3	7.8%
Total Sales	**959.4**	789.7	21.5%
Trading profit*	**132.5**	107.3	23.5%
Valuation of foreign exchange contracts	**(3.8)**	1.1	–
Amortisation of intangibles	**(11.0)**	(6.3)	74.6%
Operating profit before exceptional items	**117.7**	102.1	15.3%
Exceptional items	**(20.1)**	(6.8)	–
Operating profit	**97.6**	95.3	2.4%

*Trading profit represents operating profit before exceptional items, amortisation of intangible assets and the movement in the IAS 39 valuation of forward exchange contracts.

In 2006, Premier has achieved another year of branded sales growth and improved operating margins. In addition, we have significantly enhanced our brand portfolio with the acquisition of Campbell's, which included the category-leading brands of *Batchelor's*, *Oxo* and *Fray Bentos*.

Our strategy is based upon growing our branded sales, whilst maintaining the benefits derived from also supplying retailer branded products and driving efficiency improvements and cost reductions to improve our operating profit margins.

Overall, Grocery sales for continuing operations grew by 23.6% based on like-for-like Grocery sales growth of 2.0% combined with a strong full year's contribution from our Meat-free business and the addition of the Campbell's business in August of 2006. This was partially offset by the impact of the end of the *Cadbury* licence in May 2006 under which we had manufactured, marketed and sold *Cadbury* branded hot cocoa-based beverages. This licence was replaced by a manufacturing agreement under which we supply the products direct to *Cadbury*, who now market and sell the products.

Despite the prolonged unseasonably warm weather during the second half of the year, we maintained our normal marketing spend on our existing brands of £31.8m. This marketing spend helped to continue the excellent sales growth of our drive brands with *Loyd Grossman* growing 25%, *Branston* 16%, *Quorn* 13% (on a like-for-like basis), *Hartley's* 7% and *Ambrosia* 6%. Excluding *Campbells* and the impact of the end of the *Cadbury* licence, our branded sales grew by 5.5%. In 2005, we spent a total of £34.0m on marketing these brands, but this included an additional spend of £3.5m on the launch of *Branston beans.*

Overall, trading profit for continuing operations grew by 23.5%. Exceptional performances by our Spreads, Desserts & Beverages and Meat-free businesses helped trading profit for the Grocery business including Meat-free to increase by 5.2% to £117.3m on a pro forma basis. Trading profit for our Core Grocery business, ie. excluding Meat-free and Campbell's, declined by 2.0% to £98.3m due to the impact of the end of the *Cadbury* licence and significant energy and raw material cost inflation during the year, partly offset by the strong performance of our Spreads, Desserts & Beverages business.

The Campbell's business performed in line with our expectations at the time of the acquisition. The business has seen declining sales over 2005 and 2006, primarily as a result of a significant reduction in promotional and marketing expenditure prior to its purchase by Premier. We have been developing our detailed marketing and innovation plans for the business, which we have started implementing in 2007 and we are delighted by the results we have seen so far.

Continuing operations – Grocery

	2006 £m	2005 £m	
Sales	**844.8**	683.4	23.6%
Like-for-like sales*	**600.9**	589.4	2.0%
Trading profit	**134.4**	106.8	25.8%
Like-for-like trading profit**	**98.3**	100.3	(2.0%)

*Like-for-like sales represents results from continuing operations excluding results from acquisitions and disposals made during 2005 and 2006 and the impact of the end of the *Cadbury* licence. The 2005 sales include an additional 6 weeks contribution from the *Bird's* business, which was acquired in February 2005.

**Like-for-like trading profit represents results from continuing operations excluding results from acquisitions and disposals made during 2005 and 2006.

Convenience Foods, Pickles, Sauces and Meat-free

	2006 £m	2005 £m	
Like-for-like sales	**347.2**	347.1	–
Meat-free	**110.0**	49.6	121.8%
Campbell's	**101.3**	–	–
Total sales	**558.5**	396.7	40.8%
Like-for-like trading profit	**28.0**	33.7	(16.9%)
Meat-free	**19.0**	6.5	192.3%
Campbell's	**17.1**	–	–
Total trading profit	**64.1**	40.2	59.5%

Sales for this product group are significantly ahead of 2005 due to the acquisition of *Campbell's* and the contribution of a full year's sales from *Quorn* and *Cauldron*. Like-for-like sales are in line with 2005 sales of £347.1m. The second half has seen the continued strong growth of our *Branston* and *Loyd Grossman* brands but this has been offset by the effect of the unseasonably warm summer and autumn which impacted our smaller brands along with the cost pressures resulting from higher utility and energy-related prices which continue to disproportionately affect our Convenience Foods business.

Meat-free

	2006 £m	2005 £m	
Sales	**110.0**	49.6	121.8%
Trading profit	**19.0**	6.5	192.3%
Pro forma 12 months			
Sales	**110.0**	99.8	10.2%
Trading profit	**19.0**	15.2	25.0%

We are delighted by the continued progress of our Meat-free business, which has maintained the strong growth rate seen through the first half of the year and market share in both the chilled and frozen channels and household penetration have all continued to grow. The Group's knowledge of the vegetarian and meat alternative markets is now unique amongst its competitors and we believe the business is well positioned to capitalise further on the growth in these markets, which we expect to result from the continued consumer trend towards healthier eating.

During 2006 household penetration increased from 18.2% to 19.8%, so that now nearly one in every five households is eating *Quorn*. We have continued to invest heavily in marketing, innovation and capacity expansion and the development of our new £11m Methwold chilled facility is progressing well with production commencing in the first quarter of 2007.

Business Review
continued

On a pro forma basis, the Meat-free business grew sales by 10.2% to £110.0m (2005: £99.8m). Trading profits increased by 25.0% to £19.0m (2005: £15.2m), due to the increased sales and the achievement of our planned synergies. The 2005 pro forma trading profit has been restated to reflect the re-classification of £4.0m of pre-acquisition charges which had previously been treated as a deduction to trading profit.

Campbell's

	2006 £m	2005 £m	
Sales	**101.3**	–	–
Trading profit	**17.1**	–	–
Pro forma 12 months			
Sales	**243.3**	250.2	(2.8%)
Trading profit	**51.2**	46.1	11.1%

We are pleased by the performance of the Campbell's business following its acquisition in August 2006. Sales for the period from acquisition to December 2006 were £101.3m and the trading profit was £17.1m. These were both in line with our expectations at the time of the acquisition.

The integration of Campbell's into Premier is progressing well. The sales and marketing functions were integrated by the end of 2006 and the remaining administrative functions are scheduled to be integrated by the end of March 2007. In January 2007, we announced the results of our manufacturing review and, following consultation with the affected employees, we have confirmed our plans to close our King's Lynn and Ashford sites, consolidating production into our Worksop, Long Sutton and Wisbech factories. Following completion of the acquisition, we commissioned an independent review of the cost synergies estimates we had identified pre-acquisition which confirmed our targeted synergies of £28m per annum were deliverable by the end of 2009.

Spreads, Desserts and Beverages

	2006 £m	2005 £m	
Sales	**286.3**	286.7	(0.1%)
Trading profit	**70.3**	66.6	5.6%

Like-for-like sales (excluding the impact of the end of the *Cadbury* licence in May 2006 and including pre-acquisition sales for *Bird's*) grew by 4.7% in 2006 to £253.7m. Total sales, including all sales of *Cadbury* branded products whether under the *Cadbury* licence or the subsequent manufacturing agreement were in line with 2005.

Trading profit increased by 5.6% to £70.3m. This increase was due to a combination of strong sales growth in the *Ambrosia* and *Hartley's* drive brands, with sales increasing by 6% and 7% respectively, and the realisation of synergies on the transfer of *Bird's* production into our Knighton factory, offset by the reduction in contribution from the manufacture of *Cadbury* branded products.

Fresh Produce

	2006 £m	2005 £m	
Sales	**114.6**	106.3	7.8%
Like-for-like sales	**90.0**	94.2	(4.5%)
Trading (loss)/profit	**(1.9)**	0.5	–
Like-for-like (loss)/profit	**(1.5)**	0.4	–

Sales have increased by 7.8% to £114.6m (2005: £106.3m) following the inclusion of a full year of the F W Gedney business, but trading profit has fallen to a loss of £1.9m (2005: profit £0.5m). This result is disappointing considering the progress the business had made in the first half of the year. However, the hot summer weather had a significant impact on both the quality and quantity of the potato harvest across Europe, which has caused a significant increase in the market price for potatoes.

On 5 March 2007 Premier reached a non-binding agreement to sell its Fresh Produce business to the management of that business.

Discontinued operations

	2006 £m	2005 £m	
Sales	–	77.2	–
Trading profit	–	8.6	–

Discontinued operations represent our former Tea business and our former Netherlands based Convenience Foods business, which were both sold in 2005.

Business outlook

Overall trading performance for the year to date has been in line with our expectations. We are confident that we will continue to develop the business in line with our strategy, focusing on driving our branded sales growth whilst retaining tight control on our cost base.

We anticipate completing the integration of all the sales, marketing and administrative functions of Campbell's by the end of March 2007 and we will be commencing the consolidation of its manufacturing facilities into our own network shortly thereafter.

We were delighted by the overwhelming support that both Premier and RHM shareholders gave to the proposed acquisition of RHM by Premier and we anticipate completing the acquisition on 16 March, which will follow the expected sanction of the Court to the scheme of arrangement on 14 March. We are looking forward to beginning the process of integrating these two great businesses to create the UK's leading food manufacturer.

GROWTH

Always staying fresh and relevant

The world has got smaller and people's tastes broader. Cultural changes and culinary inquisitiveness continues to create opportunities for new products in a society increasingly influenced by the wider world. Our ability to supply these changing trends with high quality and attractively presented products has led to significant growth. Through development or acquisition we offer the sort of adventurous, innovative, fresh and relevant products sought by customers, not as niche options, but as part of their everyday meal choices.

+£30m
SALES

+25%
SALES GROWTH

+400,000
NEW HOUSEHOLDS ENJOYING *LOYD GROSSMAN*

As consumers rekindle their passion for food, they seek inspiration and new ideas for menus and tastes, together with the convenience of "quick" preparation. They want to be free from the demands of everyday cooking but want also to be able to produce great tasting food.

This desire for great tasting food has led *Loyd Grossman* to produce offerings across a range of ethnicities. Using the best and freshest of ingredients and spices we now produce a range of pasta sauces, a range of oriental sauces including Thai curries and Malaysian Rendang and a range of Indian sauces from mild Korma to hot Madras. These sauces together with soups, chutneys and pour-over-sauces have contributed sales in excess of £33m, a growth of 25% on 2005. We intend to launch a range of stir-in sauces in the third quarter of 2007.

As we develop new products and enter new categories, *Loyd Grossman* is determined to deliver premium products to consumers who appreciate great taste and are prepared to invest in a much more rewarding meal, as Loyd himself says;

"Odd, isn't it, how we can lose sight of what's important when it comes to food? Lose sight of the fact that at the end of the day, the most important thing about food is how tasty it is.

Whether it's because of faster lives, or meals that are even more instant, too often the thing that's sacrificed is taste. Sometimes people just need reminding of the pleasure of fantastic food.

At Loyd Grossman it's all about striving for great taste. It can come from the right combinations of fresh ingredients that brings out a fuller flavour, or from those little adjustments at the last minute to get the balance just right. It is something about which I'm passionate.

Taste is everything."

More information on great meal ideas and wonderful tastes can be found at www.LoydGrossman.co.uk

INTEGRATION

Mixing to create value

Our success in integration and re-energisation of iconic British brands is attributable to a culture focused on creating value. We understand brand management and utilise this expertise in reacting rapidly to changing customer tastes and new product opportunities. This year the integration of Campbell's has involved brands, with over £200m of retail sales and over 100 years of history. Strong focus is being maintained on product quality and customer service as well as the unique qualities that established the brands reputation with consumers.

The integration of the Campbell's business, our largest acquisition prior to the announcement of the proposed acquisition of RHM, has progressed quickly and in line with our plans. Since acquisition we have integrated all head office functions and moved to single representation of the combined businesses with our customers. System integration is underway and remains on track for completion at the end of March 2007. Key to the success of the integration has been the co-operation of and input from the Campbell's and Premier teams involved and the ownership from senior management in developing and steering the integration plan.

Business performance in 2006 was in line with our expectations at the time of the acquisition. Like-for-like sales of £243.3m were 2.8% down on 2005, however the rate of decline slowed from 4.4% pre-acquisition to 1.1% post-acquisition, with like-for-like trading profit of £51.2m up 11.1% as some of the £28m synergies identified at the time of the acquisition begin to flow through.

Campbell's came with a number of iconic British brands including; *Batchelors, Oxo, Fray Bentos, Campbell's* and *Homepride,* seven grocery category No.1 positions and a branded sales mix of 94%. Premier Foods plans to rejuvenate these brands; unlocking the potential of *Oxo*, modernising *Batchelors* and refocusing *Homepride.* Reinvigorating work has already commenced on *Oxo* and *Batchelors,* which together with *Fray Bentos* have, since acquisition, returned to growth. *Batchelors* packaging is being redesigned to connect the UK consumer with the brand, and we expect to launch an innovative new *Batchelors* range in the fourth quarter of 2007. A new advertising campaign, for *Oxo*, began in the first quarter of 2007 showing the mixing of *Oxo* with meal ideas and the strap-line "*Oxo* little cube, big flavour."

£101.3m

TURNOVER

£28m

SYNERGY SAVINGS ON TRACK

+11.1%

TRADING PROFIT

INNOVATION

Simply making things better

We believe in many things. Quality and value are key as is the recognition that the consumer always has a choice. This means we must provide leadership; embrace new food technologies, invest in production technology, work in partnership with retailers and find innovative solutions to bring products to market in ways that inspire consumers. The growing trend towards healthy meal alternatives drives our new product development initiatives which offer many options for customers to enjoy *Quorn* and has resulted in a 22.4% growth in sales over the past 2 years.

Quorn's success is reflected in over £100m of retail sales and with over 20% of UK households regularly buying the brand last year. *Quorn* has a positioning and product range that sits in the epicentre of the three consumer macro trends – health, enjoyment and convenience. Importantly, however, the brand has continuously evolved its range to meet changing consumer needs and taste. Over the 25+ years since it was launched, the brand offering has moved from being a healthy ingredient alternative to meat, into being a positive protein choice covering a multitude of occasions from BBQs to lunch boxes, with an extensive range including sausages, burgers, deli, escalopes, ready meals and snacks. But our innovation doesn't end there, as we continue to refresh within these ranges to ensure that we're up-to-date with tastes and inspiring consumers with new ideas. Taking sausages as an example, we've developed the offering from the ever-popular 'banger' to include regional flavours such as a Cumberland sausage, traditional products such as Pork style and Apple, and even bringing a limited edition *Branston* variant into the family for last year's BBQ season. New product launches represented 20% of our revenue last year, and with consumer demand for *Quorn* growing at pace, we have many more ideas to extend beyond these ranges in the future.

£100m
RETAIL SALES

20%
HOUSEHOLD PENETRATION

+13.2%
SALES GROWTH

PEOPLE

Consistently attracting and retaining the best

This is a highly competitive and fast moving industry in which success is differentiated largely by the organisational culture and quality of people employed within it. Our working environment is populated by bright, motivated and ambitious people driven to achieve success. Our can-do culture requires teamwork and demands flexibility on the understanding that nothing but the best is good enough.

We recognise that to be the biggest food company in the UK is not enough, we must also be the best in everything we do, and to do that, we need the very best talent.

Working with some of the UK's best known and enduring food brands Premier Foods has created a challenging, exciting place to work where we offer talented people constant challenge and rewarding careers.

We employ people at all levels in our organisation who:
- do what they say;
- are ambitious and rise to real responsibility;
- thrive in a fast paced, decisive environment;
- are results focused;
- are passionate about food and brands;
- love winning;
- prefer white water rafting to plain sailing.

As Britain's largest food producer we offer a range of opportunities across our business – in different functions and in different locations throughout the UK.

Marketing
Our brands are more famous than our company. Our marketing team develops and grows them, aiming to build consumers connection to and desire for them. Consumer marketing is one of our core competencies. After all, we are constantly growing and nurturing some of the UK's favourite brands.

Sales
All businesses live or die by their sales record. At Premier Foods we have some of the most demanding and sophisticated customers in the world. Our sales people negotiate with our customers to grow business together.

Supply Chain
Our supply chain is made up from a number of links, beginning with the purchasing of our raw materials, which come from all over the world. Each link is critical to the success of our business, the aim is to optimise quality, efficiency and customer service. Supply chain management is fast, furious and very challenging in this 24/7 world!

Food Technology
Food Technologists work throughout Premier Foods, in areas such as new product development and quality control. Technologists have a good knowledge of food science and can improve food products in a commercial environment.

Finance
Our finance managers need to have a good understanding of our business and its drivers so that they can help their colleagues manage risk and support decision-making throughout the business, without stifling creativity.

Human Resources
Attracting, retaining and developing first class talent is a very high priority for Premier Foods as it is this which delivers competitive advantage to our business.

Information Technology
These days, information technology impacts every aspect of our business. It is not just about having the technical knowledge of hardware and software; it is about understanding how our business can use information technology to empower people and meet their business objectives.

Engineering
Our skilled engineers design and implement the efficient systems and processes within our manufacturing and distribution environments. Engineering excellence is at the heart of our manufacturing capability.

FINANCIAL REVIEW

PAUL THOMAS
FINANCE DIRECTOR

Since the publication of the interim results for the six months ending 1 July 2006, the Group acquired Campbell Grocery Products Limited and Campbell Soup Ireland Limited together with certain trade marks ("Campbell's"). Campbell's results for the period post acquisition i.e from 14 August 2006 to 31 December 2006 are included in the consolidated results of the Group.

The Group purchased Campbell's for £460.0m, and incurred acquisition related costs of £8.9m which are included in the total consideration of £468.9m. The acquisition was primarily funded through a one for one rights issue which raised gross proceeds of £458.6m. Associated costs of £17.0m were incurred on the rights issue (and these have been deducted from the share premium account) resulting in net proceeds of £441.6m. Further information on the acquisition can be found in note 27.

At the time of the acquisition, the Group also re-negotiated its borrowing facilities, incurring £4.4m of debt issuance costs, which will be written off over the term of those facilities. The residual un-amortised debt issuance costs of £4.0m on the pre-existing facilities have been written off and classified as an interest charge during the year.

Income Statement – continuing operations

Sales

The Group's continuing operations generated sales of £959.4m, an increase of 21.5% over 2005 (£789.7m). The major element of this increase is the inclusion of a full year's trading for the *Quorn, Cauldron* and Gedney's businesses following their purchase in 2005, together with the contribution from Campbell's.

Total Grocery sales increased by 23.6% to £844.8m, with core like-for-like grocery sales, including pro forma Meat-free (ie excluding the sales generated by acquisitions made in 2005 and 2006 and sales of *Cadbury* hot chocolate beverages) up 3.1%. While this level of growth is just above the top end of our targeted range, it does incorporate an element of price movement offsetting the exceptional levels of energy and raw material cost inflation during the year.

Fresh Produce turnover grew by 7.8% to £114.6m largely due to the acquisition of the Gedney's operation in 2005. Like-for-like sales in this business were down 4.5% at £90.0m due to a combination of contracts lost in 2005 partly offset by the movement in the market price of potatoes.

Gross profit

Gross profit for the year increased by 28.0% to £264.1m (2005: £206.4m). On a like-for-like basis, gross margins declined marginally from 25.2% in 2005 to 24.4%. While the Spreads, Desserts & Beverages business continued to progress, the Convenience Foods operation was hit by the effects of the extended period of warm weather in the second half of 2006 and the impact of utility and raw material cost inflation.

Selling, marketing and distribution costs

Selling, marketing and distribution costs for the year were £80.8m, an increase of 9.6% compared to 2005. Like-for-like selling and distribution costs fell by £4.9m (7.6%), due to lower distribution costs in our Fresh Produce and *Bird's* businesses as we rationalised haulage and distribution operations and the non-recurrence of the exceptional marketing spend in 2005 on the launch of *Branston Beans.* Within this category and despite the impact of the unseasonably warm weather during 2006, we maintained marketing spend year on year.

Administrative costs

Administrative costs for 2006 were £82.0m, an increase of 106.0% on 2005 costs of £39.8m. This increase is mainly due to the inclusion of the administrative costs associated with the recent acquisitions, the increased charge for exceptional costs taken in the year, the majority of which falls into administrative costs and increased amortisation costs. Like-for-like administrative costs, fell as central head office costs were absorbed over a larger business base. Amortisation of intangible assets increased to £11.0m in 2006 (2005: £6.3m), resulting from a full years charge for the *Quorn* and *Cauldron* brands, together with the amortisation arising on the acquisition of the Campbell's brands.

Other operating expenditure and income

Other operating expenditure amounted to £3.7m (2005: income £2.4m). This was primarily made up of a fair value movement of £3.8m on ongoing forward foreign exchange contracts. This movement is mainly due to weakening of the US dollar against sterling during the course of the year. Under IAS39, changes in the fair value of unsettled forward foreign exchange contracts that are not designated as hedges are recorded outside of cost of sales as other operating income or expense. The corresponding movement in 2005 was a credit of £0.9m with the balance of other operating income consisting of proceeds of £1.5m under our business interruption insurance in relation to the fire at our Bury St Edmunds factory.

Financial Review
continued

Operating profit
Operating profit increased by £2.3m, or 2.4%, to £97.6m and after stripping out exceptional costs of £20.1m (2005: £6.8m) operating profit before exceptional items for the continuing business grew to £117.7m, £15.6m or 15.3% up on 2005.

Exceptional items
Exceptional items are not specifically defined under IFRS. Accordingly the Group has defined exceptional items as those items of sufficient financial significance to be disclosed separately in order to assist in understanding the financial performance achieved and in making projections of future results. These items relate to events or circumstances that are non-recurring in nature.

Exceptional items for the year reflect the aggregate of a number of non-recurring events, resulting in a net charge of £20.1m compared to a cost of £6.8m in 2005. The main elements of the charge for the year are costs associated with the closure of our *Cauldron* factory at Portishead and the set-up of our new Meat-free facility at Methwold, restructuring and redundancy charges related to the integration of Campbell's administration functions and costs associated with the aborted acquisition of United Biscuits. Further details are set out in note 5 of the attached financial statements.

Interest
Net interest payable for the year of £39.5m (2005: £43.5m) was made up of three elements: net cash interest payable, the amortisation of debt issuance costs and the fair value effect of interest rate swaps held at the end of the year. Net cash interest costs increased by 19.8% from £34.4m to £41.2m primarily as a result of the increased level of funding arising from the acquisition of the *Bird's, Quorn, Cauldron* and Campbell's businesses.

The regular charge for the amortisation of debt issuance costs was £1.4m (2005: £1.7m). We extended our debt facilities at the time of the Campbell's acquisition, which resulted in the write-off of £4.0m of unamortised debt issuance costs relating to the pre-existing debt facilities. A comparable charge of £6.3m was recorded in 2005 on the re-negotiation of our debt facilities to fund the acquisition of *Quorn.*

The fair value effect of interest rate swaps held at the end of the year was a credit of £7.1m (2005: cost £1.1m). This movement is largely the result of the increase in UK interest rates seen during the course of the year.

Taxation
The tax charge on the continuing business for the year was £11.0m (2005: £14.9m), an effective rate of 18.9% after taking into account the release of prior year provisions following the resolution of various outstanding issues with HMRC.

The underlying cash tax rate for 2006 was 12.7% primarily reflecting the aggregate effect of tax allowances on the amortisation of goodwill and intangible assets in excess of the amortisation charge recorded in the income statement, capital allowances in excess of the depreciation charge recorded in the income statement and tax relief given on payments to retirement benefit schemes in excess of the amount charged in the income statement.

It is anticipated that the effect of the factors referred to above will be to maintain the effective cash tax rate with a range of 20%-25% in the medium term, with movements in deferred tax adjusting the effective rate of tax to be close to the statutory rate of 30%.

Earnings per share
Basic earnings per share of 12.7p (2005: 11.9p) on continuing operations has been calculated by dividing earnings attributed to ordinary shareholders of £47.1m (2005: £36.9m) by the weighted average number of ordinary shares in issue during the year.

Adjusted earnings per share of 18.0p (2005: 17.0p) on continuing operations has been calculated by dividing earnings before exceptional items and amortisation of intangible assets attributed to ordinary shareholders of £66.7m (2005: £52.9m) by the weighted average number of ordinary shares in issue during the year. These earnings have been calculated by reflecting tax at 30% and adjusting for the tax allowance on intangible asset amortisation available on certain business acquisitions.

Dividends
In line with our stated dividend policy, on 6 August 2006 the Board recommended a first interim dividend of 5.00p per ordinary share which was paid on 4 January 2007. This was equivalent to 3.95p per ordinary share after adjusting for the bonus element of the rights issue.

As part of the agreed offer for RHM plc, the Board recommended a second interim dividend of 5.50p per ordinary share, which was paid on 23 February 2007, to align the cumulative dividend to our shareholders for the year with those announced by RHM plc as payable to its shareholders.

A final dividend of 2.55p per ordinary share was proposed by the Board on 5 March 2007, payable on 6 July 2007 to shareholders on the register at 8 June 2007. This will result in a total dividend payable for 2006 of 12.00p per ordinary share (2005: 11.25p), an increase of 6.7%, after adjusting for the bonus element of the rights issue.

Pension Schemes

Consistent with all public companies, the Group reviews the actuarial assumptions used in calculating its pension obligations on a regular basis. It is our objective to ensure that the balance between the cash flow risk to the business and our responsibilities to our current and former employees is fully and regularly understood and that the impact of changes to the composition of the business on our pension obligation is known in advance.

In this context, the Group monitors on a regular and ongoing basis the specific demographic characteristics of the membership of each of its schemes, along with the assumptions relating to discount rates, returns on equity, inflation and the rate of future salary increases. As a result we have revised the assumptions used in determining the IAS19 liabilities at 31 December 2006 to reflect changes in the economic environment and circumstances of each scheme. These assumptions are shown in detail in note 24 of the attached financial statements.

As a consequence, at 31 December 2006 and on an IAS 19 basis, the Group's pension schemes showed an aggregate deficit of £84.7m (2005: £84.4m). This comprised £55.2m in relation to the existing schemes and £29.5m in relation to the schemes associated with Campbell's. The reduction in the deficit on the Group's existing schemes which fell from £84.4m to £55.2m was largely as a result of improved investment performance of the schemes' assets during the year. On a net basis, after adjusting for the effect of deferred tax, the aggregate deficit on Group schemes stood at £59.4m (2005: £59.1m).

Cash flow and borrowings

The Group's net borrowings increased during the year from £572.1m to £641.4m. Of this movement of £69.3m, the cash and non-cash elements were £63.2m and £6.1m, respectively.

The cash inflow from operating activities for the year declined to £40.1m (2005: £73.9m) as a result of the increased level of interest, tax and exceptional costs arising during the year coupled with an outflow on working capital. The latter factor was due to the funding of peak working capital levels in the newly acquired Campbell's business over the year-end and the timing of receipts from major customers and payments to suppliers over the Christmas period.

The cash flow statement for the Group also includes the cost of acquiring Campbell's for a total consideration of £468.9m including fees and the net proceeds of £441.6m from the rights issue used to fund the majority of the consideration.

The main remaining elements that make up the cash outflow referred to above were net capital expenditure of £52.5m, including the spend on the Group's SAP system implementation and dividends paid of £23.5m.

Capital expenditure

The Group's capital expenditure programme is geared towards meeting its planned commercial growth, cost efficiency and infrastructure requirements. In general the Group seeks to allocate approximately 3.0-3.5% of its sales to such projects each year, but will also allocate capital over and above this level to major business change projects.

In 2006, the Group spent a net £52.5m (2005: £36.2m) on its capital programmes. Of this £12.3m was associated with its implementation of SAP, with the balance made up of its investment in the Meat-free chilled factory in Methwold as well as its normal capital investment programmes.

PAUL THOMAS
FINANCE DIRECTOR

SENIOR MANAGEMENT

Senior Management

The senior management of Premier Foods consists of the Operations Board and the Company Secretary.

1. Howard Beveridge Aged 46
Joined the Group in 2002 as Group Marketing Director before becoming Commercial Director in 2004. Prior to this, he held senior marketing roles at Barclaycard, BUPA Hospitals and with a number of manufacturing companies including Tube Investments, Cadbury Schweppes and United Biscuits.

2. Stephen Bolton Aged 42
Joined the Group in 2002 as Commercial Director. Prior to this, Mr Bolton served as Marketing Director at Jeyes UK Ltd. His early marketing and commercial management career included periods with Philips, Sara Lee and Addis Housewares.

3. Ian York Aged 47
Joined the Group in 1994 as General Sales Manager for the Canned Foods division. He now has responsibility for all UK sales activities throughout the business having been appointed Group Sales Director in 2001. Previously, Mr York held a variety of positions in the UK grocery market with Quaker Oats Ltd, Associated British Foods and Blue Crest.

4. Brian Carlton Aged 50
Joined the business in 1994 as Head of Personnel for the Canned Foods Division. His responsibilities have since been extended to embrace all HR activities across the Group. He was appointed to the Operations Board in October, 2006. Prior to joining Premier, Mr Carlton held HR and Operational roles in Chrysler UK, K Shoes, Metal Box and Smurfit Packaging. He is a graduate in Business Studies from Glasgow College of Technology.

5. Julian Dunn Aged 45
Joined the Group in February 2004 as General Manager Convenience Foods and was appointed to the Operations Board in October 2006. Prior to Premier Foods, he spent 15 years at H.J. Heinz in both Senior Operational and Commercial roles, latterly as Business Unit Director for the Baby food business. He is a graduate of Cardiff University.

6. Robert Lawson Aged 41
Joined Premier in January 2005 as Director of Mergers and Acquisitions and Investor Relations and joined the Operations Board in October 2006. Prior to joining Premier Foods Robert was Strategy Director at both Kraft Foods Europe and United Biscuits and was a management consultant at Arthur D Little. Robert has a BA from Oxford University and an MBA from INSEAD.

7. Andrew Astin Aged 50
Joined the Group as Company Secretary in 2005. He is a Law graduate and experienced Chartered Secretary who has worked for a number of FTSE 100 companies either directly or as a consultant during the past 25 years.

8. Tim Kelly Aged 49
Appointed to the Premier Foods Operations Board in March 2007 following the company's acquisition of RHM, where he was Chief Operating Officer, Cakes & Customer Partnerships. He joined RHM as Chief Operating Officer of the Customer Solutions Division in August 2003. Prior to that he was with Constellation Brands where he was Chief Operating Officer, International. He previously held senior marketing roles at Diageo and Coca-Cola Schweppes Beverages.

9. Mark Hughes Aged 46
Appointed to the Premier Foods Operations Board in March 2007 following the company's acquisition of RHM, where he was Director of Procurement. He joined RHM in 2003 as Divisional Services Director (Bread Bakeries) and became a member of the Bread Bakeries Division Executive in 2004. Mr Hughes was previously Trading Director at ADM Milling (UK) and has held a number of senior positions with ABF plc.

10. Miles Warnick Aged 50
Appointed to the Premier Foods Operations Board in March 2007 following the company's acquisition of RHM. He had been Chief Operating Officer of the Bread Bakeries Division of RHM since June 2002. He was previously Managing Director of Rank Hovis, the flour milling and bakery ingredients business. He is currently Chairman of the Federation of Bakers.

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Premier Foods brands following completion of RHM acquisition

ACCOUNTABILITY

The Board believes in conducting the Group's affairs in a fair and transparent manner and in maintaining the highest ethical standards in its business dealings.

INSIDE THIS SECTION

Directors' report

The directors have pleasure in presenting the report and financial statements of Premier Foods plc and its subsidiaries for the year ended 31 December 2006.

Principal activities

Premier Foods plc is a public limited company incorporated in England, registered number 5160050, with its registered office at Premier House, Centrium Business Park, Griffiths Way, St Albans, Hertfordshire. AL1 2RE.

Details of its principal activities can be found on page 13.

Business review

The Chairman's statement on pages 2 and 5, the Chief Executive's summary on pages 10 and 12, the Business and Financial reviews on pages 13 to 29 and the report on Corporate Governance on pages 39 to 49 provide a review of the business during the year and descriptions of possible future developments and the principal risks and uncertainties facing the Group, and form part of this Directors' Report.

Financial statements

The audited financial statements are presented on pages 64 to 109.

Profit and dividends

The profit on ordinary activities before tax for the year ended 31 December 2006 was £58.1m (2005: £51.8m). The directors are recommending a final dividend of 2.55p per share for the year ended 31 December 2006. Subject to shareholders' approval, the final dividend will be paid on 6 July 2007 to members on the register as at 8 June 2007.

Shares

At the Extraordinary General Meeting on 14 August 2006, the authorised share capital of the Company was increased to £10.0m (1,000m ordinary 1p shares). During the year, the number of ordinary shares of the Company in issue was increased to 495,698,727 ordinary shares of 1p each, 247,848,157 shares as a result of the rights issue on 8 September 2006 and 9,409 allotted as a result of the exercise of options under the Company's share schemes. Details of share movements during the year are set out in note 25 to the financial statements on page 97. The Company has authority from shareholders to repurchase up to 10% of its own shares. This authority was not used during the year to 31 December 2006, nor in the period up to the publication of this report. The Board does not intend to seek shareholder approval to renew this authority and such existing authority will lapse at the end of the 2007 Annual General Meeting.

Research and development

Research and development costs of £3.6m were incurred in continuing operations during the year, with £1.4m relating to salaries paid in the new-product development divisions.

Land and buildings

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

Donations

No donations were made to political parties. Information on charitable donations can be found on page 49.

Directors

The present directors of the Company are listed on page 39 of the corporate governance report. On 1 October 2006 Dr Louise Makin was appointed to the Board. Under Article 115 of the Company's Articles of Association Dr Makin seeks re-election at the Annual General Meeting on 10 May 2007.

Details of the interests in the share capital of the Company of the directors in office as at 31 December 2006 are set out on page 58 of the directors' remuneration report.

Directors' responsibilities

The directors are responsible for preparing the Annual Report and the Group financial statements in accordance with applicable law and International Financial Reporting Standards ("IFRS") as adopted by the European Union, and for preparing the parent company financial statements and the directors' remuneration report in accordance with applicable law and United Kingdom Generally Accepted Accounting Principles ("UK GAAP").

The directors are required to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit or loss, total recognised income and expense and cash flows of the Group for that period. The directors confirm that appropriate accounting policies have been used and applied consistently, and reasonable and prudent judgements and estimates have been made in the preparation of the financial statements for the year ended 31 December 2006. The directors are required to prepare the financial statements on a going concern basis, unless inappropriate to presume that the Group will continue in business and have been properly prepared in accordance with the Companies Act 1985, and all applicable accounting standards have been followed. The directors are responsible for maintaining adequate accounting records that disclose with reasonable accuracy at any time, the financial position of the Company and the Group as to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps to prevent and detect fraud and other irregularities.

The directors of the Group have taken all the steps that they ought to have taken as directors in order to make themselves aware of any information needed by the Group's auditors in connection with preparing their report and to establish that the auditors are aware of that information and so far as the directors are aware there is no such information of which the Group's auditors are unaware. The directors are responsible for maintaining the integrity of financial information which includes the Annual Report, together with other financial statements, presentations and announcements on the Group's website www.premierfoods.co.uk. Legislation in the UK concerning the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' indemnities

Article 225 of the Company's Articles of Association provides that every director is entitled to be indemnified out of the assets of the Company against all costs and liabilities incurred by him in the execution of his duties or the exercise of his powers or otherwise in connection with his duties, powers or office including any liability incurred by him in defending any proceedings, civil or criminal, which relate to anything done or omitted to have been done or omitted by him as an officer of the Company and in which judgement is given in his favour or in which he is acquitted.

Substantial shareholdings

As at 6 March 2007, the Company has been notified, in accordance with Disclosure and Transparency Rules issued by the Financial Services Authority, of the following interests in the ordinary shares of the Company:

Notification received from:	Number of Ordinary shares	% of issued share capital
Barclays Global Investors	48,861,755	9.86
Newton Investment Mgt	48,698,438	9.82
JPMorgan Asset Mgt	23,508,100	4.74
Black Rock MLIM	22,815,141	4.60
Legal & General Investment Mgt	19,509,656	3.94
Lazard Asset Mgt	18,624,158	3.76
Axa Framlington Group Ltd	18,535,864	3.74
Aberdeen Asset Managers	17,372,383	3.50

Employment policies

A summary of the Group's employment policies and the actions to involve employees is set out on in the corporate responsibility section of the Corporate Governance report on page 48.

Creditor payment policy

Premier Foods plc is a holding company and had no amounts owing to trade creditors at 31 December 2006; (2005 : £Nil). The Group's creditor days outstanding at 31 December 2006 were 51 days (2005: 64 days) of purchases, based on the ratio of Group trade creditors at the end of the year to the amounts invoiced during the year by trade creditors.

Directors' report
continued

The Group has a variety of payment terms with suppliers. Payment terms for purchases under major contracts are agreed as per the contract negotiations.

Post balance sheet events

Acquisition of RHM plc ("RHM")
On 4 December 2006 Premier announced an offer to acquire the entire share capital of RHM by way of scheme of arrangement. The consideration under the offer is one new ordinary Premier share and 83.2p in cash for each RHM share held.

At an Extraordinary General Meeting held on 15 February 2007, the shareholders of Premier approved the acquisition of RHM. Also on that date, the shareholders of RHM approved the proposal to proceed with the scheme of arrangement. The court hearing to sanction the scheme of arrangement is anticipated to take place on 14 March 2007, with completion of the acquisition expected on 16 March 2007.

Acquisition of Chivers Ireland Limited
In addition, Premier acquired Chivers Ireland Limited, a leading supplier of preserves to Ireland's retail grocery and foodservice markets for £21.0m on 19 January 2007.

Announcement of restructuring plans
On 19 January 2007 Premier announced a consultation on the proposed closure of its factories in King's Lynn and Ashford. The proposal is for the King's Lynn factory to close by December 2007 and the Ashford factory to close by May 2008.

Agreement to sell Fresh Produce business
On 5 March 2007 Premier reached a non-binding agreement to sell its Fresh Produce business to the management of that business.

Auditors

PricewaterhouseCoopers LLP has indicated its willingness to continue as auditors, accordingly a resolution to reappoint them will be proposed at the forthcoming AGM in accordance with section 385 of the Companies Act 1985. The reappointment of PricewaterhouseCoopers LLP has been approved by the Audit Committee, who will also be responsible for determining their audit fee on behalf of the directors.

Going concern

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

Annual General Meeting business

The Annual General Meeting of the Company will be held at Haberdashers' Hall, 18 West Smithfield, London EC1A 9HQ on Thursday 10 May 2007 at 11.00am. The Notice convening the AGM appears on page 111, together with details of the business to be considered, and full explanations of each resolution that is being proposed.

By order of the Board

Andrew Astin
Company Secretary
Premier Foods plc
Premier House
Centrium Business Park
Griffiths Way
St Albans
Hertfordshire
AL1 2RE

Registered in England No. 5160050
5 March 2007

Corporate governance

Corporate governance

The Board recognises the value of good corporate governance not only in the areas of accountability and risk management but also as a positive contribution to business prosperity. The Board believes in conducting the Group's affairs in a fair and transparent manner and in maintaining the highest ethical standards in its business dealings.

Compliance statement

This report set out on pages 39 to 49 describes how the Group has applied the principles of good corporate governance as set out in section 1 of the Combined Code on Corporate Governance issued by the Financial Reporting Council in July 2003 ("the Combined Code").

In respect of the period from 1 January 2006 to 31 December 2006, the Board considers that the Group has complied with the provisions set out in the Combined Code.

The Board

Board structure

The Board consists of a non-executive Chairman, two executive directors and five non-executive directors. In accordance with the Combined Code, separate individuals, David Kappler and Robert Schofield, have been appointed to the positions of Chairman and Chief Executive respectively. David Felwick has been appointed the senior independent director.

The Board considers that all the non-executive directors are independent in character and judgement and within the definition of this term in the Combined Code. The Combined Code states that the test of independence is not appropriate in relation to the Chairman after his appointment.

The Chairman and the non-executive directors contribute external expertise and experience in areas of importance to the Group such as marketing, customer and consumer focus, corporate finance, general finance and corporate governance. They also contribute independent challenge and rigour to the Board's deliberations.

Directors and their interests

The following directors held office during the year ended 31 December 2006:

	Designation	Appointment/ Reappointment date
David Kappler	Chairman	14 June 2006
Robert Schofield	Chief Executive	22 June 2004
Paul Thomas	Finance Director	22 June 2004
David Felwick CBE	Senior independent director	19 July 2004
Sharon Hintze	Non-executive director	14 June 2006
Louise Makin	Non-executive director	1 October 2006
Ian McHoul	Non-executive director	19 July 2004
Ian Ramsay	Non-executive director	14 June 2006

Details of the directors' service contracts, emoluments, the interests of the directors and their immediate families in the share capital of the Company and options to subscribe for shares in the Company are shown in the directors' remuneration report on pages 50 to 60.

Operation of the Board

The Board is responsible for the overall management of the Group and has an agreed schedule of matters reserved to it, which includes setting long-term strategic and commercial objectives, approval of annual operating and capital budgets, dividend policy, overseeing the Group's internal control systems and ensuring that appropriate resources are in place to enable the Group to meet its objectives.

The Board normally meets at least six times in each calendar year and also meets on other occasions as necessary. Meetings are usually held at the Company's head office, in St Albans, but the meetings also provide an opportunity for the Board as a whole to visit the Group's operating facilities. Details of the number of Board and Committee meetings and the attendance at those meetings is set out on page 40.

Corporate governance
continued

The Chairman is primarily responsible for the operation of the Board, and sets the agendas in consultation with the Chief Executive and Company Secretary. Board papers, including copies of the minutes of Committee meetings held since the previous Board meeting, are circulated in advance of each meeting. The Chairman periodically holds meetings with the non-executive directors without the executive directors present.

The Chief Executive has overall responsibility for the executive management of the Group and for implementing Board strategy and policy within the approved budgets and timescales. The Chief Executive is supported by the Finance Director and the Operations Board, which consists of the senior executives who head up the Group's principal operations.

The Chairman, David Kappler, is currently a non-executive director of Shire Pharmaceuticals Group plc and Intercontinental Hotels Group plc. He resigned from his position as a non-executive director with HMV Group plc on 6 July 2006. The Board of Premier Foods plc is satisfied that these appointments do not conflict with the Chairman's ability to carry out his duties and responsibilities effectively for the Group. The biographies of the directors and members of the senior management team appear on pages 6 and 30 respectively.

Procedures are in place which allow directors to take independent professional advice in the course of their duties, and all directors have access to the advice and services of the Company Secretary, and where a director has a concern over any unresolved business he is entitled to require the Company Secretary to minute that concern. Should he later resign over this issue, the Chairman will bring it to the attention of the Board.

The Company purchases directors' and officers' liability and indemnity insurance to cover its directors and officers against the costs of defending themselves in civil proceedings taken against them in that capacity and in respect of damages resulting from the unsuccessful defence of any proceedings.

Meetings
The following table sets out the number of meetings of the Board and its Committees and individual attendances thereat during the financial year to 31 December 2006. In addition to the meetings detailed below, 16 additional Board or Board Committee meetings were held during the year for the consideration of specific business. (*Denotes attendance by invitation).

	Group Board	Audit	Nomination	Remuneration
Number of meetings held	8	5	3	4
David Kappler	8	5*	3	3*
Robert Schofield	8	4*		1*
Paul Thomas	8	5*		
David Felwick CBE	8	5	3	4
Sharon Hintze	8	5	2	4
Louise Makin	1			1
Ian McHoul	8	5	3	3*
Ian Ramsay	8	1*	3	4

Dr Louise Makin was appointed to the Board on 1 October 2006 and was entitled to attend two Board meetings and one Remuneration Committee meeting.

Directors' interests in contracts
No director had a material interest at any time during the year in any contract of significance, other than a service contract (see directors' remuneration report on pages 50 to 60), with the Company or any of its subsidiary undertakings.

Remuneration
The directors' remuneration report, providing a statement of the Company's policy on directors' and senior managers' remuneration, benefits, share scheme entitlements and pension arrangements is set out on pages 50 to 60.

The directors' remuneration report sets out the status of the Company's compliance with the requirements of the Combined Code with regard to remuneration matters and includes a statement on the Company's policy on directors and senior managers' remuneration, benefits, share scheme entitlements and pension arrangements. A resolution to approve the directors' remuneration report will be proposed at the forthcoming AGM.

Reappointment

The Company's Articles of Association require directors appointed by the Board during the year to retire and offer themselves for reappointment at the first Annual General Meeting ("AGM") following their appointment. Louise Makin will so retire and a proposal for her re-election will be made at the Company's AGM on 10 May 2007. Dr Makin, who was appointed to the Board on 1 October 2007, following recommendation from the Nomination Committee, brings a wealth of scientific knowledge and experience to the Board. Details of the Nomination Committee's appointment process can be found on page 42.

There is also a process of rotation which ensures that no director holds office for more than three years without being reappointed at an AGM and also that one-third of directors (rounded down) will be required to retire and seek reappointment at each subsequent AGM. Consequently David Fenwick and Ian McHoul offer themselves for re-election at the AGM to be held on 10 May 2007. The Nomination Committee has formally reviewed the performance, contribution and commitment of each of the above named directors retiring by rotation and has recommended their appointment to the Board.

Board Committees

The Board has established an effective Committee structure to assist in the discharge of its responsibilities. The terms of reference of these Committees comply with the provisions of the Combined Code and are available for inspection on the Company's website, www.premierfoods.co.uk.

Audit Committee

Ian McHoul chairs the Audit Committee. Its other members are David Felwick and Sharon Hintze. Only independent non-executive directors who have no links with external auditors may serve on the Committee. One member of the Committee, Ian McHoul, as Group Finance Director of S & N plc, has been identified by the Board as having recent and relevant financial experience. The Audit Committee is scheduled to meet at least four times a year and will meet the internal and external auditors at least twice a year without the executive directors present.

The Audit Committee is responsible for making recommendations to the Board on the appointment of the external auditors and their remuneration, for reviewing the accounting principles, policies and practices adopted in the preparation of the interim and annual accounts and reviewing the scope and findings of the audit. The Committee assists the Board in achieving its obligations under the Combined Code in areas of risk management and internal control, focusing particularly on compliance with legal requirements, accounting standards and the Listing Rules, and that an effective system of internal financial and non-financial controls is maintained. The ultimate responsibility for reviewing and approving the annual report and accounts remains with the Board.

The Committee will keep under review the external auditors' independence including any non-audit services that are to be provided by the external auditors. The auditors are also requested to confirm their independence at least annually. A formal policy has been developed and implemented, which ensures that the nature of the advice to be provided could not impair the objectivity of the external auditors' opinion on the Group's financial statements.

The policy incorporates a fee limit, above which a formal tender process must be undertaken and approval of the Committee obtained prior to any proposed appointment. Additionally, the use of delegated authorities to appoint the external auditors is routinely reported to the Committee.

The Committee has approved a formal whistle-blowing policy whereby staff may, in confidence, disclose issues of concern about possible malpractice or wrongdoings by any of the Group's businesses or any of its employees without fear of reprisal. This includes arrangements to investigate such matters and for appropriate follow-up action.

During the year, the committee:
- Received regular reports from the internal audit function. Ensured it was adequately resourced, monitored its activities and effectiveness, and agreed the annual audit plan.
- Established a Process Improvement Steering Group to prioritise and co-ordinate internal control process improvement activities.
- Conducted an internal review of the effectiveness of the Group's external auditors.
- Conducted an internal review of its own effectiveness.
- Approved a new "Non-audit services" policy.
- Received regular reports from the Risk Review Group identifying the top ten business risks.
- Reviewed matters relating to the Group's key performance indicators and proposals to embed good governance throughout the organisation.

Corporate governance
continued

Remuneration Committee
David Felwick chairs the Remuneration Committee. The other members of the Committee are Sharon Hintze, Ian Ramsay and Louise Makin (who was appointed on 1 October 2006). Only independent, non-executive directors may serve on the Committee. The Chairman and Chief Executive attend Remuneration Committee meetings at the invitation of the Committee Chairman. The Remuneration Committee will normally meet at least twice a year.

The Remuneration Committee has responsibility for making recommendations to the Board on the Company's policy on remuneration of executive directors and senior managers and for determining, within agreed terms of reference, specific remuneration packages for each of the Chairman, the executive directors of the Company and such members of senior management as it is delegated to consider, including pension rights; any compensation payments; and the implementation of executive incentive schemes. In accordance with the Committee's terms of reference, no director may participate in discussions relating to their own terms and conditions of service or remuneration.

Further information on the activities of the Remuneration Committee is set out in the directors' remuneration report on pages 50 to 60.

Nomination Committee
David Kappler chairs the Nomination Committee, and its other members are Ian McHoul, David Felwick, Ian Ramsay and Louise Makin, (who was appointed on 1 October 2006). David Kappler will not chair the Committee when it is dealing with a successor to the Chairmanship of the Company. The Committee, which will normally meet not less than twice a year, has responsibility for considering the size, structure and composition of the Board of the Company, retirements and appointments of additional and replacement directors and making appropriate recommendations so as to maintain an appropriate balance of skills and experience on the Board.

The Nomination Committee has established a process for Board appointments that it considers to be formal, rigorous and transparent. This process includes a review of the skills, experience and knowledge of the existing directors, to assess which of the potential short listed candidates would most benefit the balance of the Board having regard also to the need for succession planning.

During the year, the committee:
- Presented a long-term succession plan to the Board.
- Approved directors for reappointment at the AGM.
- Approved the appointment of a new non-executive director.
- Conducted an internal review of its own effectiveness.

The terms of appointment for the non-executive directors are available for inspection on the Company's website www.premierfoods.co.uk.

Performance and effectiveness reviews
The Board follows a performance evaluation procedure which measures its own performance and that of its Committees. In 2006 this was an internal process and was combined with individual performance evaluation as described below:

- The Chairman appraises the Chief Executive annually.
- The senior non-executive director meets with all the non-executive directors to discuss the performance of the Chairman, taking into account the views of the executive directors.
- The Chairmen of the Audit and Remuneration Committees are appraised annually as part of the Committee effectiveness review process and any non-executive directors due for re-election at the following Annual General Meeting are appraised initially by the Chairman, and thereafter their suitability for re-election is confirmed by the Nomination Committee prior to those non-executive directors offering themselves for re-election.
- The senior management are formally appraised annually by the Chief Executive, who also appraises the Finance Director.

Shareholders

Relations with shareholders

The Board recognises that its primary role is to represent and promote the interests of its shareholders, and that it is accountable to shareholders for the performance and activities of the Company.

The interim and annual reports remain the primary means of communicating with the Company's shareholders, and the Group's website, www.premierfoods.co.uk, contains the full text of such reports, together with Stock Exchange Announcements, after their release to the market.

The Company announces its results on a half-yearly basis. Presentations are made to analysts and major shareholders following the release of the interim and year-end results. The Chief Executive and Finance Director are also available to meet with shareholders during the year. The Chairman and, if appropriate, the senior independent director are available to discuss issues and concerns of shareholders. Shareholders are also provided with the opportunity to ask questions of the Board, including the Chairmen of the various committees, and to present their views at the Annual General Meeting.

Notice of the Annual General Meeting, together with the Annual Report and Accounts, is sent to shareholders at least 20 working days before the meeting, and details of the proxy votes for and against each resolution or in respect of which a vote is withheld are announced after the result of the vote on the show of hands and made available on the company's website.

Internal control

The Board has overall responsibility for the Group's system of internal control, for reviewing its effectiveness and ensuring that there is a process in accordance with the guidelines laid down by the Turnbull Report to identify, evaluate and manage the significant risks that may affect the achievement of the Group's strategic objectives.

The Board has delegated day-to-day responsibility for reviewing the Group's system of internal control and for regularly monitoring its effectiveness to the Audit Committee. The principal aim of the system of internal control is to provide an ongoing process that identifies, evaluates and manages the risks that are significant in relation to the fulfilment of the Group's business objectives. The internal control systems have been designed to manage rather than to eliminate risk and can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The Board and Audit Committee have, throughout the year, reviewed the effectiveness of the Internal Audit function and the systems of internal control including financial, operational, compliance control and risk management in accordance with the Combined Code for the year to 31 December 2006.

The principal role of the Internal Audit function is to review the effectiveness of the controls operating within the business by undertaking an agreed schedule of independent audits each year. The nature and scope of this annual audit programme is determined by the Audit Committee at the beginning of each calendar year and may be revised from time to time in circumstances such as the acquisition or disposal of a business or any other significant business development.

The findings of these risk-based audits are reported initially to executive management and any necessary corrective actions are agreed. Summaries of these reports are presented to, and discussed with, the Audit Committee along with details of progress against action plans as appropriate. In addition to the internal audit programme, senior business managers are required to complete internal control questionnaires confirming the operation of internal controls within the business units for which they are responsible throughout the year or from the date of acquisition, if this was during the year. The result of this exercise, which also details any material control breakdowns, to the extent that they have occurred, is reviewed by the Board.

The Group's comprehensive risk review process continued to operate during the year. Risk registers are built at a corporate, business unit and commercial level. The quarterly risk review is chaired by the Group Finance Director and is responsible for the identification of emerging risks and ensuring that progress and focus is maintained on implementing agreed action plans. Progress against action plans and key performance indicators are reported to the Operations Board on a monthly basis. These include social, environmental and ethical risks (see also pages 44 to 45 which detail our approach to corporate responsibility). In addition the Operations Board formally reviews and reassesses the top ten risks of the company on an annual basis and the results of this review are considered by the plc Board. The risk management process is reviewed bi-annually with the Audit Committee.

Corporate governance
continued

Risk management

The Board is ultimately responsible for ensuring that key operational risks are effectively managed. The Board has considered and approved the risk management policy and risk appetite of the Company and has delegated the regular review of these risks to the Audit Committee. The Board annually reviews the top 10 operational risks of the Company, but delegates day-to-day responsibility for risk management to the Operations Board.

Through its normal business operations, the Group is exposed to a number of principal risks and uncertainties which could impact on the results of the Group.

Customers and consumers

The Group operates in a highly competitive consumer market. Its ability to compete effectively will require the successful sales and marketing of its existing products, new product development and innovation and cost rationalisation.

New product development takes into account changing trends in consumer preferences, including dietary and nutritional concerns. Market factors and the need to develop and provide modified or alternative products may increase costs, and either or both of these factors may adversely affect the result of operations.

The consumer market in which the Group operates is not normally subject to the volatility in purchasing decision-making that is experienced in other consumer goods markets; however, the demand for convenience foods can be influenced by such things as weather, including changes in the prevailing average monthly temperatures, as experienced in the second half of 2006.

Our products

The Group owns a number of popular UK domestic brands, and brand name recognition is a key factor in the success of many of these products. There is a need to monitor closely all various trademarks, whether registered or not, to ensure the appropriate level of protection for current needs, whilst at the same time anticipating any future strategies.

Raw materials

The prices of raw materials used in the business are affected by among other things, the agricultural policies of the UK Government and of the European Union. A portion of the raw materials used are traded as commodity products, the prices of which are subject to a number of factors that are not in our control.

Movement in the price levels of these raw materials has in the past had, and may in the future have, a corresponding impact on finished product cost. Any failure to pass through price increases may adversely affect the Group's financial performance.

Regulations

Past and present business operations, and particularly those associated with the manufacture of products intended for human consumption, are subject to a broad range of environmental laws and regulations as a result of which exposure to environmental costs and liabilities, including those associated with divested assets and past activities, may arise. Future regulatory developments may increase such costs and liabilities and could have an adverse affect on operational results.

As a manufacturer of products intended for human consumption we are subject to extensive regulation from the United Kingdom, and the European Union. Modifications to existing legislation and/or regulation and the introduction of new legislative and regulatory initiatives may affect our operations and the conduct of our business.

Treasury

The Group's current levels of bank borrowings require a significant portion of cash flow generated to service this debt. This may make it difficult for the Group to pursue its business strategy, and this debt level may limit ability to react to changing market conditions, changes in the business and changes in the industry in which we operate.

Because raw materials are sourced from around the world and products are exported to various countries, the Group's financial position and results of operations are subject to currency transaction risk. Although we manage against this exposure to currency rate fluctuations, sustained movement in exchange rates affects the results of operations.

Pensions

Pension expenses are based on actuarial assumptions which have been revised as at 31 December 2006, and are set out in note 24 to the financial statements. The market value of the pension assets could decline and a change in assumptions could affect these pension costs.

Corporate responsibility

As one of the largest food producers in the UK, the Group is committed to managing its business in a socially responsible manner. It believes strongly that to grow and be profitable it must work actively to develop sustainable relationships with its various stakeholders, comprising shareholders, employees, suppliers, customers, consumers and the wider communities in which it operates.

The Board is collectively responsible for ensuring that Premier Foods continues to operate in a responsible manner. Chief Executive, Robert Schofield, takes the leading role in ensuring its approach supports the strategic direction of the Group. The Group's operating principles and ethics policy statement is available on the website: www.premierfoods.co.uk.

During 2006 the Group has continued to develop its corporate responsibility strategy within the following key areas:

- Food quality and safety.
- Customers and consumers.
- Supply chain.
- Health and Safety.
- Environment.
- Human resources.

Key Performance Indicator ("KPI") reports covering these areas are reviewed quarterly at the risk review group meetings and are reported monthly to the Operations Board. The Audit Committee receives a report on CSR activities and performance against targets bi-annually. Consistent with the previous year, this report and related KPIs measure performance of the core grocery business excluding the effect of acquisitions and disposals. The KPIs will incorporate Campbell's from 2007.

Food quality and safety

The Premier Foods Group produces both branded and own-label products for consumption and is responsible for protecting the quality of both much-loved brands, and of the products to which our customers attach their names. The Group's approach to food quality and safety is enshrined within the Quality Management System that is operated at each site.

A fully documented Hazard Analysis Critical Control Point ("HACCP") is in place for all products, with all critical control points monitored, recorded and verified at each relevant stage of production. Internal systems are constantly reviewed and opportunities for improvement established, for example, additional x-ray machines for the screening of ingredients were installed onto a number of production lines during the year, and code verification systems developed to eliminate the risk of mislabelling canned products. In addition all sites are subject to annual British Retail Consortium ("BRC") audits and internal audits by in-house technical teams. All sites were scored B or above by the appointed external auditors, where B is the second level of a four tier grade system (A-D). It is the Group's intention to maintain or improve these scores during 2007.

Corporate governance
continued

All suppliers are required to comply with raw material specifications supplied by Premier. This includes the requirement for HACCP systems, and the compliance with Premier standards and other UK and European food safety regulations. Ingredients suppliers are subject to audit by a specialist team of technical auditors. Suppliers are risk assessed by reference to product supplied, known potential contaminants, country of origin and volumes handled. The results are used as a basis for developing the Group's supplier audit plan. In 2006, 30% (2005: 14%) of our ingredient suppliers were audited (against a 2006 target of 25%). Over time, all ingredient suppliers will be audited, the frequency of the audits being dependent on the risk assessment. During 2007 it is intended that 25% of ingredient suppliers will be audited. In addition to these audits, suppliers are also regularly issued with self-assessment questionnaires.

As well as auditing suppliers, ingredients have been risk assessed against known contaminants and a testing regime developed that is applied across all sites. For example 100% of all spices at risk of contamination with illegal colours are tested at accredited laboratories. We also test incoming honey and peanuts. The testing regimes are under constant review. Premier Foods have undertaken a major project with Campden and Chorleywood Food Research Association to establish best practices for the risk assessment of ingredients, regular review, and identification of possible future areas of concern.

Customers and consumers
Premier Foods serves a number of large, key customers and works closely with them to ensure that the Group continues to deliver value and quality across all products. Customer service is central to core business values and there is a commitment to the ongoing development of customer relationships.

The Group continues to put the consumer firmly at the heart of the business. We are committed to offering a balanced range of dietary choices to suit a wide range of consumers and their different needs at different times throughout the day. Providing consumers with clear, relevant and reliable information about the product and its content ensures they can continue to rely upon our well-loved brands. We do not market king-sized or super-sized portions and we are actively reformulating many products to ensure we keep abreast of changing consumer demands.

The Group works closely with the Food Standards Agency ("FSA") to find solutions to issues around the increasing variety of health and ingredient debates. During the year we contributed £80,000 towards the front-of-pack labelling campaign co-ordinated by the Food and Drink Federation ("FDF") which aims to help consumers make positive dietary choices via clear, consistent and easy to understand nutrition labelling and we are now working through the implementation of Guideline Daily Amounts ("GDA") on our packaging. We actively participated in Project Neptune, an FDF initiative to reduce the salt content of soups and sauces by 30% over 3 years. We are progressing well across all our food categories towards the FSA's 2010 salt reduction targets, detailed in their Salt Model, aimed at reducing consumer tolerance to salty food over time.

Many of our products are naturally healthy, and we ensure that we offer choices within categories such as low fat noodles, soups and desserts and low sugar jams and jellies. We monitor consumer interest and concerns in respect of all aspects of our products and we track our performance towards healthier eating and consumers' feedback to ensure we stay alert to their needs.

Along with performance against healthier eating targets, consumer complaints and service levels achieved with our customers are closely monitored as key performance indicators of the business.

Supply chain
Premier Foods believes that its supply chain is critical to the quality of its products, and acts fairly with suppliers with the aim of ensuring that they operate to appropriate quality and ethical standards. Operating in global and emerging markets, the Group recognises that there are challenges within the supply base and opportunities for supplier development.

Premier Foods has been involved in ethical supply chain work since 1992, and is a founding member of the Ethical Trading Initiative, which seeks to identify and promote good practice in the implementation of international labour codes. An Ethical Assurance Programme, incorporating a number of ethical supplier audits performed by an in-house team of specially trained auditors, has been developed and designed to ensure that suppliers achieve these labour standards through a policy of sustainable and continuous improvement.

The Group believes that the sustainable quality of its products is dependent on the sustainable development of the supply chain and continues to encourage and support its development. There is an ongoing commitment to working with all our suppliers and to maintaining good working relationships.

Health & Safety

Premier Foods is committed to operating high standards of Health & Safety, designed to minimise the risk of injuries and ill health to employees, contractors, visitors and others who come into contact with the business. The Group believes that Health & Safety is a fundamental ingredient to a successful business and we constantly review our standards for effectiveness, driving through and embedding a Health & Safety culture throughout the organisation. Quarterly internal Health & Safety audits are performed, and measured against the Health & Safety and environment management systems used in the business. Regular external audits are also undertaken in conjunction with the Group's insurers, aimed specifically at reducing fire risk.

In 2006 the number of Reporting of Injuries, Diseases and Dangerous Occurrences Regulations ("RIDDOR") per 100,000 employees remained relatively static at 1,970 versus the 2005 performance of 2,000. The targeted RIDDOR reduction of 10% was not achieved during the year. Overall accident numbers however fell by 44% from 916 accidents in 2005 to 511 accidents in 2006. The key driver for this reduction was improved health and safety systems, specifically near miss and accident reporting and root cause analysis.

The RIDDOR target for 2007 is 1,800 per 100,000 employees. This is in line with the Health & Safety Executive ("HSE") target for Manufacturers of Food and Beverages per the statistics database as at December 2006.

Environment

As a leading food producer, Premier Foods is aware of its responsibility to the environment and is committed to monitoring, managing and seeking to continually improve its environmental performance. The objective is to provide a comprehensive framework of good environmental management practices that are applied across the business and are extended as far as practicable into the supply chain.

The building blocks for the future have been laid in the form of our internal energy strategy, which seeks to reduce the carbon footprint of the Group and reduce risks in terms of restrictions to energy supply, by a combination of major energy projects utilising (or capable of utilising) renewable energy resources, and site based energy reduction projects.

The Climate Change Levy ("CCL") returns show that the Group has met its 2006 target of 62.47kg carbon per tonne of product and is already meeting its milestone 5 target (October 2009 to Sept 2010). The Group now operates at 16% less carbon per tonne than in 2000 (as confirmed by "Enviros CCL Report"). The Group's eligible sites are due to join the European Emissions Trading Scheme in 2008 and are working towards participation with this scheme. Over the CCL year the Group achieved a reduction of 7.3% in its carbon per tonne of product against a target of 7%.

The Group has improved its water use by approximately 10%, based on water used per tonne of product. This has been achieved through a site based water reduction programme. For example a major study was completed on the Wisbech site of water use by individual items of equipment. The results of this study are now leading to follow on projects. Furthermore an exercise is underway to recycle a significant amount of water on another major cannery site during 2007.

Continuing efforts have been made to reduce the amount of packaging used on products. The last full year's audited Packaging Directive data (2005) showed a 6% reduction in the weight of packaging used. A further 2% reduction is expected in the audited return for 2006, available at the end of March 2007. In addition the Group has recently signed up to the Courtauld Commitment to reduce packaging and food waste in accordance with the Waste Resources Action Programme ("WRAP").

During the year two sites attracted significant investment in effluent treatment facilities to improve compliance guarantees and reduce odour. Work will be completed on these projects in early 2007. The Group continues to monitor and improve its record in relation to environmental management. During the year there were a number of minor, out of consent discharges and in addition one site was prosecuted for breaching environmental legislation. The Group takes these issues very seriously and has taken steps to prevent their reoccurrence.

Waste to landfill has been reduced by 35% this year, based on tonnes of landfill per tonne of product (target 10%). This reduction has been achieved by the removing of 'out of specification products' from landfill, with recovery of packaging materials and segregation of waste at source for recycling. Further improvements are planned for 2007 as part of the overall environment strategy.

The Group avoids the use of genetically modified materials in its food production and considers the environmental impact of the products that are made and the sourcing of raw materials, taking care to minimise the use of materials that deplete natural resources.

Corporate governance
continued

The Group's two eligible sites have received their Integrated Pollution Prevention and Control ("IPPC") permits. The permits contain a number of improvement conditions, which are in the process of being addressed within the agreed deadlines.

Human resources
It is recognised that the Group's employees are its single most valuable asset. We have high expectations of all staff and everyone is required to perform and deliver value. This creates an environment that is both challenging and rewarding, thus enabling employees to develop quickly and pursue new opportunities. Premier Foods strives to be the employer of choice in the areas in which it operates.

There is a commitment to the upholding of standards of international human rights in our dealings with employees as well as the supply chain, and all manufacturing sites are subject to the same ethical audits we conduct on the supply chain.

We are committed to a fair but robust approach to equal opportunities in all areas of our business, with employees gaining promotion on merit. The Group recruits, trains, promotes and retains skilled and motivated people irrespective of sex, age, marital status, disability, sexual orientation, race, religion, ethnic or national origin.

In order to promote career development, the Group provides its employees with access to relevant training and development schemes through in-house training, educational assistance, participation in National Vocational Qualification Schemes and encouraging professional memberships. The aim is to ensure that there is a highly trained and motivated workforce, capable of meeting the highest standards required by customers and investors. A significant number of employees participate in a formal performance and development review at least annually, and we are continuing to develop this process across the entire business.

The Group has in place specific disciplinary and grievance procedures and welcomes the reporting of genuine and serious grievances, or alleged breaches of corporate policy. No employee will suffer as a consequence of notifying such breaches, in accordance with our whistle-blowing policy.

Bullying or harassment in the workplace is not tolerated, either as a management style or between work colleagues, and disciplinary action is taken against any employee who is proven to have bullied or harassed others.

Unlike many companies in the UK, Premier continues to operate, for both existing and new employees, a defined benefit pension scheme in which most employers in the Group participate. A minority of Group employers operate Stakeholder Pension Schemes for their employees.

An all-employee sharesave scheme has been developed to more closely align an element of employee reward to business value enhancement.

Premier Foods continues to seek ways in which the Group's internal communications framework can be further enhanced as we recognise the value of good communication in engaging our employees towards the achievement of common goals. We have a number of employee consultation and communication mechanisms in place including:

- Regular communication meetings with employees within the organisation.
- Intranet site.
- Specific consultation and involvement regarding major changes to business operations.

An audit of communication systems was completed during 2006, and a number of actions arising from this review are in the process of being implemented.

There are a number of KPIs in relation to human resources that are measured on a monthly basis, e.g. absenteeism, pension scheme participation, industrial relations and staff turnover. We continue to review the portfolio of KPIs measured.

Community and charity donations
Each site is encouraged to actively participate with the local community and encourage regular dialogue. We endeavour to be a good neighbour and minimise the impact of our operations on the local communities. We bring employment opportunities, both directly and indirectly, to the areas in which we operate. Our policy is to recruit local people where possible.

During 2006, the Group made charitable donations amounting to £52,000. Whilst the annual donations budget is administered locally to a policy directed predominantly towards assisting those communities in which the Group's businesses are located, the Group makes donations to national charitable organisations.

Industry forums
At Premier we recognise the importance of participating in and having an open dialogue with industry forums that represent manufacturing in both the UK and Europe and that impact our key product groups. This assists in responding to and controlling legislative change, shaping future codes of practice and communicating industry issues. Bodies that we participate with include (but are not restricted to):

The Food and Drink Federation	FDF Corporate Affairs Group
Health & Wellbeing Steering Group	Sustainability and Regulatory Affairs Committee
Food Processors Association	Campden and Chorleywood Food Research Association
Organisation of European Industries transforming Fruit and Veg	Leatherhead Food International
The Consumer Goods Study Group	Inter Company Consumer Affairs Association
The Soil Association	Health and Safety Executive Area Forums
The Honey Association	Royal Society for the Prevention of Accidents
The Ethical Trading Initiative	British Safety Council

Policy statements in relation to the above areas are available on our website: www.premierfoods.co.uk.

Director's remuneration report
For the year ended 31 December 2006

This report, prepared by the Remuneration Committee ("the Committee") on behalf of the Board, has been prepared pursuant to Schedule 7A of the Companies Act 1985 and the Listing Rules issued by the Financial Services Authority.

Remuneration Committee

Membership
The Committee comprised the following independent non-executive directors during the financial year to 31 December 2006:

David Felwick CBE (Committee Chairman)
Ian Ramsay
Sharon Hintze
Louise Makin – appointed 1 October 2006.

Meetings
During 2006 the Committee met on four occasions. David Felwick, Ian Ramsay, and Sharon Hintze attended all four meetings. Following her appointment on 1 October 2006, Louise Makin attended the meeting of 7 December 2006. The Chairman, Mr David Kappler, and the Group Chief Executive, Mr Robert Schofield are invited to attend the Committee's meetings, when appropriate.

Role
The Board has delegated to the Remuneration Committee responsibility for reviewing and recommending the pay and benefits and contractual arrangements of the Chairman, executive directors and the Company Secretary and for overseeing the Group's share schemes.

The Committee also recommends and monitors the structure and levels of remuneration for senior managers throughout the Group.

It is committed to principles of accountability and transparency to ensure that remuneration arrangements demonstrate a clear link between reward and performance. In its work, the Committee considers fully the principles and provisions of the Combined Code on Corporate Governance and its terms of reference are available on the Group's website; www.premierfoods.co.uk.

Responsibilities
- To review and recommend the remuneration policy of executive directors and senior managers.
- Within this policy agreeing individual remuneration packages for the Chairman, executive directors and senior managers.
- Reviewing and recommending the terms and conditions to be included in service agreements for executive directors.
- Reviewing and recommending any employee share-based incentive schemes.
- Reviewing and recommending changes to the rules of employee share-based incentive schemes.
- Reviewing and recommending appropriate performance conditions and targets for the variable element of remuneration packages.

Advisers
Deloitte & Touche LLP ("Deloitte") were appointed by the Committee as their retained advisers in 2005, and continue to provide advice to the Committee on matters relating to remuneration, including market comparison data and best practice. During the year Deloitte have also provided advice on software implementation and valuation services and also provided finance staff secondment to the Group. Advice in relation to the Premier Foods Co-Investment Plan ("CIP") was provided, additionally, by New Bridge Street Consultants.

The Committee consults with the Chairman and the Chief Executive as appropriate, and is also supported by the Director of Human Resources.

Activities

During the year the Committee:

- Conducted an internal effectiveness review which identified a desire for more formalised updating on developments and trends in relation to executive and employee remuneration and incentive arrangements.
- Reviewed the remuneration policy for executive directors and senior managers.
- Granted awards under the employee sharesave scheme ("SAYE") 2006.
- Carried out 2006 salary reviews for executive directors and senior managers.
- Recommended to Trustees awards to be made under the 2006 Long-Term Incentive Plan ("LTIP").
- Reviewed and recommended the annual bonuses for the executive directors in respect of 2005 and set the targets for the annual bonus in respect of 2006.
- Approved changes to the rules of the Premier Foods plc Executive Share Option Scheme ("ESOS") and the Premier Foods plc Long-Term Incentive Plan ("LTIP") to ensure compliance with the Employment Equality (Age) Regulations 2006, which came into force on 1 October 2006.
- Adjusted existing options under the ESOS, SAYE and the LTIP to reflect the one for one rights issue announced on 14 August 2006.
- Conducted a review of the long-term incentive arrangements for senior executives that would be appropriate subject to the acquisition of RHM plc, resulting in the design and implementation of the new CIP and changes to the 2007 LTIP to provide higher incentive rewards for truly outstanding performance, to secure improved shareholder value.

Remuneration policy

Broad Policy

The broad policy of the Board and the Committee is to continue to set remuneration levels so as to attract and retain high-calibre executives and to encourage and to reward superior business performance. Remuneration for executive directors is intended to reward against criteria that are relevant and realistic but also challenging, so that superior performance is encouraged. Therefore, remuneration policy is revised annually and focuses on performance-related incentives, rather than annual salary, to encourage the alignment of operating objectives as well as delivering shareholder value.

Annual salaries continue to be rigorously tested and reviewed and set at levels not normally exceeding median. In relation to bonuses and long-term incentive plans, the policy will continue to be to provide an opportunity for executives to earn total remuneration packages in the upper quartile range, provided that stretching and demanding performance conditions are met.

The Committee have reviewed all aspects of the remuneration policy, including pay benchmarking for the most senior roles and consideration of the performance measures used, and have not made any changes to the remuneration policy adopted in 2005.

The remuneration policy in place for senior executives is designed to place emphasis on key performance objectives and strengthening executive shareholding.

While committed to the use of equity-based performance-related remuneration as a means of aligning directors' interests with those of shareholders, the Committee is aware of shareholders' concerns on dilution through the issue of new shares to satisfy such awards. Therefore, when reviewing remuneration arrangements, the Committee takes into account the effects such arrangements may have on dilution.

In determining the remuneration arrangements for executive directors, the Committee is sensitive to the pay and employment conditions elsewhere in the Group, especially when determining base salary increases.

Share ownership

A minimum shareholding requirement was introduced in 2006 whereby executive directors are required after three years to hold shares with a market value at least equal to their annual basic salary. At 31 December 2006, Mr Schofield held shares with a total market value equivalent to 7.08 times his annual basic salary and Mr Thomas held shares with a total market value equivalent to 5.40 times his annual basic salary.

Director's remuneration report
For the year ended 31 December 2006

Remuneration for executive directors
The Committee considers that the remuneration package of an executive director should be aligned closely with the interests of shareholders and, therefore, that a significant proportion of the remuneration package should be performance related.

In arriving at the balance between fixed and variable remuneration it is agreed that the fixed portion will relate only to annual salary, whilst the variable portion includes both annual bonuses and long-term incentive arrangements.

It is the Committee's policy that, for 2007, the balance between fixed and variable remuneration for the executive directors shall be as follows:

Chief Executive Officer – Fixed vs Variable

Target

Fixed 40%
Variable 60%

Max

Fixed 13%
Variable 87%

Finance Director – Fixed vs Variable

Target

Fixed 44%
Variable 56%

Max

Fixed 16%
Variable 84%

Base salaries
Basic salary for executive directors takes into account the responsibilities and performance of the individual. This is normally reviewed annually unless responsibilities change. Salary levels are targeted at the median of companies of a comparable size, complexity and market sector, and for 2007 are set at £595,000 for the Chief Executive and £400,000 for the Finance Director.

Annual bonus
At the discretion of the Committee, executive directors are eligible to receive an annual bonus subject to the achievement of performance targets (which are set each year by the Committee). Bonus potentials are set on an individual basis.

Following an external benchmarking exercise the current management bonus plan was deemed to be low when compared to similar sized organisations. For 2007, the annual bonus potentials are set at 100% of salary for Mr Schofield and 75% for Mr Thomas, with a target level of 50% of salary. The performance targets will be based on profit before tax and growth in branded sales.

In addition, until executive directors have built up a significant personal shareholding in the Company (see page 51), they are required to defer 50% of any bonus earned into shares in the Company. The deferred bonus shares will normally vest three years after their award. Generally, the deferred bonus shares will not be forfeitable. However, in the event that the executive's employment is terminated by reason of his gross misconduct or by reason of a material breach of his employment contract, his deferred bonus shares may, at the discretion of the Remuneration Committee, be forfeited.

Bonuses are not pensionable.

Pensions
Executive directors are eligible to participate in the Premier Foods Pension Scheme ("PFPS") which is a funded, contributory, exempt-approved scheme that provides benefits on a defined benefit (final salary) basis and is contracted out of the State Second Pension. The executive directors' participation is subject to the "earnings caps" imposed by the Finance Act 1989. In addition, Mr Schofield elected for enhanced protection under the Scheme with effect from 6 April 2006. This means that he no longer benefits from accruals under the Scheme. Further details can be found on page 59.

Other benefits
Each executive director is entitled to a car and telecommunication services and an allowance for personal tax and financial planning. Each executive director is also provided with private health cover and permanent health insurance. Mr Thomas is entitled to a housing allowance of £18,303 p.a.

Other directorships
The Group is supportive of executive directors who wish to take on a non-executive directorship with a publicly quoted company in order to broaden their experience. They are entitled to retain any fees they may receive. Neither Mr Schofield nor Mr Thomas currently serves as a director of another public company.

Share Plans
Following the announcement of the proposed acquisition of RHM plc in 2006, the Committee determined that the critical nature of the size and scale of the transaction justified a review of the Company's long-term incentive arrangements for executive directors and key senior executives to ensure that those who are most able to have a real impact on performance are sufficiently incentivised. As a result of this review the CIP was developed. Shareholder approval for the CIP was obtained at the Extraordinary General Meeting on 15 February 2007.

The CIP is intended to be the primary long-term incentive arrangement for executive directors and other key individuals.

The Premier Foods LTIP will be retained for the purposes of incentivising other members of senior management. It is intended that individuals will not be invited to participate in both plans in the same year other than in exceptional circumstances (e.g. in relation to recruitment).

There is currently no intention to grant further options to executive directors under the Premier Foods plc Executive Share Option Scheme ("ESOS"), other than in exceptional circumstances.

Awards made under the CIP, LTIP and ESOS are all subject, in part, to Total Shareholder Return ("TSR") based performance conditions. All TSR measurements for the purposes of calculating vesting under the relevant plans will be calculated on an independent basis by Deloitte.

Co-Investment Plan
The CIP requires participants to commit and retain a significant amount of capital in the form of Premier Foods shares. The purpose of the commitment was so that the participants are encouraged to adopt the attitudes of shareholders.

CIP participation is restricted to individuals who will have a real and measurable impact on the delivery of the acquisition in line with plan, and the long-term growth in shareholder value. Based on the current senior team of Premier, this is considered to be 12 to 15 individuals (including the executive directors). However, this number may grow to reflect executive responsibilities post-acquisition, but shall not be more than 20 in any one Plan cycle. Participants in the CIP will not be eligible for participation in any other form of discretionary share plan operated in the same year other than in exceptional circumstances.

The CIP is structured as a share matching plan. An investment of shares pledged or purchased by the participant can be matched by Company-provided shares on the basis of the achievement of the performance targets over a three year period. To the extent that the performance conditions are achieved, then the level of Company matching of the purchased/pledged shares is enhanced. At the maximum level of performance, a match of 3:1 (i.e. 300%) Company shares is provided for the achievement of exceptionally stretching performance criteria.

At the time awards vest under the CIP participants will be required to retain no less than half of the vested matching shares until such time that they are no longer an employee of the Company.

In order to further align the interests of participants with shareholders, dividends will accrue over the matching period on any matching shares that eventually vest.

The Committee will decide the maximum level of individual share purchases or pledges that may be made within the terms of the CIP, taking account of Company and individual performance. The maximum level of invested shares pledged or purchased by executive directors is 200% of salary. At tiers of participation below executive director level, the level of investment from the employee will be set at a maximum of 100% of base salary.

Director's remuneration report
For the year ended 31 December 2006

In subsequent years of the CIP's operation, the Committee will decide the appropriate level of share purchase/pledge, and the associated match (up to a maximum of 3:1), taking full account of Company and personal performance at that time.

Following the approval of the CIP in February 2007, Mr Schofield was invited to pledge or purchase into the scheme shares up to value of 200% of salary and Mr Thomas was able to participate up to 150% of salary.

Future Company success will be measured on the basis of strong EPS growth and by delivering shareholder returns ahead of those provided by the market. The Committee has therefore agreed a performance target for the 2007 CIP awards which is based on a combination of EPS growth performance measured in absolute real terms, and performance against the constituent companies of the FTSE 250 Index (excluding investment trusts) over a three year period. The interaction between these two key performance criteria is as follows:

		Potential match available as % of executive share price								
Real EPS growth p.a.	17.0%+	0%	0%	50%	100%	150%	200%	250%	300%	300%
	14.0% <17.0%	0%	0%	0%	50%	100%	150%	200%	250%	300%
	11.0% <14.0%	0%	0%	0%	0%	100%	150%	200%	250%	250%
	8.0% <11.0%	0%	0%	0%	0%	50%	100%	150%	200%	250%
	5.0% <8.0%	0%	0%	0%	0%	50%	100%	100%	150%	200%
	<5.0%	0%	0%	0%	0%	0%	50%	100%	100%	150%
		10th Percentile	20th Percentile	30th Percentile	40th Percentile	50th Percentile	60th Percentile	70th Percentile	80th Percentile	90th Percentile
		TSR against FTSE 250 index constituents								

It should be noted that a combination of truly exceptional real annual EPS growth and TSR market out-performance is required for the maximum match. The Committee has, of course, considered carefully the impact on absolute EPS performance of the acquisition and believes that the performance scale represents a truly exceptional level of stretch which will require a confluence of both internal and external factors.

There will be no retesting of performance conditions under the CIP. To the extent that performance conditions are not met on the vesting date, all matching awards shall lapse.

Long-Term Incentive Plan
Awards under the LTIP have been made since 2005 (see page 59). The executive directors will not participate in this scheme in 2007.

Following the approval and implementation of the CIP, the Committee have also reviewed the performance conditions of the LTIP. The Committee has decided that the performance conditions used for the CIP will also apply to the LTIP, in order to align all levels of senior management.

Vesting of awards under the LTIP will therefore be subject to a combination of EPS growth and TSR-based performance conditions, as measured over a three-year period. The vesting schedule for the CIP (as detailed above) will also apply to awards made under the LTIP in 2007, with the exception that no investment shares will be required in order to qualify for matching shares.

The value of shares awarded under the LTIP in previous years was subject to individual limits that would not generally exceed 100% of base salary. As a result of the move to bring the LTIP performance conditions in line with the CIP, the value of awards made under the LTIP will now not generally exceed 33% of base salary. This is because maximum vesting is now considered to be 300% of the size of the award (see table above). Therefore, to retain the maximum award size at 100% of base salary, the maximum award size will be reduced to 33% of base salary with a maximum vesting of 300%.

As with the CIP, there will be no retesting of performance conditions under the LTIP. To the extent that performance conditions are not met on the vesting date, LTIP awards shall lapse.

The Committee may determine that alternative secondary performance conditions might apply for future awards under the LTIP.

As part of the process of ensuring a successful integration of the RHM business into the Premier Foods group, former RHM employees who held outstanding RHM share awards have been given the opportunity to receive proportionate replacement Premier Foods LTIP awards. The performance conditions applicable to these replacement awards are identical to the performance conditions on outstanding Premier Foods LTIP awards for the equivalent performance periods (see page 59). The Committee believes that this is the most appropriate way of aligning all levels of senior management throughout the enlarged Premier Foods group.

Share options

The Premier Foods plc Executive Share Option Scheme (the "ESOS")

The Company adopted the ESOS at the time of Admission. Options granted under the ESOS may be exercised between three and 10 years after grant provided that the applicable performance criteria have been met.

Options were granted to executive directors under the ESOS at the time of Admission in 2004. The grants were split into three portions, each subject to a stretching performance condition. Two of the portions (representing 50% of the total award) are subject to a performance condition based on TSR, and the third portion (representing the other 50% of the total award) is subject to a performance condition based on adjusted earnings per share ("EPS"). The performance conditions (which are summarised in the table below) were chosen because they align the interests of executive directors with those of shareholders.

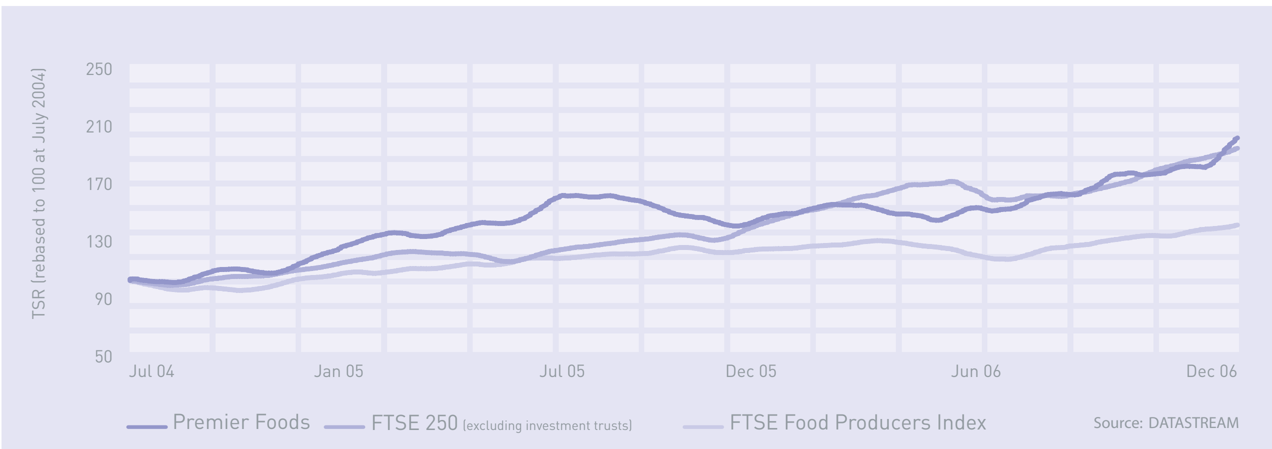
TSR: against FTSE 250	TSR: against select comparator group	EPS
25% of Option	25% of Option	50% of Option
50% of the above portion vests for median performance, rising on a straight-line basis to full vesting for upper quartile performance.	Full vesting of the above portion if the Company is in first or second position of the comparator group; 75% of the above portion if the Company is in third position. 50% of the above portion if the Company is in fourth position. None of the above portion if the Company is below fourth position.	Increase in adjusted earnings per share must be equal or exceed the cumulative increase in the retail price index plus 3% per annum, over the three-year performance period.
No retesting	No retesting	One retest at end of fourth year (from same base year)

The current intention is that no further options will be granted under the ESOS, other than in exceptional circumstances (e.g. in relation to recruitment). Details of outstanding awards made to executive directors can be found on page 58.

Director's remuneration report
For the year ended 31 December 2006

Performance graph
The following graph shows the TSR performance of the Company since listing in July 2004, against the FTSE 250 (which was chosen because it represents a broad equity market index of which the Company is a constituent) and the FTSE Food Producers and Processors Index (which was chosen because it contains the Company's key comparators).

TSR was calculated by reference to the growth in share price, as adjusted for reinvested dividends.



All employee share schemes
Executive directors may also participate in the Company's Savings Related Share Option Scheme, on the same basis as all other employees. There are no performance conditions attached to this scheme.

Service Agreements
The Committee periodically reviews the Company's policy on the duration of directors' service agreements, and the notice periods and termination provisions contained in those agreements. The current policy of the Committee is that notice periods contained in executive directors' service contracts should be limited to 12 months (other than in exceptional circumstances, such as for the purposes of recruitment) and that provisions for early termination should reflect prevailing market practice.

Executive directors have service agreements that continue until terminated by 12 months' notice on either side (but which in any event terminate on their 60th birthday).

Both Mr Schofield's and Mr Thomas' service agreements are dated 20 July 2004.

In the event of early termination (other than for a reason justifying summary termination in accordance with the terms of the service agreement) the Company may (but is not obliged to) pay to the executive director, in lieu of notice, a sum equal to the annual value of the executive director's then salary, benefits, pension contributions and on-target bonus (calculated on a pro rata daily basis) which he would have received during the contractual notice period the sum of which shall be payable in 12 monthly instalments. To the extent that the executive director receives any sums as a result of alternative employment or provision of services while he is receiving such payments from the Company, the payments shall be reduced by the amount of such sums.

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

None of the non-executive directors has employment contracts with the Company. However, each has entered into a letter of appointment with the Company confirming their appointment for periods ranging from two to three years, unless terminated by either party giving the other one month's written notice. The appointments are subject to the provisions of the Companies Act 1985 and the Company's Articles of Association, in particular the need for periodic re-election. Continuation of an individual non-executive director's appointment is also contingent on that non-executive director's satisfactory performance, which will be evaluated annually.

There are no provisions for compensation being payable upon early termination of an appointment of a non-executive director.

Details of non-executive appointment periods appear below:

	Date of current appointment or reappointment	Expiry Date	Notice Period
David Kappler	14 June 2006	13 June 2008	One month
David Felwick CBE	19 July 2004	18 July 2007	One month
Sharon Hintze	14 June 2006	13 June 2008	One month
Louise Makin	1 October 2006	30 September 2009	One month
Ian McHoul	19 July 2004	18 July 2007	One month
Ian Ramsay	14 June 2006	13 June 2008	One month

Information subject to audit

Remuneration of Executive Directors year ended 31 December 2006

Details of the payments made to excutive directors in respect of the year ended 31 December 2006 are shown below:

	Salary & Fees 2006 £	Annual Bonus 2006 £	Benefits 2006 £	Total 2006 £	Total 2005 £
Robert Schofield	474,798	49,100	20,069	543,967	554,833
Paul Thomas	339,500	36,000	24,051	399,551	415,764

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

Remuneration of non-executive directors

The remuneration of the non-executive directors is determined by the Chairman and executive members of the Board, and the remuneration of the Chairman is determined by the Remuneration Committee. Details of the payments made to non-executive directors is shown below:

	Fees £	Committee Chairman's Fees £	Committee Membership Fees £	Total 2006 £	Total 2005 £
David Kappler	125,000	4,500	5,000	134,500	130,000
David Felwick CBE	41,500	5,750	15,000	62,250	60,000
Sharon Hintze	41,500	–	10,000	51,500	46,667
Louise Makin	10,500	–	2,500	13,000	–
Ian McHoul	41,500	10,750	8,750	61,000	55,000
Ian Ramsay	41,500	–	10,000	51,500	50,000
Lyndon Lea	–	–	–	–	29,538
George Sewell	–	–	–	–	18,288

From 1 April 2006, the basic fee for a non-executive director was increased to £42,000, (2005: £40,000) except in the case of the Chairman of the Group whose basic fee is £125,000. In addition, from the same date non-executive directors receive £5,000 for membership of a committee and an additional £6,000 (2005: £5,000) as Chairman of a committee, other than of the Audit Committee, where the Chairman receives £11,000 (2005: £10,000) to reflect the amount of work involved in this role.

The Chairman and the other non-executive directors are not eligible to participate in the Company's bonus arrangements, share option schemes, long-term incentive plans or pension arrangements.

Director's remuneration report
For the year ended 31 December 2006

Directors' interests in ordinary shares
The interests of directors all of which are beneficial at the beginning and end of the year in shares in Premier Foods plc were:

	Fully paid Ordinary Share of 1p each	
	As at 31.12.06[1]	As at 31.12.05
Robert Schofield	1,113,040	882,331
Paul Thomas	606,836	482,766
David Kappler	232,558	116,279
David Felwick CBE	74,418	37,209
Sharon Hintze	Nil	Nil
Louise Makin	Nil	Nil
Ian McHoul	74,418	37,209
Ian Ramsay	Nil	Nil

Directors' share interests include the interests of their spouses and infant children as required by Section 328 of the Companies Act 1985. There were no changes in the beneficial interests of the directors in the Company's shares between 31 December 2006 and 5 March 2007.

(1) The increases between 31 December 2005 and 31 December 2006 were in respect of the Rights Issue of 14 August 2006.

Directors' interest in share options
At the beginning of the year and at 31 December 2006, the following directors had options to subscribe for shares of 1p each granted under the terms of the Premier Foods plc Executive Share Option Scheme or Savings Related Share Option Scheme:

	Options as at 31.12.05	Granted during the Year	Adjusted to take account of Rights Issue[4]	Options as at 31.12.06	Adjusted Exercise Price[4]	Exercise Period
Robert Schofield	1,000,000[1]		267,326	1,267,326	169.65p	23.07.07 – 22.07.14
	1,640[2]		438	2,078	182.27p	01.06.08 – 30.11.08
		2,377[3]	635	3,012	186.22p	01.06.09 – 30.11.09
Paul Thomas	595,349[1]		159,152	754,501	169.65p	23.07.07 – 22.07.14
	1,640[2]		438	2,078	182.27p	01.06.08 – 30.11.08

(1) Options granted under the Premier Foods plc Executive Share Option Scheme. The exercise of these options is conditional upon the satisfaction of both EPS (50% of the total award) and two TSR-based (50% of the total award) performance targets. The TSR-based targets relate to performance against two separate comparator groups – the FTSE 250 (25% of the total award) and a select industry comparator group (25% of the total award).

(2) Options granted on 15 April 2005, under the Premier Foods plc Savings Related Share Option Scheme. Exercise of these options are not subject to any performance conditions.

(3) Options granted on 18 April 2006, under the Premier Foods plc Savings Related Share Option Scheme. Exercise of these options are not subject to any performance conditions.

(4) Adjustments to options taking into account the rights issue of 14 August 2006. The exercise price is also adjusted.

On 31 December 2006 the market price of ordinary shares of Premier Foods plc was 301.50p and the range during 2006 was 240.25p to 329.50p.

No options have expired unexercised during 2006.

There were no changes in the options held by the directors between 31 December 2006 and 5 March 2007.

The Register of Directors' Interests, which is open to inspection, contains full details of directors' shareholdings and options.

Long-Term Incentive Plan

The following table shows the executive directors' interests in shares awarded under the long-term incentive plan. These figures represent the maximum potential award.

	Award Date	Market price on date of Awards	Awards held 31.12.05	Awards during the year	Adjustment for Rights Issue	Awards held 31.12.06	End of period when qualifying conditions must be met
Robert Schofield	26.05.05	302.50p	144,280		38,569	182,849	26.05.08
	13.04.06	289.75p		156,357	41,798	198,155	13.04.09
Paul Thomas	26.05.05	302.50p	84,628		22,623	107,251	26.05.08
	13.04.06	289.75p		90,721	24,252	114,973	13.04.09

Vesting of awards is subject to the fulfilment of TSR-based performance conditions measured over a three-year period against appropriate comparators. Relative TSR performance will be measured against two appropriate comparator groups: 50% based on performance measured against the FTSE 250 (excluding investment companies) and 50% based on performance measured against a group of relevant companies from the food sector[1]. For both parts of awards, 30% will vest for median performance, rising on a straight-line basis to full vesting for upper quartile performance.

In addition, to ensure that underlying financial performance is also achieved, vesting of awards will be subject to the minimum requirement that Premier Foods' EPS must have exceeded the growth in the UK Retail Prices Index by an average of at least 2% per annum, over the performance period.

[1] The food sector comparator Group for the 2005 and 2006 awards at the date of grant was Arla Foods plc, Associated British Foods plc, Cadbury Schweppes plc, Cranswick plc, Dairy Crest Group plc, Devro plc, Greencore plc, Geest plc, Northern Foods plc, Richmond Foods plc, Robert Wiseman Dairies plc, Tate & Lyle plc and Uniq plc. Richmond Group was removed from the Group after the company de-listed on 3 July 2006. Kerry Group plc were substituted into the Group for Geest plc who were taken over, and subsequently de-listed in May 2005. Kerry Group plc's TSR will be measured from the beginning of the performance period.

Pension entitlements

Following the Finance Act 2004, Mr Schofield applied for enhanced protection as part of the transitional arrangements of the new regime. He no longer accrues benefits under the PFPS.

Mr Thomas is a member of the PFPS, described on page 52, and is subject to the earnings cap imposed by the Finance Act 1989. Under the PFPS, he will be provided with a pension of 1/45th of salary up to the Finance Act 1989 earnings cap for each year of pensionable service. Mr Thomas' normal pension date is age 60 and he is not required to make contributions to the PFPS.

The following tables set out information on directors' defined benefit pension entitlements under the PFPS:

	Age at 31 December 2006	Years service at 31 December 2006	Total accrued benefit at 31 December 2006 £	Increase in accrued benefit during the year £	Increase in accrued benefit during the year, excluding inflation £
Robert Schofield	55	4 years 10 months	17,376	1,380	756
Paul Thomas	51	4 years 6 months	10,540	2,591	2,281

For each director, the total accrued benefit at 31 December 2006 represents the annual pension that is expected to be payable on eventual retirement, given the length of service and salary of each director at 31 December 2006. The increase in accrued benefit earned during the year represents the increase in this expected pension (including the effect of inflation) when compared with the position at 31 December 2005. The increase in accrued pension excluding the effect of inflation over the year is also shown.

Director's remuneration report
For the year ended 31 December 2006

Requirements under:	Schedule 7A of the Companies Act 1985			The Listing Rules
	Transfer value at 31.12.05 of total accrued benefit £	Transfer value at 31.12.06 of total accrued benefit £	Value of increase in accrued benefit during the year £	Value of increase in accrued benefit during the year, excluding inflation £
Robert Schofield	204,500	213,800	9,300	9,300
Paul Thomas	75,100	109,300	34,200	23,700

All transfer values have been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11. The transfer values of the accrued entitlement represent the value of assets that the pension scheme would need to transfer to another pension provider on transferring the scheme's liability in respect of the director's pension benefits. They do not represent sums payable to individual directors and therefore cannot be added meaningfully to annual remuneration.

For each director, the value of the increase in accrued benefit under the requirements of Schedule 7A of the Companies Act 1985 is the amount obtained by subtracting from the transfer value of the total accrued benefit at 31 December 2006 the corresponding transfer value at 31 December 2005. The value of the increase in accrued benefit under the Listing Rules is the transfer value at 31 December 2006 of the increase in accrued benefit during the period, excluding inflation.

The transfer values disclosed above are net of directors' contributions and do not represent a sum paid or payable to the individual director. Instead, they represent a potential liability of the pension scheme.

David Felwick
Chairman of the Remuneration Committee
Premier Foods plc
Premier House
Centrium Business Park
Griffiths Way
St Albans
Hertfordshire
AL1 2RE

5 March 2007

INSIDE THIS SECTION

Independent auditors' report to the members of Premier Foods plc
The Group

We have audited the group financial statements of Premier Foods plc for the year ended 31 December 2006 which comprise the Consolidated Income Statement, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement, the Consolidated Statement of Recognised Income and Expense and the related notes on pages 64 to 105. These group financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the parent company financial statements of Premier Foods plc for the year ended 31 December 2006 and on the information in the Directors' Remuneration Report that is described as having been audited.

Respective responsibilities of directors and auditors
The directors' responsibilities for preparing the Annual Report and the group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the group financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the group financial statements give a true and fair view and whether the group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We also report to you whether, in our opinion, the Directors' Report is consistent with the group financial statements. The information given in the Directors' Report includes that specific information presented in the Business and Financial Review that is cross referred from the Business Review section of the Directors' Report.

In addition we report to you if, in our opinion, we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the company's compliance with the nine provisions of the Combined Code 2003 specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited group financial statements. The other information comprises the Chairman's Statement, the Chief Executive's Summary, the Business Review, the Financial Review, the Directors' Report and the Corporate Governance Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the group financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the group financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the group financial statements, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the group financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the group financial statements.

Opinion
In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 31 December 2006 and of its profit and cash flows for the year then ended;
- the group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation: and
- the information given in the Directors' Report is consistent with the financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London

6 March 2007

Notes:
(a) The maintenance and integrity of the Premier Foods plc website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
(b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent auditors' report to the members of Premier Foods plc
The Company

We have audited the parent company financial statements of Premier Foods plc for the year ended 31 December 2006 which comprise the Balance Sheet and the related notes on pages 106 to 109. These parent company financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

We have reported separately on the group financial statements of Premier Foods plc for the year ended 31 December 2006.

Respective responsibilities of directors and auditors
The directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the parent company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the parent company financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's embers as a body in accordance with section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the parent company financial statements give a true and fair view and whether the parent company financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you whether, in our opinion, the Directors' Report is consistent with the parent company financial statements. The information given in the Directors' Report includes that specific information presented in the Business and Financial Review that is cross referred from the Business Review section of the Directors' Report.

In addition we report to you, if in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited parent company financial statements. The other information comprises only the Chairman's Statement, the Chief Executive's Summary, the Business Review, the Financial Review, the Directors' Report, the Corporate Governance Statement and the unaudited part of the Directors' Remuneration Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent company financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the parent company financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the parent company financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the parent company financial statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error.

In forming our opinion we also evaluated the overall adequacy of the presentation of information in the parent company financial statements and the part of the Directors' Remuneration Report to be audited.

Opinion
In our opinion:

- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2006;
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the parent company financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London

6 March 2007

Notes:
(a) The maintenance and integrity of the Premier Foods plc website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
(b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Consolidated income statement

	Note	Year ended 31 December 2006 £m	2005 £m
Continuing operations			
Turnover	4	**959.4**	789.7
Cost of sales		**(695.3)**	(583.3)
Gross profit		**264.1**	206.4
Selling, marketing and distribution costs		**(80.8)**	(73.7)
Administrative costs		**(82.0)**	(39.8)
Other operating (expenditure)/income		**(3.7)**	2.4
Operating profit	6	**97.6**	95.3
Before exceptional items		**117.7**	102.1
Exceptional items	5	**(20.1)**	(6.8)
Interest payable and other financial charges	8	**(56.3)**	(51.5)
Interest receivable and other financial income	8	**16.8**	8.0
Profit before taxation for continuing operations		**58.1**	51.8
Taxation charge	9	**(11.0)**	(14.9)
Profit after taxation for continuing operations		**47.1**	36.9
Profit from discontinued operations	10	**–**	46.7
Profit for the year		**47.1**	83.6
Earnings per share (pence)*	11		
Basic		**12.7**	26.9
Diluted		**12.7**	26.7
Earnings per share (pence) – continuing*	11		
Basic		**12.7**	11.9
Diluted		**12.7**	11.8
Earnings per share (pence) – discontinued*	11		
Basic		**–**	15.0
Diluted		**–**	14.9
Dividends	12		
Recommended final dividend (£m)		**12.6**	23.5
Declared interim dividend (£m)		**39.7**	11.8
Recommended final dividend (pence)		**2.55**	9.50
Declared interim dividends (pence)		**10.50**	4.75

* Earnings per share in 2005 have been restated to reflect the effect of the rights issue in the current year.

Consolidated balance sheet

	Note	As at 31 December 2006 £m	2005* (Restated) £m
ASSETS:			
Non-current assets			
Property, plant and equipment	13	**254.7**	196.5
Goodwill	14	**477.0**	259.1
Other intangible assets	15	**389.6**	165.0
Investments	16	**–**	0.1
Other non–current assets		**–**	0.4
Current assets			
Inventories	17	**120.6**	89.8
Trade and other receivables	18	**170.6**	136.3
Financial assets – derivative financial instruments	21	**6.9**	1.3
Cash and cash equivalents	21	**7.8**	14.0
Total assets		**1,427.2**	862.5
LIABILITIES:			
Current liabilities			
Trade and other payables	19	**(177.9)**	(166.8)
Financial liabilities			
– short-term borrowings	20	**(131.5)**	(35.9)
– derivative financial instruments	21	**(3.5)**	(1.5)
Interest payable		**(3.7)**	(2.0)
Provisions	23	**(7.7)**	(0.6)
Current tax liabilities		**(6.9)**	(19.4)
Non-current liabilities			
Financial liabilities			
– long-term borrowings	20	**(517.7)**	(546.1)
– loan notes	20	**–**	(4.1)
Retirement benefit obligations	24	**(84.7)**	(84.5)
Provisions	23	**(0.5)**	(0.4)
Other liabilities		**–**	(0.1)
Deferred tax liabilities	22	**(32.1)**	(19.1)
Total liabilities		**(966.2)**	(880.5)
Net assets/(liabilities)		**461.0**	(18.0)
EQUITY:			
Capital and reserves			
Share capital	25	**5.0**	2.5
Share premium	26	**760.6**	321.5
Merger reserve	26	**(136.8)**	(136.8)
Other reserves	26	**–**	(0.2)
Profit and loss reserve	26	**(167.8)**	(205.0)
Total shareholders' funds/(deficit)		**461.0**	(18.0)

* The 2005 comparatives have been restated for the final fair value adjustments in respect of acquired business which were previously determined on a provisional basis.
The notes on pages 68 to 105 are an integral part of these consolidated financial statements.

Signed on behalf of the Board of Directors, who approved the financial statements on 5 March 2007.

Robert Schofield
Director and Chief Executive

Paul Thomas
Finance Director

Consolidated statement of recognised income and expense

	Note	Year ended 31 December 2006 £m	2005 £m
Actuarial gain/(loss)	24	**16.1**	(25.9)
Deferred tax (charge)/credit on actuarial gain/(loss)		**(5.1)**	7.7
Tax on share options	9	**1.5**	0.7
Net gain/(loss) not recognised in income statement		**12.5**	(17.5)
Profit for the year		**47.1**	83.6
Total recognised income in the year		**59.6**	66.1
Effect of adopting IAS 39 at 1 January 2005		**–**	(1.8)
		59.6	64.3

Consolidated cash flow statement

	Note	Year ended 31 December 2006 £m	2005 £m
Cash generated from operating activities	28	**91.9**	117.7
Interest paid		**(49.2)**	(42.6)
Interest received		**9.7**	6.3
Taxation paid		**(12.3)**	(7.5)
Cash inflow from operating activities		**40.1**	73.9
Acquisition of Campbell's	27	**(380.3)**	–
Acquisition of Bird's		**–**	(72.1)
Acquisition of Marlow		**–**	(118.6)
Acquisition of Gedney's		**–**	(4.6)
Acquisition of Cauldron		**–**	(27.1)
Sale of subsidiaries	28	**–**	81.6
Purchase of property, plant and equipment		**(44.7)**	(49.8)
Receipt from insurers		**–**	12.0
Purchase of intangible assets		**(12.3)**	(1.1)
Sale of property, plant and equipment		**4.5**	2.7
Cash outflow from investing activities		**(432.8)**	(177.0)
Repayment of borrowings		**(29.1)**	(380.0)
Drawdown from borrowings		**86.0**	585.9
Proceeds from share issue		**458.6**	–
Share issue (costs)/refund		**(17.0)**	0.6
Debt issuance costs		**(4.4)**	(5.6)
Repayment of debt acquired with Campbell's		**(88.6)**	–
Repayment of debt acquired with Marlow		**–**	(53.4)
Dividends paid		**(23.5)**	(33.8)
Cash inflow from financing activities		**382.0**	113.7
Net (outflow)/inflow of cash and cash equivalents		**(10.7)**	10.6
Cash and cash equivalents at beginning of year		**13.2**	2.6
Cash and cash equivalents at end of year	28	**2.5**	13.2

Notes to the financial statements

1. General information

Premier Foods plc ("the Company") is a public limited company incorporated in the United Kingdom under the Companies Act 1985. The address of the registered office and principal place of business is identified on page 36. The principal activity of the Company and its subsidiaries ("the Group"), is the supply of branded and own label grocery products, as described in note 16.

These Group consolidated financial statements were authorised for issue by the Board of Directors on 5 March 2007.

2. Accounting policies

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

2.1 Basis of preparation

The consolidated financial statements of Premier Foods plc have been prepared in accordance with International Financial Reporting Standards ("IFRS's") as adopted by the European Union, and on the historical cost basis with the exception of derivative financial instruments that are incorporated using fair value. The principal accounting policies adopted are set out below.

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

New standards and interpretations not applied.

During the year ended 31 December 2006, the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretation Committee ("IFRIC") have issued the following standards and interpretations with an effective date after the date of these financial statements:

International Financial Reporting Standards ("IFRS")

		Effective for accounting periods beginning on or after:
IFRS 7	Financial Instruments: Disclosures	1 January 2007*
IFRS 8	Operating segments	1 January 2009*
IAS 1	Amendment – Presentation of Financial Statements : Capital Disclosures	1 January 2007*

International Financial Reporting Interpretations Committee ("IFRIC")

IFRIC 7	Applying the Restatement Approach under IAS 29 "Financial Reporting in Hyperinflationary Economies"	1 March 2006**
IFRIC 8	Scope of IFRS 2	1 May 2006**
IFRIC 9	Reassessment of Embedded Derivatives	1 June 2006**
IFRIC 10	Interim Financial Reporting and Impairment	1 November 2006**
IFRIC 11	IFRS 2 Group and Treasury Share Transactions	1 March 2007**
IFRIC 12	Service Concession Arrangements	1 January 2008**

* These standards will be adopted by the Group in future accounting periods.
** These interpretations are not currently applicable to the Group, however, will be applied by the Group in future periods.

The directors do not anticipate that the adoption of any of these standards and interpretations will have a material impact on the Group's financial statements.

Certain of these standards and interpretations will require additional disclosures over and above those currently included in these financial statements in the period of initial application.

2.2 Basis of consolidation
The consolidated financial statements include the financial statements of Premier Foods plc and entities controlled by the Company (its subsidiaries) made up to 31 December each year. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

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

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

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

All inter-Group transactions, balances, income and expenses are eliminated on consolidation.

In 2005 the initial accounting for the businesses acquired were determined provisionally. The full review was completed during 2006 and final fair value adjustments have been treated as restatements to the 2005 disclosures in accordance with International Financial Reporting Standard 3 "Business Combinations" ("IFRS 3"). (Consistent with Note No 2.5).

In addition, the 2005 results have been restated for the effect of the rights issue on dividends per share and earnings per share in 2005.

2.3 Turnover
Turnover comprises the invoiced value for the sale of goods net of sales rebates, discounts, value added tax and other taxes directly attributable to turnover and after eliminating sales within the Group. Turnover is recognised when the outcome of a transaction can be measured reliably and when it is probable that the economic benefits associated with the transaction will flow to the Group. Turnover is recognised on the following basis:

(i) Sale of goods
Sales of goods are recognised as turnover on transfer of the risks and rewards of ownership, which generally coincides with the time when the merchandise is delivered to customers and title passing.

(ii) Interest income
Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

(iii) Sales rebates and discounts
Sales rebates and discount reserves are established based on management's best estimate of the amounts necessary to meet claims by the Group's customers in respect of these rebates and discounts. The provision is made at the time of sale and released, if unutilised, after assessment that the likelihood of such a claim being made has become remote.

2.4 Segmental reporting
A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those segments operating in other economic environments. Income and expenses that are not directly attributable to a particular segment are allocated based on levels of senior management activity on the basis that this closely reflects the use of the Group's resources.

2.5 Share-based payments
The fair value of employee share option plans is calculated using an option-pricing model. In accordance with International Financial Reporting Standard 2 "Share-based Payment" ("IFRS 2"), the resulting cost is charged to the income statement over the vesting period of the options. The amount of the charge is adjusted to reflect expected and actual levels of options vesting.

2.6 Foreign currency translation
Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Assets and liabilities denominated in foreign currencies are translated into sterling, the Group's presentational currency, at rates of exchange ruling at the end of the financial year.

The results of overseas subsidiaries with functional currencies other than in sterling are translated into sterling at the average rate of exchange ruling in the year. Exchange differences arising from retranslation at year-end exchange rates of the net investment in foreign subsidiaries are recorded in reserves through the statement of recognised income and expense. When a foreign operation is sold exchange differences are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

All other exchange gains or losses are recorded in the Income statement.

Notes to the financial statements
continued

2.7 Property, plant and equipment ("PPE")
Property, plant and equipment is initially recorded at cost. Subsequent expenditure is added to the carrying value of the asset when it is probable that incremental future economic benefits will transfer to the Group. All other subsequent expenditure is expensed in the period it is incurred.

Differences between the cost of each item of PPE and its residual value are written off over the estimated useful life of the asset using the straight-line method. Reviews of the estimated remaining useful lives and residual values of individual productive assets are performed annually, taking account of commercial and technological obsolescence as well as normal wear and tear. Freehold land is not depreciated. The useful lives of owned assets range from 20 to 50 years for buildings, and 3 to 35 years for vehicles, plant and equipment.

All items of PPE are reviewed for impairment when there are indications that the carrying value may not be fully recoverable. PPE is stated at cost less depreciation after taking into account the asset's useful economic life.

2.8 Business combinations and goodwill
On the acquisition of a business, fair values are attributed to the tangible and intangible assets and liabilities acquired. Goodwill arises when the fair value of the consideration for a business exceeds the fair value of the aggregate of the net assets acquired. Goodwill arising on acquisitions is capitalised and subject to impairment review, both annually and when there are indications that the carrying value may not be recoverable.

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

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

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

Acquired intangibles
Acquired trademarks, brands, recipes and similar assets that are controlled through custody or legal rights and that could be sold separately from the rest of the business are capitalised, where fair value can be reliably measured. A reputable independent specialist performs the valuations. All of these assets are considered to have finite lives and are amortised on a straight-line basis over their estimated useful economic lives that range from 20 to 40 years.

Research and development
Research expenditure is charged to the income statement in the year in which it is incurred.

Costs incurred in developing a product, typically its recipe or packaging, are charged to income in the year in which they are incurred unless the future economic benefits of the project can be regarded as reasonably assured and are in accordance with International Accounting Standard 38 "Intangible Assets" ("IAS 38"), in which case they are capitalised and amortised over their estimated useful economic lives.

Software development costs
Assets acquired or internally developed, such as software, are capitalised when the future economic benefit is reasonably assured and the criteria within IAS 38 are met. Software development costs are capitalised and amortised over their estimated useful lives on a straight-line basis over a range of 3 to 15 years.

2.10 Impairment
The useful economic lives of intangible assets are determined, based on a review of a combination of factors including the asset ownership rights acquired and the nature of the overall product life cycle.

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

Intangible assets with finite lives are subject to impairment testing on indication of impairment. Any impairment losses are written off immediately to income.

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

2.12 Leases

Assets held under finance leases are capitalised and included in property, plant and equipment at the lower of the minimum lease payments or fair value. Each asset is depreciated over its estimated useful life on a straight-line basis. Obligations relating to finance leases, net of finance charges in respect of future periods, are included under borrowings. The interest element of the rental obligation is allocated to accounting periods during the lease term to reflect a constant rate of interest on the remaining balance of the obligation for each accounting period. Provisions for dilapidations are made where necessary.

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

2.13 Inventories

Inventory is valued at the lower of cost and net realisable value. No interest is included but, where appropriate, cost includes production and other attributable overhead expenses as described in International Accounting Standard 2 "Inventories" ("IAS 2"). Cost is calculated on a first-in-first-out basis by reference to the invoiced value of supplies and attributable costs of bringing the inventory to its present location and condition.

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

2.14 Taxation

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

Deferred taxation is accounted for using the balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in computation of taxable profit. Deferred taxation is not provided on the initial recognition of an asset or liability in a transaction, other than in a business combination, if at the time of the transaction there is no effect on either accounting or taxable profit or loss.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary difference can be utilised. Their carrying amount is reviewed at each balance sheet date on the same basis.

Deferred tax is measured at the tax rates that are expected to apply in the periods in which the asset or liability is settled based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date. It is recognised in the income statement except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and when the Group intends to settle its current tax assets and liabilities on a net basis.

2.15 Employee benefits

Group companies provide a number of long-term employee benefit arrangements, primarily through pension schemes. The schemes are generally funded through payments to insurance companies or trustee-administered funds, determined by periodic actuarial calculations. The Group has both defined benefit and defined contribution plans. A defined benefit plan is a pension plan that defines the amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity, which then invests the contributions to buy annuities for the pension liabilities as they become due based on the value of the fund, hence the Group has no legal or constructive obligations to pay further contributions.

Defined benefit plans

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognised actuarial gains or losses and past service costs. Defined benefit obligations are calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to the statement of recognised income and expenditure in the year in which they arise.

Current service costs, past-service costs, administration costs, expected return on assets and interest costs are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period. All pension costs are recorded as a component of administrative costs.

Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as they fall due.

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2.16 Provisions
Provisions are recognised when the Group has present legal or constructive obligations as a result of past events, it is probable that an outflow of resources will be required to settle the obligations and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. Where material, the Group discounts its provisions.

2.17 Contingent liabilities and contingent assets
A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably. A contingent liability is not recognised but is disclosed in the notes to accounts. When an outflow becomes probable, it is recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group. Contingent assets are not recognised but are disclosed in the notes to the accounts when an inflow of economic benefits is probable. When inflow is virtually certain an asset is recognised.

2.18 Financial instruments
Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Trade and other receivables
Trade and other receivables are initially measured at fair value and subsequently measured at amortised cost less any provision for impairment. A provision is made for impairment when there is objective evidence that the Group will not be able to collect all amounts due according to the terms of the receivables. Trade and other receivables are discounted when the time value of money is considered material.

Cash and cash equivalents
Cash and cash equivalents, with original maturities at inception of less than 90 days, comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

For the purpose of the cash flow statement, cash and cash equivalents comprise cash at bank, cash in hand, short-term deposits with an original maturity of three months or less held for the purpose of meeting short-term cash commitments and bank overdrafts.

Financial liabilities and equity
Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

Bank borrowings
Interest-bearing bank loans and overdrafts are measured initially at fair value and subsequently at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs and inclusive of debt issuance costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the Group's accounting policy for borrowing costs.

Trade and other payables
Trade and other payables are initially measured at fair value and subsequently measured at amortised cost. Trade payables and other liabilities are discounted when the time value of money is considered material.

Equity instruments
Equity instruments issued by the Company are recorded at the proceeds received, net of directly attributable issue costs.

Derivative financial instruments
Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risk and characteristics are not closely related to those of host contracts and the host contracts are not carried at fair value, with unrealised gains or losses reported in the income statement. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. Movements in fair value of foreign exchange derivatives are recognised within other operating income and expense and those relating to interest rate swaps are recorded in interest payable and other financial charges or interest receivable and other financial income.

Hedge accounting has not been adopted therefore the change in fair value is recognised directly in the income statement as it arises.

3. Critical accounting policies, estimates and judgements

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

3.1 Pensions

The present value of the Group's pension obligations depends on a number of actuarial assumptions. The primary assumptions used include the expected long-term rate of return on invested funds, the discount rate applicable to scheme liabilities, the long-term rate of inflation and estimates of the mortality applicable to scheme members.

At each reporting date, and on a continuous basis, the Group reviews the macro-economic and company specific factors influencing each of these assumptions, using professional advice, in order to record the Group's ongoing commitment and obligation to defined benefit schemes in accordance with IFRS. The Group is aware of, and alert to, the need to inform the Pensions Regulator to the extent that the Group is involved in any corporate activity that affects the rights of pension scheme members and the carrying value of the pension schemes. Each of the underlying assumptions is set out in more detail in note 24.

3.2 Goodwill and other intangible assets

Impairment reviews in respect of goodwill are performed annually unless an event indicates that an impairment review is necessary. Impairment reviews in respect of intangible assets are performed when an event indicates that an impairment review is necessary. Examples of such triggering events include a significant planned restructuring, a major change in market conditions or technology, expectations of future operating losses, or a significant reduction in cash flows. The recoverable amounts of cash-generating units are determined based on the higher of realisable value and value-in-use calculations. These calculations require the use of estimates.

Acquired trademarks, brands, recipes and similar assets are considered to have finite lives that range from 20 to 40 years. The determination of the useful lives takes into account certain quantitative factors such as sales expectations and growth prospects, and also many qualitative factors such as history and heritage, and market positioning, hence the determination of useful lives are subject to estimates and judgement. For further details see note 14.

3.3 Advertising and promotion costs

Trade spend and promotional activity is dependent on market conditions and negotiations with customers. Trade spend is charged to the income statement according to the substance of the agreements with customers and the terms of any contractual relationship. Promotional support is generally charged to the income statement at the time of the relevant promotion. These costs may be accrued based on best estimates. The actual costs may not be known until subsequent years when negotiations with customers are concluded. Such adjustments are recognised in the year when final agreement is reached.

Expenditure on advertising is charged to the income statement when incurred, except where a particular campaign is used more than once. In this case it is charged in line with the airtime profile.

3.4 Exceptional items

Exceptional items are not explicitly addressed under IFRS. Accordingly, the Group has defined exceptional items as those items of financial significance to be disclosed separately in order to assist in understanding the financial performance achieved and in making projections of future results. Each of these items relate to events or circumstances that are non-recurring in nature, such as a major restructuring or integration of an acquisition.

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4. Segmental analysis

The results below for the year ended 31 December 2006 are divided into the two continuing segments described as Grocery and Fresh Produce. Results for the Tea business and Jonker Fris disposed of in 2005 are presented as discontinued operations in the comparative results for the year ended 31 December 2005.

Each of these segments primarily supplies the United Kingdom market, although the Group also supplies certain products to mainland Europe and the United States. Inter-segment transfers or transactions are entered into under the same terms and conditions that would be available to unrelated third parties. These segments are the basis on which the Group reports its primary segment information. The segment results for the years ended 31 December 2006 and 2005 are as follows:

	Year ended 31 December 2006			
	Grocery £m	Fresh Produce £m	Un-allocated £m	Total for Group £m
Total turnover from continuing operations	844.8	114.6	–	959.4
Result				
Operating profit/(loss) before exceptional items	120.2	(2.5)	–	117.7
Exceptional items	(19.4)	(0.7)	–	(20.1)
Interest payable and other financial charges	–	–	(56.3)	(56.3)
Interest receivable and other financial income	–	–	16.8	16.8
Profit/(loss) before taxation for continuing operations	100.8	(3.2)	(39.5)	58.1
Taxation	–	–	(11.0)	(11.0)
Profit/(loss) after taxation for continuing operations	**100.8**	**(3.2)**	**(50.5)**	**47.1**
Discontinued operations	–	–	–	–
Profit/(loss) for the year	**100.8**	**(3.2)**	**(50.5)**	**47.1**
Balance sheet				
Segment assets	1,363.7	47.0	–	1,410.7
Unallocated assets	–	–	16.5	16.5
Consolidated total assets	**1,363.7**	**47.0**	**16.5**	**1,427.2**
Segment liabilities	(263.9)	(10.3)	–	(274.2)
Unallocated liabilities	–	–	(692.0)	(692.0)
Consolidated total liabilities	**(263.9)**	**(10.3)**	**(692.0)**	**(966.2)**

Other information	Grocery £m	Fresh Produce £m	Dis-continued £m	Total for Group £m
Capital expenditure	81.8	2.4	–	84.2
Intangible asset expenditure	453.6	–	–	453.6
Depreciation	18.3	1.6	–	19.9
Amortisation	10.9	0.1	–	11.0
Impairment of PPE and Intangibles	4.5	–	–	4.5

	Year ended 31 December 2005			
	Grocery £m	Fresh Produce £m	Un-allocated £m	Total for Group £m
Total turnover from continuing operations	**683.4**	**106.3**	**–**	**789.7**
Result				
Operating profit before exceptional items	101.6	0.5	–	102.1
Exceptional items	(3.1)	(3.7)	–	(6.8)
Interest payable and other financial charges	–	–	(51.5)	(51.5)
Interest receivable and other financial income	–	–	8.0	8.0
Profit/(loss) before taxation for continuing operations	**98.5**	**(3.2)**	**(43.5)**	**51.8**
Taxation	–	–	(14.9)	(14.9)
Profit/(loss) after taxation for continuing operations	**98.5**	**(3.2)**	**(58.4)**	**36.9**
Discontinued operations	46.7	–	–	46.7
Profit/(loss) for the year	**145.2**	**(3.2)**	**(58.4)**	**83.6**
Balance sheet				
Segment assets	804.1	42.7	–	846.8
Unallocated assets	–	–	15.7	15.7
Consolidated total assets	**804.1**	**42.7**	**15.7**	**862.5**
Segment liabilities	(243.0)	(13.2)	–	(256.2)
Unallocated liabilities	–	–	(624.3)	(624.3)
Consolidated total liabilities	**(243.0)**	**(13.2)**	**(624.3)**	**(880.5)**

Other information	Grocery £m	Fresh Produce £m	Dis-continued £m	Total for Group £m
Capital expenditure	85.8	4.8	5.1	95.7
Intangible asset expenditure	254.8	0.2	–	255.0
Depreciation	13.0	2.9	2.2	18.1
Amortisation	6.3	–	0.3	6.6
Impairment of PPE and Intangibles	–	–	–	–

Unallocated assets and liabilities comprise cash and cash equivalents, net borrowings, taxation balances and derivative financial assets and liabilities.

Discontinued Operations

Discontinued operations had the following effect on the segment results of Grocery, analysed into continuing and discontinued components.

	Discontinued £m	Continuing £m	Grocery £m
Turnover			
2006	–	844.8	844.8
2005	77.2	683.4	760.6
Operating profit			
2006	–	100.8	100.8
2005	8.3	98.5	106.8

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Segmental analysis – secondary
The following table provides an analysis of the Group's turnover, which is allocated on the basis of geographical market destination as well as an analysis of segmental assets and additions to property, plant and equipment and intangible assets, which are allocated by geographical market location.

	Turnover by destination		Carrying value of segmental assets by location		Total capital expenditure, including intangibles by location	
	2006 £m	2005 £m	2006 £m	2005 (Restated) £m	2006 £m	2005 (Restated) £m
United Kingdom	**898.7**	757.4	**1,402.1**	862.5	**535.8**	350.0
Mainland Europe	**47.5**	25.4	**25.1**	–	**2.0**	0.7
Other countries	**13.2**	6.9	**–**	–	**–**	–
Total	**959.4**	789.7	**1,427.2**	862.5	**537.8**	350.7

The 2005 comparatives have been restated for the final fair value adjustments on the acquisitions of Marlow Foods Holdings Limited and Cauldron Foods Limited.

5. Exceptional items
During the year, the Group incurred the following:

		2006 £m	2005 £m
Exceptional items – continuing operations			
Integration of Campbell's	(a)	**8.0**	–
Restructure of Meat-free production	(b)	**7.2**	–
Costs of aborted acquisition of United Biscuits	(c)	**4.5**	–
Bird's transitional manufacturing and integration costs	(d)	**0.9**	5.2
Restructuring and other costs	(e)	**2.6**	3.0
Property disposal	(f)	**(3.1)**	(1.4)
Total		**20.1**	6.8

(a) Integration of Campbell's
On 14 August 2006 the Group acquired Campbell's Grocery Products Limited and Campbell's Ireland Grocery Products Limited. The administrative functions at Cambourne and King's Lynn are to be integrated into the existing Grocery operations of the Group, resulting in integration and restructuring costs.

(b) Restructure of Meat-free production
During 2005 the Group acquired Marlow Foods Holdings Limited and Cauldron Foods Limited (together "Meat-free"). During the year the Group announced the closure of the Cauldron factory at Portishead and the purchase and development of a new chilled facility at Methwold, enabling the integration of chilled production for *Quorn* and *Cauldron* products. As a result, significant one-off restructuring costs have been incurred.

(c) Costs of aborted acquisition of United Biscuits
During the year the Group entered into negotiations to acquire United Biscuits. In doing so significant costs were incurred including, interalia, consultancy, banking, due diligence, and legal fees, before discussions with the Group were terminated by the vendor.

(d) *Bird's* transitional manufacturing and integration costs
Following the acquisition of the *Bird's* business from Kraft Foods Inc. the product range continued to be produced by Kraft at their factory in Banbury under a series of transitional arrangements. These arrangements were extended to the beginning of the current year to ensure the continuity of supply and we have presented the additional cost of sourcing production from Kraft as exceptional costs.

(e) Restructuring and other costs
There are a variety of other exceptional costs including redundancy costs relating to business reorganisations and site closures, costs associated with the restructuring of our warehousing network, costs relating to the government's new "clean labelling" regime, and raw material write-offs resulting from their contamination in a third party warehouse. The latter costs are currently the subject of a legal claim against that third party.

The prior year costs relate to the Sudan 1 recall costs and restructuring of the production and administration facilities in the UK grocery business.

(f) Property disposal
Disposal gains of £3.1m (2005: £1.4m) relate to the disposal of our North Walsham factory which had previously been used for seasonal stock holding, and also an additional receipt relating to the sale of Langley Mill resulting from provisions in the disposal contract whereby the Group was entitled to a share of any profit made by the buyer on the subsequent sale of the property.

The prior year costs relate to the sale of a surplus property in the West Midlands.

6. Operating profit for continuing operations

6a. Analysis of costs by nature

	2006 £m	2005 £m
Cost of inventories sold (included in cost of sales)	**537.9**	570.4
Employee benefits expense (note 7)	**144.3**	107.2
Depreciation of property, plant and equipment:		
– owned assets	**19.7**	15.7
– under finance leases	**0.2**	0.2
Amortisation of intangible assets (included in administrative costs):		
– software	**1.3**	0.8
– brands	**9.7**	5.5
Impairment of property, plant and equipment (included in administrative costs)	**4.4**	–
Impairment of intangible assets	**0.1**	–
Operating lease rental payments:		
– plant and machinery	**4.4**	4.0
– land and buildings	**2.8**	2.7
Repairs and maintenance expenditure	**19.3**	15.6
Research and development costs	**3.6**	1.5
Gain on disposal of property, plant and equipment	**(2.8)**	(4.7)
Net foreign exchange losses	**4.6**	0.4
Audit fees (6b)	**0.9**	0.9

Operating lease obligations are further disclosed in note 29.

6b. Audit fees

	2006 £m	2005 £m
Fees payable to the company's auditor for the audit of the parent company and consolidated financial statements	**0.7**	0.5
Fees payable to the company's auditor and its associates for other services:		
– The audit of the company's subsidiaries, pursuant to legislation	**0.1**	0.1
– Other services pursuant to legislation	**0.1**	0.2
– Services relating to corporate finance transactions	**0.3**	0.1
Total auditors' remuneration	1.2	0.9
Charged to operating profit	**0.9**	0.9
Charged to the balance sheet	**0.3**	–

7. Employees

	2006 £m	2005 £m
Staff costs for the Group during the year for continuing operations		
Wages and salaries	**116.5**	92.6
Social security costs	**11.7**	8.3
Termination benefits	**5.6**	0.4
Share options granted to directors and employees	**2.2**	1.1
Pension costs – defined contribution plans (note 24)	**1.1**	0.9
Pension costs – defined benefit plans (note 24)	**7.2**	3.9
Total staff costs	**144.3**	107.2

	Number	Number
Average monthly number of people employed (including Executive Directors)		
Management	**396**	353
Administration	**860**	668
Production, distribution and other	**3,858**	3,006
Total employees	**5,114**	4,027

Directors' remuneration (including retirement benefits accruing to the directors under defined benefit schemes) is disclosed in the directors' remuneration report on pages 50 to 60 which form part of these financial statements.

8. Interest payable and receivable

On 14 August 2006, the Group entered into an Amended and Restated Facilities agreement, incorporating a £325.0m Term A facility, a £200.0m Term B facility, repayable over the period to 6 June 2010 and multi-currency revolving credit facilities of £560.0m. £646.0m was drawn down across the three facilities as at 31 December 2006. As a result of the implementation of these new facilities, debt issuance costs of £4.4m have been capitalised and are being amortised over the period of the loans. In addition £4.0m of debt issuance costs capitalised previously on past financing have been written off in the year.

During the year the Group entered into a bridging loan for £450.0m (settled in September 2006 following receipt of the rights issue proceeds) in order to expedite the purchase of Campbell's resulting in additional interest costs of £1.6m.

	2006 £m	2005 £m
Interest payable		
Interest payable on bank loans, senior notes and overdrafts	**10.9**	8.6
Interest payable on bridging loan facility	**1.6**	–
Interest payable on term facility	**19.4**	20.4
Interest payable on revolving facility	**19.0**	13.4
Amortisation of debt issuance costs	**1.4**	1.7
Fair valuation of interest rate swaps	**–**	1.1
	52.3	45.2
Accelerated amortisation of debt issuance costs	**4.0**	6.3
Total interest payable and other financial charges	**56.3**	51.5
Fair valuation of interest rate swaps	**(7.1)**	–
Interest receivable – bank deposits	**(9.7)**	(8.0)
Total interest receivable and other financial income	**(16.8)**	(8.0)
Net interest	**39.5**	43.5

9. Tax on profit on ordinary activities

Analysis of the charge for the year

	2006			2005		
	Continuing operations £m	Discontinued operations £m	Total £m	Continuing operations £m	Discontinued operations £m	Total £m
Current tax						
– Current year	**7.4**	**–**	**7.4**	12.4	2.5	14.9
– Prior years	**(8.4)**	**–**	**(8.4)**	0.1	–	0.1
Overseas current tax (current year)	**0.1**	**–**	**0.1**	–	–	–
Deferred tax						
– Current year	**10.2**	**–**	**10.2**	2.7	–	2.7
– Prior years	**1.7**	**–**	**1.7**	(0.3)	–	(0.3)
Income tax charge for the year	**11.0**	**–**	**11.0**	14.9	2.5	17.4

The prior year adjustment credit of £8.4m to current tax relates to the release of prior year provisions.

Tax relating to items recorded in equity for continuing operations was:

	2006 £m	2005 £m
Current tax credit on pension charges reflected in reserves	**–**	(1.6)
Deferred/current tax credit on share options	**(1.5)**	(0.7)
Deferred tax charge/(credit) on pension movements reflected in reserves	**5.1**	(6.1)
	3.6	(8.4)

The tax charge for the year differs from the standard rate of corporation tax in the United Kingdom (30%) for the years ended 31 December 2006 and 2005. The reasons for this are explained below:

	2006 £m	2005 £m
Profit before taxation for continuing operations	**58.1**	51.8
Tax at the domestic income tax rate of 30% (2005: 30%)	**17.4**	15.5
Tax effect of:		
Non-deductible/(taxable exceptional items)	**0.5**	(0.7)
Other (non-taxable)/disallowable items	**(0.2)**	0.3
Adjustment to prior years	**(6.7)**	(0.2)
Tax charge	**11.0**	14.9

10. Discontinued operations

The Group has not incurred any income or expenditure in relation to discontinued operations during the year. The following information provides information on the results arising from discontinued operations in the prior year.

On 30 October 2005, the Group entered into a sale agreement to dispose of its Tea businesses for £80.2m. Also, on 7 December 2005, the Group entered into a sale agreement to dispose of its Jonker Fris business for £4.4m. These disposals were effected in order to generate cash flows for the expansion of the Group's other businesses. The results of the discontinued operations for the period from 1 January 2005 to the dates of disposal are as follows:

	2006 £m	2005 £m
Turnover	–	77.2
Expenses	–	(68.9)
Profit before tax	–	8.3
Taxation charge	–	(2.5)
Profit after tax on discontinued operations for the period	–	5.8
Profit on disposal before tax	–	40.9
Tax on profit on disposal	–	–
Profit on disposal after taxation	–	40.9
Total profit arising from discontinued operations	–	46.7

During the year discontinued businesses contributed £nil (2005: £6.5m) to the Group's net operating cash flows, paid £nil (2005: £5.1m) in respect of investing activities and paid £nil (2005: £nil) in respect of financing activities.

A cash inflow of £nil (2005: £81.6m) arose on the disposal of discontinued businesses.

11. Earnings per share

Basic earnings per share have been calculated by dividing earnings attributable to ordinary shareholders of £47.1m (2005: £83.6m) by the weighted average number of ordinary shares of the Company.

	2006			2005 (Restated)		
	Basic EPS	Dilutive effect of share options	Diluted EPS	Basic EPS	Dilutive effect of share options	Diluted EPS
Continuing operations						
Profit after tax (£m)	**47.1**	–	**47.1**	36.9	–	36.9
Weighted average number of shares (million)	**370.8**	**0.6**	**371.4**	311.1	2.6	313.7
Earnings per share (pence)	**12.7**	–	**12.7**	11.9	(0.1)	11.8
Discontinued operations						
Profit after tax (£m)	–	–	–	46.7	–	46.7
Weighted average number of shares (million)	–	–	–	311.1	2.6	313.7
Earnings per share (pence)	–	–	–	15.0	(0.1)	14.9
Total						
Profit after tax (£m)	**47.1**	–	**47.1**	83.6	–	83.6
Weighted average number of shares (million)	**370.8**	**0.6**	**371.4**	311.1	2.6	313.7
Earnings per share (pence)	**12.7**	–	**12.7**	26.9	(0.2)	26.7

The 2005 comparatives have been restated to reflect the impact of the rights issue in the year (see note 25).

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Diluted earnings per share
Diluted earnings per share 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 savings related share options. A calculation is performed to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to the outstanding share options.

There was an issue of 247,848,157 ordinary shares on 14 August as part of a rights issue (fully paid on 8 September 2006). These have been included in determining the weighted average for the current year. (See note 25).

The number of shares used to calculate ordinary earnings per share is compared below with the number of shares that would have been issued assuming the exercise of the share options.

No adjustment is made to earnings in calculating diluted earnings per share.

	2006 Number	2005 Number
Weighted average number of ordinary shares for the purpose of basic earnings per share	**370,819,997**	311,128,713
Effect of dilutive potential ordinary shares:		
– Share options	**597,921**	2,584,281
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**371,417,918**	313,712,994

12. Dividends

	2006 pence	2005 pence
Actual dividends		
Interim dividend	**5.00**	4.75
Bonus interim dividend	**5.50**	–
Final dividend	**2.55**	9.50
Total	**13.05**	14.25
Equivalent dividends		
Interim dividend	**3.95**	3.75
Bonus interim dividend	**5.50**	–
Final dividend	**2.55**	7.50
Total	**12.00**	11.25

The Board proposes a final dividend of 2.55 pence per ordinary share (2005: 9.5 pence) payable on 6 July 2007 to shareholders on the Register of Members at 8 June 2007.

The equivalent dividends represent the amounts appropriate to the shareholders for each share, restated to reflect the bonus element of the rights issue in the year. This equates to an uplift in the number of shares of 26.7% and hence a corresponding reduction in the dividend per share.

13. Property, plant and equipment

	Freehold land and buildings £m	Long leasehold land and buildings £m	Short leasehold land and buildings £m	Vehicles, plant and equipment £m	Total £m
Cost					
At 1 January 2005	62.5	–	–	245.6	308.1
Additions	2.8	–	–	47.0	49.8
Acquisition of subsidiaries/businesses	9.1	2.2	0.6	34.8	46.7
Fair value adjustment	1.3	–	–	(2.1)	(0.8)
Disposal of subsidiaries/businesses	(9.8)	–	–	(45.5)	(55.3)
Other disposals	(2.5)	–	–	(14.4)	(16.9)
At 31 December 2005 (Restated)	63.4	2.2	0.6	265.4	331.6
Additions	3.3	–	–	41.4	44.7
Acquisition of subsidiaries/businesses	16.4	–	0.7	22.4	39.5
Other disposals	(2.7)	–	–	(8.6)	(11.3)
Reclassification	4.6	–	–	(4.5)	0.1
At 31 December 2006	**85.0**	**2.2**	**1.3**	**316.1**	**404.6**
Aggregate depreciation and impairment					
At 1 January 2005	13.8	–	–	153.0	166.8
Depreciation charge for the year	2.1	–	–	16.0	18.1
Disposal of subsidiaries/businesses	(3.7)	–	–	(34.0)	(37.7)
Other disposals	(0.7)	–	–	(11.4)	(12.1)
At 31 December 2005	11.5	–	–	123.6	135.1
Depreciation charge for the year	1.7	0.3	–	17.9	19.9
Other disposals	(1.5)	–	–	(8.1)	(9.6)
Impairment	–	1.9	0.7	1.8	4.4
Reclassification	–	–	–	0.1	0.1
At 31 December 2006	**11.7**	**2.2**	**0.7**	**135.3**	**149.9**
Net book value amount					
At 31 December 2005 (Restated)	51.9	2.2	0.6	141.8	196.5
At 31 December 2006	**73.3**	**–**	**0.6**	**180.8**	**254.7**

The 2005 comparatives have been restated for the final fair value adjustments on the acquisitions of Marlow Foods Holdings Limited and Cauldron Foods Limited totalling a £0.8m reduction.

The net book value of the Group's vehicles, plant and equipment includes an amount of £1.4m (2005: £0.9m) in respect of assets held under finance leases.

At 31 December 2006 the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £10.0m (2005: £5.1m).

The impairment in 2006 of £4.4m relates to the closure of the Cambourne office as a result of the Campbell's integration and the closure of the Portishead site as a result of the Meat-free restructuring. The impairment charge reflects the difference between the carrying value of the assets and the expected recoverable amounts. Recoverable amount has been determined on the basis of value in use. As at 31 December 2006, the rate used to discount the forecasted cash flows was 8.5%.

The Group's borrowings are secured on the assets of the Group.

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14. Goodwill

	2006 £m	2005 (Restated) £m
Cost		
At 1 January	**259.1**	129.4
Acquisition of subsidiaries (note 27)	**217.9**	138.7
Fair value adjustments	**–**	(8.6)
Disposal of subsidiaries/businesses	**–**	(0.4)
At 31 December	**477.0**	259.1

Impairment tests for goodwill

Goodwill acquired in a business combination is allocated by cash-generating unit ("CGU") as follows:

	2006 £m	2005 (Restated) £m
Grocery		
Ambrosia	**54.8**	54.8
Nestlé	**73.6**	73.6
Marlow	**77.5**	77.5
Bird's	**38.4**	38.4
Cauldron	**12.1**	12.1
Gedney's	**2.1**	2.1
Campbell's (note 27)	**217.9**	–
Other	**0.6**	0.6
Net carrying value of goodwill	**477.0**	259.1

Goodwill is tested annually for impairment, or more frequently if there are indications that goodwill may be impaired. Confirmation of the CGUs carrying value is determined based on value in use calculations. The key assumptions for value in use calculations are those relating to discount rates, growth rates and expected changes in selling prices and direct costs during the period. Discount rates are estimated using pre-tax rates based on the weighted average cost of capital ("WACC") of the Group. Given that the products are closely related and share similar risks and rates of return, consistent Group discount rates are used for all CGUs. Changes in selling price and direct costs are based on past practices and expectations of future changes in the market.

All projections are based on information approved by management in respect of the following five years' cash flows.

Assumptions are based upon events in prior periods as adjusted for expected developments in the following year with reference to market conditions. All turnover and costs are taken into account and an estimate of capital expenditure required to maintain these cash flows is also made. As at 31 December 2006 the pre-tax rate used to discount the forecasted cash flows was 8.5% (2005: 7.75%).

Goodwill of £217.9m has arisen on the acquisition of Campbell's. This represents future sales growth as well as commercial and cost synergies to be achieved by the integration of administrative and marketing functions, savings due to increased scale, own label contracts and the providing of opportunities for category extension and new product launches.

There were no impairments resulting from the reviews performed in 2005 or 2006.

£13.5m of goodwill attributable to Cauldron has been re-classified to other intangible assets (see note 15), less £4.1m taken to deferred tax, and a further £0.3m has been taken to goodwill for final fair value adjustments to the opening balance sheet. Goodwill for Marlow has increased by £0.6m as a result of the final fair value exercise.

15. Other intangible assets

	Software 2006 £m	Brands/ Trademarks 2006 £m	Total 2006 £m	Software 2005 £m	Brands/ Trademarks 2005 (Restated) £m	Total 2005 (Restated) £m
Cost						
At 1 January	**4.9**	**171.7**	**176.6**	3.7	55.3	59.0
Additions	**12.3**	**–**	**12.3**	1.0	–	1.0
Fair-value adjustment	**–**	**–**	**–**	–	13.5	13.5
Acquisition of subsidiaries/businesses	**1.4**	**222.0**	**223.4**	0.2	110.2	110.4
Disposals	**(0.1)**	**–**	**(0.1)**	–	–	–
Disposal of subsidiaries/businesses	**–**	**–**	**–**	–	(7.3)	(7.3)
Re-classifications	**(0.2)**	**–**	**(0.2)**	–	–	–
At 31 December	**18.3**	**393.7**	**412.0**	4.9	171.7	176.6
Amortisation						
At 1 January	**2.0**	**9.6**	**11.6**	1.2	5.2	6.4
Charge for the year	**1.3**	**9.7**	**11.0**	0.8	5.8	6.6
Impairments	**0.1**	**–**	**0.1**	–	–	–
Disposal	**(0.1)**	**–**	**(0.1)**	–	–	–
Disposal of subsidiaries/businesses	**–**	**–**	**–**	–	(1.4)	(1.4)
Re-classifications	**(0.2)**	**–**	**(0.2)**	–	–	–
At 31 December	**3.1**	**19.3**	**22.4**	2.0	9.6	11.6
Net book value 31 December	**15.2**	**374.4**	**389.6**	2.9	162.1	165.0

Brands and Trademarks are considered to have finite useful lives and are amortised on a straight-line basis over their estimated useful lives of 20 to 40 years. Software is amortised on a straight-line basis over its estimated useful life of 3 to 15 years.

Contained within brands are values attributed to the fair value adjustment in relation to Cauldron Foods and the acquisition of Campbell's. The fair values of intangible assets at acquisition for these brands were £13.5m and £222.0m respectively. The remaining periods of amortisation for these assets are 20 years for Cauldron and between 20 and 40 years for the Campbell's brands. There is no restriction to title for any of the intangible assets carried by the Group.

The material Brands held on the balance sheet are Oxo of £109.0m (estimated useful life remaining of 39.5 years), Batchelors of £95.8m (estimated useful life remaining of 29.5 years), and Quorn of £75.8m (estimated useful life remaining of 28.5 years).

Included in the additions above are £1.5m of internally generated capitalised software costs.

16. Investments

	2006 £m	2005 £m
Unlisted investments		
At 1 January	**0.1**	0.1
Amortisation of debentures	**(0.1)**	–
At 31 December	**–**	0.1

The investments included above represent investments in unlisted equity securities and debentures which have no fixed maturity or coupon rate.

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Principal subsidiaries

Name of Subsidiary	Country of incorporation or registration and principal operations	Principal activity	Effective interest in ordinary share capital at 31 December 2006	Effective interest in ordinary share capital at 31 December 2005
Operating subsidiaries				
Chivers Hartley Limited	United Kingdom	Spreads and pickles manufacturing	100%	100%
H.L. Foods Limited	United Kingdom	Food canning and processing	100%	100%
MBM Produce Limited	United Kingdom	Potato processing and grading	100%	100%
Premier Ambient Products (UK) Limited	United Kingdom	Spreads, pickles, vinegar, jelly and desserts manufacturing	100%	100%
Premier International Foods UK Limited	United Kingdom	Hot and cold beverages manufacturing	100%	100%
Marlow Foods Holding Limited	United Kingdom	Meat-free manufacturing	100%	100%
Monument (GB) Limited	United Kingdom	Fresh fruit and vegetables supply and distribution	100%	100%
Cauldron Foods Limited	United Kingdom	Meat-free manufacturing	100%	100%
Premier Grocery Products Limited	United Kingdom	Manufacture and distribution of soups, meat and other food products	100%	–
Premier Grocery Products Ireland Limited	Republic of Ireland	Manufacture and distribution of soups, meat and other food products	100%	–
Other subsidiaries				
Premier Brands Foods Limited	United Kingdom	Intermediate holding company	100%	100%
Premier Financing Limited	United Kingdom	Intermediate holding company	100%	100%
Premier Foods (Holdings) Limited	United Kingdom	Intermediate holding company	100%	100%
Premier Foods Investments Limited	United Kingdom	Financing company	100%	100%
Premier Foods Investments No. 1 Limited	United Kingdom	Intermediate holding company	100%	100%
Premier Foods Investments No. 2 Limited	United Kingdom	Intermediate holding company	100%	100%
Premier Foods Investments No. 3 Limited	United Kingdom	Intermediate holding company	100%	100%

Premier Foods Investments No. 3 Limited is a direct wholly owned subsidiary undertaking of Premier Foods plc. All other subsidiary undertakings are held indirectly by Premier Foods plc.

Each of the principal subsidiary undertakings have the same year-end as Premier Foods plc, except for Premier Grocery Products Limited and Premier Grocery Products Ireland Limited, which have a year-end of 31 July. It is our intention to change the reporting date of these subsidiaries to coincide with the Group's year-end. Each of the companies above has been included in the Group consolidation. The companies listed above are those that materially affect the results and the assets of the Group. A full list of subsidiary undertakings is available from the Company Secretary.

17. Inventories

	2006 £m	2005 £m
Raw materials	**40.7**	30.7
Work in progress	**2.7**	1.8
Finished goods and goods for resale	**77.2**	57.3
Inventories	**120.6**	89.8

The borrowings of the Group are secured against all the assets of the Group, which includes inventory.

18. Trade and other receivables

	2006 £m	2005 £m
Trade receivables	**144.5**	106.7
Prepayments	**7.2**	4.6
Interest receivable	**1.7**	1.7
Other tax and social security receivable	**9.4**	6.3
Other receivables	**7.8**	17.0
Trade and other receivables	**170.6**	136.3

19. Trade and other payables

	2006 £m	2005 £m
Trade payables	**127.9**	130.1
Other tax and social security payable	**2.1**	4.4
Other payables	**32.9**	21.2
Accruals	**15.0**	11.1
Trade and other payables	**177.9**	166.8

20. Bank and other borrowings

	2006 £m	2005 £m
Due within one year:		
Secured Senior Credit Facility – Term A (note a)	**40.0**	–
Debt issuance costs	**(0.7)**	–
	39.3	–
Secured Senior Credit Facility – Revolving (note a)	**87.0**	–
Debt issuance costs	**(0.6)**	–
	86.4	–
Secured Senior Credit Facility – Term (note b)	**–**	25.0
Debt issuance costs	**–**	(0.6)
	–	24.4
Secured Senior Credit Facility – Revolving (note b)	**–**	11.0
Debt issuance costs	**–**	(0.6)
	–	10.4
Bank overdrafts	**5.3**	0.8
Total bank borrowings due within one year	**131.0**	35.6
Finance lease obligations (note 21)	**0.5**	0.3
Total borrowings due within one year	**131.5**	35.9
Due after more than one year:		
Secured Senior Credit Facility – Term A (note a)	**260.0**	–
Debt issuance costs	**(1.1)**	–
	258.9	–
Secured Senior Credit Facility – Revolving (note a)	**259.0**	–
Debt issuance costs	**(1.4)**	–
	257.6	–
Secured Senior Credit Facility – Term (note b)	**–**	300.0
Debt issuance costs	**–**	(1.4)
	–	298.6
Secured Senior Credit Facility – Revolving (note b)	**–**	249.0
Debt issuance costs	**–**	(2.2)
	–	246.8
Finance lease obligations (note 21)	**1.1**	0.6
Other unsecured loans	**0.1**	0.1
Total other	**1.2**	0.7
Total borrowings due after one year	**517.7**	546.1
Loan notes due 2008 (note c)	**–**	4.1
Total bank and other borrowings	**649.2**	586.1

The Group's borrowings are denominated in pounds sterling. The borrowings are secured by a floating charge over all assets of the Group.

Cash and bank deposits and short-term borrowings included in the balance sheet reflect the anticipated level at which the Group will offset cash and overdrafts and 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 – 2006
On 14 August 2006, the Group entered into an amended and restated £1,085.0m term and revolving credit facility. This was arranged by BNP Paribas, J.P. Morgan plc, 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 comprises £325.0m Term A facilities and £200.0m Term B facilities. The Revolving Credit Facility is a multi-currency revolving credit facility of up to £560.0m (or its equivalent in other currencies). The final maturity date of the above arrangements is 6 June 2010.

In addition the Group entered into a £450.0m bridging loan facility with ABN AMRO Bank N.V. and Merrill Lynch International on 12 July 2006 which was settled on 13 September 2006.

(b) Senior Term Credit Facility and Revolving Credit Facility Arrangement – 2005
On 14 August 2006, the Senior Term Credit Facility and Revolving Credit Facility were replaced by a combination of the Term A facility, Term B facility and the Revolving facility noted above.

(c) Loan notes – 2008
As part of the acquisition arrangement of Marlow Foods Holdings Limited on 6 June 2005, the Group entered into deferred consideration arrangements with certain individuals. This resulted in loan notes being issued to the Group. The loan notes were fully repaid during the year.

21. Financial instruments
The Group is subject to the risks arising from adverse movements in interest rates and foreign currency. The Group uses a variety of derivative financial instruments to manage these risks. The management of these risks, along with the day-to-day managing of treasury activities is performed by the Group's Treasury function. The policy framework governing the managing of these risks is defined by the Treasury Committee which itself is a sub-committee of the Board appointed by the directors. The framework for management of these risks is incorporated into a policies and procedures manual.

The Group also enters into contracts with suppliers for its principal raw material requirements, some of which are considered commodities. These contracts are part of the Group's normal purchasing activities and always result in receipt of raw materials, and are not accounted for as derivatives under IAS 39, "Financial Instruments: Recognition and Measurement".

Fair value
The fair value of financial instruments traded in active markets (such as publicly traded derivatives) is based on quoted market prices at the balance sheet date. The fair value of interest-rate swaps and foreign currency forward contracts is estimated by calculating the present value using quoted market prices at the balance sheet date. The fair value of foreign exchange option contracts is determined using forward exchange market rates at the balance sheet date using the Garman Kohlhagen model. Where the model is unable to revalue the options, valuations are sought from reliable, independent, third parties.

For the purposes of valuing trade and other receivables, cash and cash equivalents, trade and other payables, the amounts, paid, payable, received or receivable are assumed to approximate fair value. For retirement benefit obligations, the measurement of liabilities is defined and related assets are stated at market (bid) value. For disclosure purposes the fair value of financial liabilities is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

Market risk
Foreign exchange risk
The Group's functional and presentation currency is pounds sterling although some transactions are executed in non-sterling currencies. The transactional amounts realised or settled are therefore subject to the effect of movements in these currencies against sterling. Management of these exposures is centralised and managed by the Group's Treasury function. It is the Group's policy to manage the exposures arising using forward foreign currency exchange contracts and currency options. Hedge accounting is not sought for these transactions.

Although the Group generates some of its profits in non-sterling currencies and has assets in non-sterling jurisdictions, the translation exposure resulting from these profits and overseas net assets is not considered material and is currently not hedged. This matter is reviewed from time to time by the Treasury Committee.

Price risk
The Group is not exposed to any significant equity or commodity price risks.

Credit risk
The Group's principal financial assets are cash and cash deposits, trade and other receivables and investments.

The Group has no significant concentrations of credit risk. Cash and cash equivalents are deposited with high-credit quality financial institutions, and trade receivables are due principally from major grocery retailers (though it is the Group's policy to insure trade debt). Where available the Group has taken steps to mitigate credit risk by entering into master netting agreements such as ISDA agreements. As permitted by IAS 32, where management have the legal right of offset and the ability and intention to settle such balances net, the assets and liabilities are netted within the balance sheet. The maximum credit risk exposure of the Group's financial assets at 31 December 2006 is represented by the amounts reported under the corresponding balance sheet headings.

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Liquidity risk
The Group has negotiated facilities with its bankers that provide sufficient headroom to ensure liquidity and continuity of funding. It has adequate un-drawn banking facilities and reserve borrowing capacity. The Group experiences fluctuations in its short-term borrowing position due to seasonal factors; however, available revolving credit facilities are sufficient to meet the projected peak borrowing requirements.

Cash flow and interest rate risk
The Group borrows in pounds sterling at floating rates of interest and seeks to mitigate the effect of adverse movements in interest rates by entering into derivative financial instruments that reduce the level of exposure to floating rates. The Group actively monitors its interest rate exposure, since the high level of debt makes its profitability sensitive to movements in interest rates. The level of fixed/capped debt is defined in the Group Treasury policy and procedures. The Group will maintain a fixed/capped ratio of no less than 30% and no more than 75%. Hedge accounting has not been adopted for interest rate swaps.

Interest rate risk profile of financial assets and liabilities
The interest rate risk profile of the Group's non-derivative financial assets and liabilities as at 31 December after taking account of the interest rate swaps used to manage the interest and currency profile was:

	Floating rate £m	Fixed rate £m	Total £m
2006			
Financial assets	**7.8**	**–**	**7.8**
Financial liabilities	**(250.5)**	**(398.7)**	**(649.2)**
2005			
Financial assets	14.0	–	14.0
Financial liabilities	(296.1)	(290.0)	(586.1)

The financial assets comprise cash and deposits, which have maturities of less than one year and earn interest based on the treasury deposit rates quoted from banks.

Short-term trade and other receivables and payables have been excluded from the interest rate risk analysis as they are interest-free and are short-term in nature.

In addition, the Group's provisions of £8.2m as at 31 December 2006 (2005: £1.0m) for retructuring and other liabilities were considered to be floating rate financial liabilities. These cash flows are discounted where the effect is material.

Fixed rate financial liabilities

	Weighted average interest rate %	Weighted average period for which rate is fixed in years
Currency sterling		
At 31 December 2006	**4.8**	**2.6**
At 31 December 2005	4.7	3.5

The weighted average interest rates for fixed rate liabilities exclude the borrowing margin as the derivative instruments used to fix the interest rates (ie. swaps) are not allocated specifically against individual facilities. The pricing basis for all floating rate borrowings is LIBOR as adjusted by agreed interest margins. If default occurs (such as a breach of financial covenant) the interest margin will immediately rise to 1.20% until the default has been corrected. The analysis of weighted average interest rates and years to maturity on fixed rate debt is presented after adjusting for interest rate swaps. Exposure to movements in interest rates and years to maturity on fixed rate debt is also presented after adjusting for interest rate swaps.

The floating rates applicable to interest rate swaps are reset quarterly based on the prevailing market rate at the reset date. The interest rate swaps are scheduled to mature on 19 November 2007 (£165m) and 30 September 2009 (£234m). Also, a new swap commences on 19 November 2007 (£140m) and is scheduled to mature on 30 September 2009. Interest under these swaps is payable at fixed interest rates varying from 4.5% to 4.9% per annum.

Maturity of financial liabilities

The maturity of the Group's non-derivative financial liabilities is presented in the table below. They are not re-priced before maturity except for the Bank Term Loan and the Bank Revolver Facility which are re-priced quarterly.

	Within 1 year £m	1 and 2 years £m	2 and 3 years £m	3 and 4 years £m	4 and 5 years £m	Over 5 years £m	Total £m
At 31 December 2006							
Bank Term Loan	**40.0**	**55.0**	**60.0**	**145.0**	**–**	**–**	**300.0**
Bank Revolver Facility (Drawn down)	**87.0**	**–**	**–**	**259.0**	**–**	**–**	**346.0**
Bank overdraft	**5.3**	**–**	**–**	**–**	**–**	**–**	**5.3**
Debt issuance costs	**(1.3)**	**(1.1)**	**(1.0)**	**(0.4)**	**–**	**–**	**(3.8)**
Finance leases	**0.5**	**0.3**	**0.3**	**0.2**	**0.1**	**0.2**	**1.6**
Other	**–**	**–**	**–**	**0.1**	**–**	**–**	**0.1**
Total debt	**131.5**	**54.2**	**59.3**	**403.9**	**0.1**	**0.2**	**649.2**
At 31 December 2005							
Bank Term Loan	25.0	40.0	55.0	60.0	145.0	–	325.0
Bank Revolver Facility (Drawn down)	11.0	–	–	–	249.0	–	260.0
Bank overdraft	0.8	–	–	–	–	–	0.8
Debt issuance costs	(1.2)	(1.2)	(1.1)	(1.0)	(0.3)	–	(4.8)
Finance leases	0.3	0.3	0.1	0.1	0.1	–	0.9
Loan notes	–	–	4.1	–	–	–	4.1
Other	–	–	–	–	0.1	–	0.1
Total debt	35.9	39.1	58.1	59.1	393.9	–	586.1

Currency exposures

Cash and deposits are held in various currencies as follows:

	2006 £m	2005 £m
Cash at bank and in hand		
Currency		
Sterling	**3.2**	7.7
Euro	**2.1**	5.6
US dollar	**2.1**	0.3
Other	**0.4**	0.4
	7.8	14.0

The table on page 90 shows the Group's currency exposures as at 31 December 2006 and 2005 that gave rise to net currency gains and losses recognised in the consolidated income statement. Such exposures comprise monetary assets and liabilities that are not denominated in the functional currency of the subsidiaries involved.

The amounts shown on page 90 are after taking into account the effect of forward foreign currency exchange contracts and other derivative instruments entered into to manage these exposures. The nominal value of these forward foreign currency exchange contracts and other derivative instruments totals £97.4m in sterling.

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	Functional currency of the subsidiaries		
	Sterling £m	Euro £m	Total £m
At 31 December 2006			
Net foreign currency monetary assets			
Sterling	**–**	**0.2**	**0.2**
Euro	**4.2**	**–**	**4.2**
US dollar	**2.0**	**–**	**2.0**
Other currencies	**0.8**	**–**	**0.8**
Total	**7.0**	**0.2**	**7.2**
At 31 December 2005			
Net foreign currency monetary assets			
Sterling	–	–	–
Euro	7.3	–	7.3
US dollar	0.8	–	0.8
Other currencies	0.5	–	0.5
Total	8.6	–	8.6

Borrowing facilities
The Group has the following borrowing facilities available during the year, not drawn as at 31 December:

	2006 £m	2005 £m
Expiring in 3-4 years	**404.2**	186.8

The un-drawn facilities form part of the Group's overall working capital lines. The drawn down amounts are subject to interest at floating rates, and to any hedge overlay, and are committed until 6 June 2010.

Fair values of financial assets and financial liabilities
The following table provides a comparison by category of the carrying amounts and the fair values of the Group's financial assets and financial liabilities. Fair value is the amount at which a financial instrument could be exchanged in an arm's length transaction between informed and willing parties, other than a forced or liquidation sale and excludes accrued interest. Set out below the table is a summary of methods and assumptions used for each category of financial instruments.

	2006		2005 (Restated)	
	Carrying amount £m	Fair value £m	Carrying amount £m	Fair value £m
Primary financial instruments held or issued to finance the Group's operations:				
Assets				
Trade and other receivables	**154.0**	**154.0**	125.4	125.4
Derivative financial instruments				
– Forward foreign currency exchange contracts/currency options	**0.8**	**0.8**	0.9	0.9
– Interest rate swaps	**6.1**	**6.1**	0.4	0.4
Cash and cash equivalents	**7.8**	**7.8**	14.0	14.0
Liabilities				
Trade and other payables	**(175.8)**	**(175.8)**	(162.4)	(162.4)
Provisions	**(8.2)**	**(8.2)**	(1.0)	(1.0)
Bank Term Loan	**(298.2)**	**(298.2)**	(323.0)	(323.0)
Bank Revolver Facility (Drawn down)	**(344.0)**	**(344.0)**	(257.2)	(257.2)
Bank overdraft	**(5.3)**	**(5.3)**	(0.8)	(0.8)
Finance leases	**(1.6)**	**(1.6)**	(0.9)	(0.9)
Loan notes	**–**	**–**	(4.1)	(4.1)
Other	**(0.1)**	**(0.1)**	(0.1)	(0.1)
Derivative financial instruments				
– Forward foreign currency exchange contracts/currency options	**(3.5)**	**(3.5)**	(0.1)	(0.1)
– Interest rate swaps	**–**	**–**	(1.4)	(1.4)
Interest payable	**(3.7)**	**(3.7)**	(2.0)	(2.0)

Prior year disclosures have been restated to reflect minor amendments.

Fair value estimation

Derivatives

Foreign exchange contracts are marked to market using prevailing market prices. Hedge accounting has not been applied to options and forward contracts and as a result the movement in the fair value of £3.5m has been charged to the income statement in the year (2005: £0.9m credit). Interest rate swaps are marked to market using prevailing market prices. Interest rate swaps are also not designated for hedge accounting. As a result the movement in the fair value of £7.1m has been credited to the income statement in the year (2005: £1.1m charge).

Short and Long-Term Borrowings, and Interest Payable

Fair value is calculated based on discounted future cash flows.

Finance Lease Liabilities

The fair value is estimated as the present value of future cash flows, discounted at market interest rates for homogeneous lease agreements.

Trade and Other Receivables/Payables

The carrying value of receivables/payables with a remaining life of less than one year is deemed to reflect the fair value given their short maturity. The fair value of non-current receivables/payables are also considered to be the same as the carrying value due to the size and nature of the balances involved.

Obligations under finance leases

	Minimum lease payments		Present value of minimum lease payments	
	2006 £m	2005 £m	2006 £m	2005 £m
Not later than one year	**0.6**	0.3	**0.5**	0.3
Later than one year but not later than five years	**1.1**	0.7	**0.9**	0.6
Later than five years	**0.3**	–	**0.2**	–
	2.0	1.0	**1.6**	0.9
Less: future finance charges	**(0.4)**	(0.1)	**N/a**	N/a
Present value of lease obligations	**1.6**	0.9	**1.6**	0.9
Less: Amount due for settlement within 12 months			**(0.5)**	(0.3)
Amounts due for settlement after 12 months			**1.1**	0.6

It is the Group's policy to lease certain items of plant and equipment under finance leases. The average lease term is 3 years, the longest being 10 years. For the year end 31 December 2006, the average effective borrowing rate was 6.5%. Interest rates are fixed at the contract date, and thus expose the Group to fair value interest rate risk. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

The fair value of the Group's lease obligations approximates their carrying value. The Group's obligations under finance leases are secured by the lessor's title to the leased assets.

22. Deferred Tax

Deferred tax is calculated in full on temporary differences under the liability method using the tax rate appropriate to the jurisdiction in which the (asset)/liability arises. In all cases this is 30% except for an asset of £0.1m relating to Irish retirement benefit obligations where the local rate of 12.5% has been used.

	2006 £m	2005 (Restated) £m
At 1 January	**19.1**	(11.7)
Charged to the income statement for continuing operations	**11.9**	2.4
Debited/(credited) to equity	**3.6**	(6.1)
Balance sheet reclassification	**–**	0.2
Disposal of subsidiaries/businesses	**–**	(1.6)
Acquisition of subsidiaries/businesses (note 27)	**(2.5)**	35.9
At 31 December	**32.1**	19.1

Due to the unpredictability of future profit streams the Group did not recognise deferred tax assets of £26.0m (2005: £26.6m) relating to capital losses, £9.5m (2005: £11.5m) relating to UK corporation tax losses, £1.1m Irish corporate tax losses and £34.8m relating to ACT. These losses can be carried forward indefinitely under current legislation.

Deferred tax liabilities

	Accelerated tax depreciation £m	Intangibles £m	Other £m	Total £m
At 1 January 2005	8.9	3.9	–	12.8
Charged to the income statement	1.8	1.4	–	3.2
Disposal of subsidiaries/businesses	–	(2.0)	–	(2.0)
Acquisition of subsidiaries/businesses	7.9	28.0	–	35.9
At 31 December 2005 (Restated)	18.6	31.3	–	49.9
Charged to the income statement	5.7	1.0	–	6.7
Acquisition of subsidiaries/businesses	5.2	–	–	5.2
At 31 December 2006	**29.5**	**32.3**	**–**	**61.8**

Deferred tax assets

	Retirement benefit obligations £m	Pension payment relief £m	Share based payments £m	Other £m	Total £m
At 1 January 2005	(19.5)	(2.3)	–	(2.7)	(24.5)
Credited to the income statement	(0.1)	0.9	(0.3)	(1.3)	(0.8)
Credited to equity	(6.1)	–	–	–	(6.1)
Balance sheet reclassification	–	–	–	0.2	0.2
Disposal of subsidiaries/businesses	0.4	–	–	–	0.4
At 31 December 2005	(25.3)	(1.4)	(0.3)	(3.8)	(30.8)
Charged/(credited) to the income statement	2.6	0.8	(0.7)	2.5	5.2
Debited/(credited) to equity	5.1	–	(1.5)	–	3.6
Acquisition/disposal of subsidiaries/businesses	(7.7)	–	–	–	(7.7)
At 31 December 2006	**(25.3)**	**(0.6)**	**(2.5)**	**(1.3)**	**(29.7)**

Net deferred tax liability

	£m
At 31 December 2006	**32.1**
At 31 December 2005 (Restated)	19.1

Where there is a legal right of offset and an intention to settle as such, deferred assets and liabilities may be presented on a net basis. This is the case for most of the Group's deferred tax balances and therefore they have been offset in the tables above. Substantial elements of the Group's deferred tax assets and liabilities, primarily relating to defined benefit pension obligations, are greater than one year in nature.

23. Provisions for liabilities and charges

	Restructuring £m	Other £m	Total £m
At 1 January 2005	2.5	0.4	2.9
Additional charge in year	4.0	–	4.0
Utilised during the year	(5.9)	–	(5.9)
At 31 December 2005 (Restated)	0.6	0.4	1.0
Utilised during the year	(0.6)	–	(0.6)
Additional charge in year	6.7	1.1	7.8
At 31 December 2006	**6.7**	**1.5**	**8.2**

			2006 £m
Analysis of total provisions:			
Current	**6.7**	**1.0**	**7.7**
Non-current	**–**	**0.5**	**0.5**
	6.7	**1.5**	**8.2**

			2005 (Restated) £m
Analysis of total provisions:			
Current	0.6	–	0.6
Non-current	–	0.4	0.4
	0.6	0.4	1.0

At 31 December 2006 restructuring provisions have been raised in respect of the restructuring of the Group's Meat-free operations, integration costs relating to Campbell's, and other redundancies. It is anticipated that these provisions will be utilised in 2007.

Other provisions relate to dilapidations, share based payments, and provisions for potential claims within Campbell's.

The 2005 amounts recorded reflected planned restructuring of the Group's Fresh Produce business which were fully utilised during the year.

24. Retirement benefit schemes

Defined Benefit Schemes

Most Group companies participate in the Premier Foods Pension Scheme (the "PFPS"), the principal funded defined benefit scheme operated by the Group. The Group also operates a smaller funded defined benefit scheme, the Premier Ambient Products Pension Scheme (the "PAPPS") for employees in the Ambrosia business. Under the schemes, employees are entitled to retirement benefits which vary as a percentage of final salary on retirement. No unfunded post-retirement benefits exist.

In addition, on 14 August 2006 the Group inherited two further funded defined benefit pension schemes as a result of the acquisition of Campbell's, the Premier Grocery Products Pension Scheme ("PGPPS") for the UK business, and the Premier Grocery Products Ireland Pension Scheme ("PGPIPS") for the Irish business. The exchange rates used to translate the Campbell's Ireland scheme (which is denominated in Euros) are 1.4817 for the opening position at 14 August 2006, 1.4832 for the average rate during the year, and 1.493 for the closing position at 31 December 2006.

The assets of all four 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 comprising a broader range of assets.

For the purposes of these financial statements, pension costs presented are calculated by independent, qualified actuaries using the projected unit credit method. The results for PFPS and PAPPS and the results for PGPPS and PGPIPS are combined on page 94.

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At the balance sheet date, the principal actuarial assumptions used were as follows:

	PFPS & PAPPS % 2006	PGPPS % 2006	PGPIPS % 2006
Discount rate	**5.20**	**5.20**	**5.20**
Inflation	**3.00**	**3.00**	**3.00**
Expected salary increases	**4.00**	**4.00**	**4.00**
Future pension increases	**3.00**	**3.00**	**3.00**
Average expected remaining life of a 65 year old male (years)			
– Future service	**18**	**17**	**19**
– Past service	**15**	**17**	**19**

	2005	14 August 2006	14 August 2006
Discount rate	5.00	**5.50**	**5.50**
Inflation	2.75	**2.75**	**2.75**
Expected salary increases	3.75	**3.75**	**3.75**
Future pension increases	2.75	**2.75**	**2.75**
Average expected remaining life of a 65 year old male (years)			
– Future service	18	**17**	**19**
– Past service	15	**17**	**19**

The mortality assumption used is slightly below the national average because it reflects the socio-economic profile of the membership and the schemes' actual and anticipated mortality experience.

The fair values of plan assets and the expected rates of return on assets were:

	Expected rate of return 2006 %	Market value 2006 £m	Expected rate of return 2005 %	Market value 2005 £m
PFPS & PAPPS				
UBS Global Asset Management	**7.80**	**177.2**	8.00	160.8
Insight	**7.00**	**65.3**	6.75	66.0
Merrill Lynch	**8.00**	**112.3**	7.75	103.8
Cash and other	**5.00**	**1.7**	4.50	3.9
Total	**7.70**	**356.5**	7.63	334.5
PGPPS & PGPIPS				
Equities	**7.93**	**75.1**	–	–
Bonds	**5.31**	**33.3**	–	–
Cash and other	**6.32**	**0.8**	–	–
Total	**7.12**	**109.2**	–	–

At 31 December 2006 the actual distribution of assets held within the targeted return investments was:

		2006			2005	
	Cash £m	Equities £m	Total £m	Cash £m	Equities £m	Total £m
UBS Global Asset Management	**12.6**	**164.6**	**177.2**	–	160.8	160.8
Insight targeted return	**65.3**	**–**	**65.3**	66.0	–	66.0
Merrill Lynch targeted return	**70.4**	**41.9**	**112.3**	60.2	43.6	103.8

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. In 2006, the expected return was calculated using the equity return and targeted investment return assumptions of 8.0%, 6.75% and 7.75% respectively.

The actual rate of return on plan assets was 9.8% (2005: 13.4%) for PFPS and PAPPS, and 7.0% for PGPPS and PGPIPS. 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 amounts recognised in the balance sheet arising from the Group's obligations in respect of its defined benefit schemes is as follows:

	PFPS & PAPPS £m	PGPPS & PGPIPS £m	Total £m
2006			
Present value of funded obligations	(411.7)	(138.7)	(550.4)
Fair value of plan assets	356.5	109.2	465.7
Deficit in scheme	**(55.2)**	**(29.5)**	**(84.7)**
2005			
Present value of funded obligations	(418.9)	–	(418.9)
Fair value of plan assets	334.5	–	334.5
Deficit in scheme	(84.4)	–	(84.4)
2004			
Present value of funded obligations	(368.3)	–	(368.3)
Fair value of plan assets	303.2	–	303.2
Deficit in scheme	(65.1)	–	(65.1)

The 2005 net liability of £84.4m comprises a liability of £84.5m and an asset of £0.1m.

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

	PFPS & PAPPS £m	PGPPS & PGPIPS £m	Total £m
2005			
Opening defined benefit obligation	(368.3)	–	(368.3)
Current service cost	(4.3)	–	(4.3)
Interest cost	(20.0)	–	(20.0)
Actuarial losses	(43.7)	–	(43.7)
Curtailments	1.2	–	1.2
Contributions by plan participants	(2.1)	–	(2.1)
Benefits paid	18.3	–	18.3
Closing defined benefit obligation	(418.9)	–	(418.9)
2006			
Opening defined benefit obligation	(418.9)	–	(418.9)
Acquisition of subsidiary undertaking	–	(124.7)	(124.7)
Current service cost	(6.1)	(1.1)	(7.2)
Past service cost	–	(0.1)	(0.1)
Interest cost	(20.7)	(2.6)	(23.3)
Actuarial gain/(losses)	16.5	(12.1)	4.4
Curtailments	–	0.9	0.9
Contributions by plan participants	(2.2)	(0.5)	(2.7)
Benefits paid	19.7	1.5	21.2
Closing defined benefit obligation	**(411.7)**	**(138.7)**	**(550.4)**

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Changes in the fair value of plan assets were as follows:

	PFPS & PAPPS £m	PGPPS & PGPIPS £m	Total £m
2005			
Opening fair value of plan assets	303.2	–	303.2
Expected return	23.4	–	23.4
Administrative and life insurance costs	(1.2)	–	(1.2)
Actuarial gains	17.8	–	17.8
Contributions by employer	7.5	–	7.5
Contributions by plan participants	2.1	–	2.1
Benefits paid	(18.3)	–	(18.3)
Closing fair value of plan assets	334.5	–	334.5
2006			
Opening fair value of plan assets	334.5	–	334.5
Acquisition of subsidiary undertaking	–	99.2	99.2
Expected return	25.2	2.8	28.0
Administrative and life insurance costs	(1.4)	–	(1.4)
Actuarial gains	7.6	4.1	11.7
Contributions by employer	8.1	4.1	12.2
Contributions by plan participants	2.2	0.5	2.7
Benefits paid	(19.7)	(1.5)	(21.2)
Closing fair value of plan assets	**356.5**	**109.2**	**465.7**

The history of the plan for the current and prior period is as follows:

	PFPS & PAPPS £m	PGPPS & PGPIPS £m	Total £m
2006			
Actuarial adjustments on plan liabilities	16.5	(12.1)	4.4
Actuarial adjustments on plan assets	7.6	4.1	11.7
Net actuarial gain/(loss) for period	24.1	(8.0)	16.1
Cumulative actuarial loss	**(57.8)**	**(8.0)**	**(65.8)**
2005			
Actuarial adjustments on plan liabilities	(43.7)	–	(43.7)
Actuarial adjustments on plan assets	17.8	–	17.8
Net actuarial loss for period	(25.9)	–	(25.9)
Cumulative actuarial loss	(81.9)	–	(81.9)
2004			
Actuarial adjustments on plan liabilities	(65.8)	–	(65.8)
Actuarial adjustments on plan assets	9.8	–	9.8
Net actuarial loss for period	(56.0)	–	(56.0)
Cumulative actuarial loss	–	–	–

In accordance with the transitional provisions in the amendment to IAS 19 "Employee Benefits" in December 2004, the disclosures above are determined prospectively from the 2004 reporting period.

The actual return on plan assets was £39.7m (2005: £41.2m), which is £11.7m more than the expected return on plan assets of £28.0m at the start of the relevant periods.

The actuarial gain on liabilities of £4.4m (2005: £43.7m loss) comprises a gain on member experience of £14.2m and a worsening of the expected liabilities due to changes in assumptions of £9.8m.

The net actuarial gains taken to the statement of recognised income and expense were £16.1m (2005: £25.9m loss). These were £11.0m (2005: £18.2m loss) net of taxation (with tax at 30% for PFPS, PAPPS, and PGPPS, and 12.5% on PGPIPS).

The Group expects to contribute approximately £20.3m to its defined benefit plans in 2007, £6.3m of regular contributions, £6.9m of additional contributions to fund the scheme deficits, and a further one-off contribution of £7.1m to the PGPPS & PGPIPS schemes relating to the acquisition of Campbell's.

The amounts recognised in the income statement are as follows:

	PFPS & PAPPS £m	PGPPS & PGPIPS £m	Total £m
2006			
Current service cost	(6.1)	(1.1)	(7.2)
Past service cost	–	(0.1)	(0.1)
Administrative and life insurance costs	(1.4)	–	(1.4)
Interest cost	(20.7)	(2.6)	(23.3)
Expected return on plan assets	25.2	2.8	28.0
Gains on curtailment	–	0.9	0.9
Total expense	**(3.0)**	**(0.1)**	**(3.1)**
2005			
Current service cost	(4.3)	–	(4.3)
Administrative and life insurance costs	(1.2)	–	(1.2)
Interest cost	(20.0)	–	(20.0)
Expected return on plan assets	23.4	–	23.4
Gains on curtailment	1.2	–	1.2
Total expense	(0.9)	–	(0.9)

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 (2005: £0.9m) 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.

25. Share Capital

	2006 £m	2005 £m
Authorised		
1,000,000,000 (2005: 332,113,095) ordinary shares of 1 pence each	10.0	3.3
Issued and fully paid		
495,698,727 (2005: 247,841,161) ordinary shares of 1 pence each	5.0	2.5

2006
On 14 August 2006, Premier Foods plc issued 247,848,157 new 1 pence ordinary shares for 185 pence, in a one for one Rights Issue of existing ordinary shares (resulting in net proceeds of £441.6m after fees) including:

(i) 230,709 1 pence ordinary shares were issued to Mr Schofield, an executive director as part of the Rights Issue, and were fully paid up;
(ii) 124,070 1 pence ordinary shares were issued to Mr Thomas, an executive director as part of the Rights Issue, and were fully paid up;
(iii) 211,742 1 pence ordinary shares were issued to certain key employees as part of the Rights Issue and were fully paid up.

During the year, 9,409 1 pence ordinary shares were issued to certain employees at a premium of between 230 and 182 pence per ordinary share upon the exercise of share options and were fully paid up.

Significant events during 2005
On 13 October 2005, Premier Foods plc issued 2,951,045 1 pence ordinary shares upon the exercise of share options as follows:

(i) 1,416,374 1 pence ordinary shares were issued to Mr Schofield, an executive director, and were fully paid up;
(ii) 575,502 1 pence ordinary shares were issued to Mr Thomas, an executive director, and were fully paid up;
(iii) 959,169 1 pence ordinary share were issued to key employees of the Group and were fully paid up.

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Share option schemes

The Company has share option schemes for certain senior executives and key individuals. The employees involved in the schemes hold options to subscribe for up to 8.7 million ordinary shares of 1p each between 2007 and 2016 at prices ranging between 1 pence per ordinary share and 186 pence per ordinary share. The number of shares subject to options, the periods in which they were granted and the periods in which they may be exercised are given below. In 2006, the Company introduced three new schemes:

1. A savings related share option scheme for employees. The employees involved in the scheme have the right to subscribe for up to 1.3m ordinary shares at 186 pence per ordinary share. The number of shares subject to options, the periods in which they were granted and the periods in which they may be exercised are given below. These options are equity-settled, have a maximum term of 3.5 years and vest only if employees remain in employment to the vesting date.

2. A long-term incentive plan for directors and senior managers. The individuals involved in the scheme have the right to subscribe for up to 1.3 million ordinary shares at 1 pence per ordinary share. The number of shares subject to options, the periods in which they were granted and the periods in which they may be exercised are given below. These options are equity-settled and have a maximum term of 10 years. The vesting conditions attached to the Group's long-term incentive plan arrangements are explained in detail in the directors' remuneration report on page 54.

3. A small number of shadow awards have been made to senior managers of the Group. These awards are cash-settled, have a maximum term of 10 years and vest with the employees in accordance with the terms of the Long-Term Incentive Plan noted below. They have an exercise price of 1 pence and remaining contractual life of 9.5 years

Details of the share options of the Premier Foods plc Savings Related Share Option Schemes are as follows:

		2006		2005	
	Year of expiry	Options	Weighted average exercise price (p)	Options	Weighted average exercise price (p)
Outstanding at beginning of year		**2,585,673**	**215**	5,594,858	102
Granted from Rights Issue		**691,212**	**170**	–	–
Exercised during the year		**–**	**–**	(2,951,045)	1
Forfeited during the year		**(239,907)**	**170**	(58,140)	215
Outstanding at the end of the year	2014	**3,036,978**	**170**	2,585,673	215
Exercisable at the end of the year		**–**	**–**	–	–

During the year, 0.7 million options were granted in order to reflect the increase in ordinary shares issued from the one for one Rights Issue, though this does not represent an increase in value. The exercise price for all share options granted under the Executive Share Option Scheme was adjusted to 170 pence per ordinary share. The options outstanding at 31 December 2006 had a weighted average exercise price of 170 pence (2005: 215 pence), and a weighted average remaining contractual life of 7.6 years.

The options under the Premier Foods plc Executive Share Option Scheme are equity-settled and have a maximum term of 10 years. Options to subscribe for 3.0 million of the ordinary shares under this scheme is subject to vesting conditions as set out in the directors' remuneration report on pages 55 to 56.

Details of the share options of the Premier Foods plc Savings Related Share Option Schemes are as follows:

	2006		2005	
	Options	Weighted average exercise price (p)	Options	Weighted average exercise price (p)
Outstanding at beginning of year	**1,278,112**	**231**	–	–
Exercised during the year	**(9,409)**	**231**	(1,437)	231
Granted during the year	**1,132,506**	**236**	1,501,205	231
Granted from Rights Issue	**575,264**	**184**	–	–
Forfeited during the year	**(263,158)**	**184**	(221,656)	231
Outstanding at the end of the year	**2,713,315**	**184**	1,278,112	231
Exercisable at the end of the year	**–**	**–**	–	–

During the year, 1.1 million options were granted under the Savings Related Share Option Scheme, with a weighted average share price at the date of exercise of 236 pence per ordinary share. A further 0.6 million options were granted in order to reflect the increase in ordinary shares issued from the one for one Rights Issue, though this does not represent an increase in value. The weighted average exercise price for share options granted under the Savings Related Option Scheme was adjusted to 184 pence per ordinary share. The options outstanding at 31 December 2006 had a weighted average exercise price of 184 pence (2005: 231 pence), and a weighted average remaining contractual life of 2.4 years.

Details of the share options of the Premier Foods plc Long-Term Incentive Plan are as follows:

	2006		2005	
	Options	Weighted average exercise price (p)	Options	Weighted average exercise price (p)
Outstanding at beginning of year	**855,617**	**1**	–	–
Granted during the year	**1,050,754**	**1**	903,854	1
Granted from Rights Issue	**498,495**	**1**	–	–
Forfeited during the year	**(151,037)**	**1**	(48,237)	1
Outstanding at the end of the year	**2,253,829**	**1**	855,617	1
Exercisable at the end of the year	**–**	**–**	–	

During the year, 1.1 million options were granted under the Long-Term Incentive Plan, with a weighted average share price at the date of exercise of 1 pence. A further 0.5 million options were granted in order to reflect the increase in ordinary shares issued from the one for one Rights Issue, though this does not represent an increase in value. The options outstanding at 31 December 2006 had a weighted average exercise price of 1 pence, and a weighted average remaining contractual life of 9.0 years. Details of executive director participation in the above schemes can be found in the directors' remuneration report on page 59.

The weighted average fair value of options granted during the year was 91 pence per option (2005: 86 pence). This was determined using a closed–form approach as a proxy for a stochastic Monte Carlo valuation model (which takes into account market based performance conditions) except for the Savings Related Share Option Scheme where the Black-Scholes model was used. The significant inputs into the model were:

	2006	2005
Weighted average share price (pence)	**228**	278
Annual risk-free interest rate (%)	**5**	5
Expected dividend (%)	**5**	5-6
Expected option life (years)	**4**	4-5
Expected volatility (%)	**25**	25-40

The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices over the last three years. In 2006, the Group recognised an expense of £2.2m (2005: £1.1m) related to equity-settled share based payment transactions.

26. Reserves

	Share premium £m	Merger reserve £m	Other reserves £m	Profit and loss reserve £m	Total £m
At 1 January 2005	320.9	(136.8)	(1.8)	(238.4)	(56.1)
Profit for the year	–	–	–	83.6	83.6
Dividends paid	–	–	–	(33.8)	(33.8)
Actuarial gains and losses (net of taxation) (a)	–	–	–	(18.2)	(18.2)
Settlement of derivatives (b)	–	–	1.6	–	1.6
Share based payments (c)	–	–	–	1.1	1.1
Issue costs refund	0.6	–	–	–	0.6
Tax on share options (d)	–	–	–	0.7	0.7
At 31 December 2005	321.5	(136.8)	(0.2)	(205.0)	(20.5)
Rights issue (e)	456.1	–	–	–	456.1
Rights issue costs (e)	(17.0)	–	–	–	(17.0)
Profit for the year	–	–	–	47.1	47.1
Dividends paid	–	–	–	(23.5)	(23.5)
Actuarial gains and losses (net of taxation) (a)	–	–	–	11.0	11.0
Settlement of derivatives (b)	–	–	0.2	–	0.2
Share based payments (c)	–	–	–	1.6	1.6
Tax on share options (d)	–	–	–	1.5	1.5
Exchange differences on translation	–	–	–	(0.5)	(0.5)
At 31 December 2006	**760.6**	**(136.8)**	**–**	**(167.8)**	**456.0**

(a) Actuarial gains and losses relating to the Group's retirement benefit schemes are recognised directly within the profit and loss reserve (note 24).
(b) On 1 January 2005, the Group adopted the provisions of IAS 32 and IAS 39, Financial Instruments. The primary effect of this change in accounting policy relates to the accounting, presentation and disclosure of the Group's interests in forward exchange contracts and interest rate swaps and the effect of these changes was to increase the Group's net liabilities at 31 December 2004 by £1.8m and create a Cash Flow Hedge ("CFH") reserve. An amount of £1.6m of the CFH has been transferred to net profit on settlement of derivatives in 2005 and £0.2m in 2006.
(c) Amounts are in respect of outstanding share option schemes in accordance with IFRS 2: "Share based payment".
(d) Amounts are in respect of deferred tax on the intrinsic value of outstanding options in (c).
(e) On 14 August 2006, Premier Foods plc issued 247,848,157 new 1 pence ordinary shares for a premium of 184 pence, in a one for one Rights Issue of existing ordinary shares. Rights issue costs of £17.0m were incurred and have been charged to the Share Premium account.

27. Acquisitions of subsidiaries/businesses

The following companies were acquired during the year:

Name of business acquired	Principal activities	Date of acquisition	Shares acquired	Voting equity instruments %	Cash outflow on acquisition £m	Total net consideration* £m
Campbell's Grocery Products Limited	Manufacture and distribution of soups, meats and other food products	14 August	Yes	100	379.7	444.9
Campbell's Grocery Products Ireland Limited	Manufacture and distribution of soups, meats and other food products	14 August	Yes	100	0.6	31.0
Total					380.3	475.9

*Total net consideration includes net debt and cash acquired as well as costs of acquisition.

The financial performance of the companies acquired was as follows:

Name of businesses acquired	Revenue post acquisition £m	Profit* Post acquisition £m	Proforma Revenue for Year** £m	Proforma Profit for Year* £m
Campbell's Grocery Products Limited	91.8	6.4	221.9	36.3
Campbell's Grocery Products Ireland Limited	9.5	1.1	21.4	1.4
Total	101.3	7.5	243.3	37.7

* Profit is defined as operating profit before interest and tax.
** As if the acquisition had occurred on 1 January 2006.
The pre-acquisition results for Campbell's are sourced from management information.

All of the acquisitions have been accounted for using the purchase method of accounting. The assets and liabilities recognised at the dates of acquisitions are as follows:

	Campbell's	
	Provisional fair value £m	Book value £m
Property, plant and equipment	39.5	47.8
Intangible assets	223.4	39.5
Inventories	28.6	28.9
Trade and other receivables	30.1	30.1
Cash and bank deposits	2.5	2.9
Trade and other payables	(40.1)	(39.0)
Financial liabilities – long-term borrowings	(88.6)	(89.0)
Retirement benefit obligations	(25.5)	(35.4)
Current tax liabilities	(0.5)	(0.3)
Deferred tax asset	2.5	6.8
Net assets acquired	**171.9**	**(7.7)**
Purchase price	460.0	
– less debt acquired	(88.6)	
– Direct costs relating to the acquisition	8.9	
Purchase consideration settled in cash	380.3	
Cash and cash equivalents in subsidiary acquired	2.5	
Deferred consideration	7.0	
Total purchase consideration	389.8	
Fair value of net assets acquired	171.9	
Goodwill (note 14)	217.9	

An initial allocation of fair value to the acquired assets and liabilities has been performed, although adjustments of a classification nature, including those related to deferred taxes, are anticipated. The goodwill arising on acquisition is attributable to the anticipated profitability of the acquired businesses and the future operating synergies expected to arise from the combination.

The initial accounting for the business combination is determined provisionally. A full review is being undertaken to determine fair values but these remain to be completed at the balance sheet date.

28. Notes to the cash flow statement

Reconciliation of operating profit to cash flows from operating activities

	2006 £m	2005 £m
Continuing operations		
Operating profit	**97.6**	95.3
Depreciation of property plant & equipment	**19.9**	15.9
Amortisation of intangible assets	**11.0**	6.3
Amortisation of debenture stock	**0.1**	–
Impairment/loss/(gain) on disposal of fixed assets	**1.6**	(4.7)
Impairment of intangibles assets	**0.1**	–
Revaluation losses/(gains) on financial instruments	**3.8**	(1.1)
Share based payments	**1.6**	1.1
Net cash inflow from operating activities before interest and tax and movements in working capital	**135.7**	112.8
Increase in inventories	**(2.1)**	(0.7)
Increase in receivables	**(3.9)**	(12.4)
(Decrease)/increase in other payables and provisions	**(28.7)**	16.9
Movement in net retirement benefit obligations	**(9.1)**	(5.4)
Cash generated from continuing operations	**91.9**	111.2
Discontinued operations	**–**	6.5
Cash generated from operating activities	**91.9**	117.7
Exceptional items cash flow	**(9.2)**	(8.9)
Cash generated from operations before exceptional items	**101.1**	126.6

Additional analysis of cash flows

	2006 £m	2005 £m
Interest received	**9.7**	6.3
Interest paid	**(49.2)**	(42.6)
Issue costs of new bank loan	**(4.4)**	(5.6)
Return on financing	**(43.9)**	(41.9)
Sale of subsidiaries/businesses	**–**	81.6

Reconciliation of cash and cash equivalents to net borrowings

	2006 £m	2005 £m
Net (outflow)/inflow of cash and cash equivalents	**(10.7)**	10.6
Debt acquired with Campbell's (note 27)	**(88.6)**	–
Debt acquired with Marlow	**–**	(53.4)
Decrease/(increase) in borrowings	**36.1**	(146.0)
Other non-cash changes	**(6.1)**	(13.0)
Increase in borrowings net of cash	**(69.3)**	(201.8)
Total borrowings net of cash at beginning of year	**(572.1)**	(370.3)
Total borrowings at end of year	**(641.4)**	(572.1)

Analysis of movement in borrowings

	As at 1 January 2006 £m	Cash Flow £m	Other non cash changes £m	As at 31 December 2006 £m
Bank overdrafts	**(0.8)**	(4.5)	–	(5.3)
Cash and bank deposits	**14.0**	(6.2)	–	7.8
Cash and cash equivalents net of overdrafts	**13.2**	(10.7)	–	2.5
Borrowings – term facilities	**(325.0)**	25.0	–	(300.0)
Borrowings – revolving credit facilities	**(260.0)**	(86.0)	–	(346.0)
Loan notes	**(4.1)**	4.1	–	–
Finance leases	**(0.9)**	–	(0.7)	(1.6)
Other	**(0.1)**	–	–	(0.1)
Gross borrowings net of cash	**(576.9)**	(67.6)	(0.7)	(645.2)
Debt issuance costs	**4.8**	4.4	(5.4)	3.8
Total net borrowings	**(572.1)**	(63.2)	(6.1)	(641.4)

29. Operating lease commitments

The Group had lease agreements in respect of properties, plant and equipment, for which future minimum payments extend over a number of years.

Future minimum lease payments under non-cancellable operating leases:

	2006		2005	
	Property £m	Plant and Equipment £m	Property £m	Plant and equipment £m
Within one year	2.9	3.0	1.9	3.0
Between 2 and 5 years	9.5	3.3	6.7	4.1
After 5 years	7.8	–	6.6	–
	20.2	6.3	15.2	7.1

At 31 December 2006 future minimum sublease receivables of £1.9m are not included in the above. This is an arrangement with Burtons Foods Limited whereby the Group sub-lets office space.

30. Capital commitments

	2006 £m	2005 £m
Contracts placed for future capital expenditure not provided in the financial statements	10.0	5.1

Notes to the financial statements
continued

31. Contingencies
Jonker Fris BV
On 8 December 2005 the Group completed the sale of its Netherlands based subsidiary Jonker Fris BV. Under the terms of the agreement, the Group is entitled to receive 50% of any net disposal proceeds resulting from the disposal of two properties, which were transferred to the acquirer, if sold within two years from date of completion.

Should either property remain unsold at this date, the Group is entitled to receive €1.0m per property from the acquirer, or has an option to purchase the properties for an amount of €1.0m per property.

The Group has not recognised any amounts in its financial statements due to the uncertainty of the potential net disposal proceeds.

Executives and senior managements' service contracts
In the event of early termination of the service contracts for executives and senior management (for reasons other than those justifying summary termination), the Group may (but is not obliged to) pay a sum equal to annual salary plus benefits, pension contributions, and on target bonuses (on a pro rata basis).

There were no other material contingent liabilities at 31 December 2006.

32. Related party transactions
Transactions with Burton's Foods Limited ("Burton's")

The following transactions with Burton's are shown for comparative purposes only. No related party transactions exist during the year due to Mr Schofield resigning as director and non-executive chairman of Burton's on 31 December 2005.

Cadbury Biscuits Agreement
Premier Brands Limited, Premier International Foods UK Limited, Chivers Hartley Limited, Burton's, Cadbury Limited and Cadbury Schweppes plc are parties to an agreement dated 13 May 1986, as amended by a deed of amendment dated 18 April 2002 (the "Cadbury Biscuits Agreement"), whereby Cadbury Limited licenses Premier International Foods UK Limited, Chivers Hartley Limited and Burton's respectively to manufacture and sell chocolate milk drinks, chocolate spreads, chocolate biscuits and chocolate syrup under certain Cadbury trademarks. The Cadbury Biscuits Agreement continues until 2026 when it is renewable by Premier International Foods UK Limited.

Chocolate Supply Agreement
An agreement, dated 29 January 2001, was entered into between Burton's and Premier International Foods UK Limited whereby Premier International Foods UK Limited agreed to buy its entire requirement for Cadbury chocolate products from Burton's so long as Burton's continues to be party to any agreements with Cadbury Limited in relation to the manufacture of Cadbury chocolate products. The consideration payable is determined according to a specified price per tonne that shall remain valid until 31 December 2006 and shall be agreed between the parties for each year thereafter. The value of purchases by the Group from Burton's were £0.6m for the year ended 31 December 2005.

Cocoa Products Purchasing Arrangements
Premier International Foods UK Limited and Burton's have agreed to cooperate in relation to certain aspects of their respective cocoa products purchasing arrangements with Cadbury Limited. In particular the parties undertake to agree annual budgets for cocoa bean prices and cocoa butter ratios which are used as inputs into the prices of the cocoa products, and to issue joint instructions to Cadbury Limited in respect of their forecast demands for cocoa products. Burton's made a payment of £1.0m to Premier International Foods UK Limited in the year ended 31 December 2005.

Sugar Supply Agreements
A strategic partnership agreement, dated 5 December 2003, was entered into between Chivers Hartley Limited, H.L. Foods Limited, Premier Ambient Products (UK) Limited and Premier International Foods UK Limited (together the "Premier Foods Grouping"), and British Sugar plc and Burton's, in relation to the joint purchase of sugar for the calendar year 2005. Sugar purchases are made on a fixed prices per tonne basis, subject to certain discounts and adjustments. British Sugar plc guarantees that the terms of this agreement will result in a specific per annum saving to the Premier Foods Grouping and Burton's.

Sublease of offices at Centrium Business Park, St. Albans
Premier Brands Foods Limited, a subsidiary undertaking, sublet office space at Centrium Business Park, St. Albans to Burton's. The tenancy is for a duration of 15 years at an annual rent of £163,000 with the first year rent-free. The amount received in 2005 was £163,408.

Remuneration of key management personnel
Key management personnel of the Group are considered to be the Executive and Non–Executive Directors, the Operations Board, and the Company Secretary.

Details of their remuneration are set out below in aggregate for each of the categories specified in IAS 24 "Related Party Disclosures". Further information about the remuneration of individual directors is provided in the audited part of the directors' remuneration report on pages 57 to 60.

	2006 £m	2005 £m
Salaries and other short-term employee benefits	**2.6**	3.0
Post employment benefits	**0.1**	–
Termination benefits	**0.3**	–
Share based payments	**0.7**	0.6
	3.7	3.6

33. Post balance sheet events

Acquisition of RHM plc ("RHM")
On 4 December 2006 Premier announced an offer to acquire the entire share capital of RHM by way of scheme of arrangement. The consideration under the offer is one new ordinary Premier share and 83.2p in cash for each RHM share held.

At an Extraordinary General Meeting held on 15 February 2007, the shareholders of Premier approved the acquisition of RHM. Also on that date, the shareholders of RHM approved the proposal to proceed with the scheme of arrangement. The court hearing to sanction the scheme of arrangement is anticipated to take place on 14 March 2007, with completion of the acquisition expected on 16 March 2007.

Acquisition of Chivers Ireland Limited
In addition, Premier acquired Chivers Ireland Limited, a leading supplier of preserves to Ireland's retail grocery and foodservice markets for £21.0m on 19 January 2007.

The allocation of the fair value of the assets acquired and liabilities assumed to the cost of the business combination has not been performed because it is impractical to do so as the process is still ongoing.

Announcement of restructuring plans
On 19 January 2007 Premier announced a consultation on the proposed closure of its factories in King's Lynn and Ashford. The proposal is for the King's Lynn factory to close by December 2007 and the Ashford factory to close by May 2008.

Agreement to sell Fresh Produce business
On 5 March 2007 Premier reached a non-binding agreement to sell its Fresh Produce business to the management of that business.

Premier Foods plc – Company financial statements

The following statements reflect the financial position of the Company, Premier Foods plc as at 31 December 2006 and 2005. These financial statements have been prepared in accordance with United Kingdom Generally Accepted Accounting Principles ("UK GAAP"). The directors have taken advantage of the exemption available under section 230 of the Companies Act 1985 and not presented an income statement for the Company.

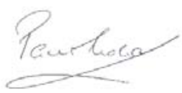
Balance sheet

	Note	As at 31 December 2006 £m	As at 31 December 2005 £m
Non Current assets			
Investments	3	**397.9**	396.8
Deferred tax assets		**0.9**	0.1
Current assets			
Debtors	4	**389.5**	18.3
Total assets		**788.3**	415.2
Current liabilities			
Creditors	5	**(4.1)**	(47.5)
Total liabilities		**(4.1)**	(47.5)
Net assets		**784.2**	367.7
Capital and reserves			
Share capital	6	**5.0**	2.5
Share premium	6	**760.6**	321.5
Profit and loss reserve	6	**18.6**	43.7
Total shareholders' funds		**784.2**	367.7

The notes on pages 107 to 109 are an integral part of these financial statements.

Signed on behalf of the Board of Directors, who approved the financial statements on 5 March 2007.

Robert Schofield
Director and Chief Executive



Paul Thomas
Finance Director

Notes to the Company financial statements
at 31 December 2006

1. Accounting policies

Basis of preparation

The financial statements have been prepared in accordance with the Companies Act 1985 and UK GAAP under the historical cost convention. The loss for the year of £3.8m (2005: £27.5m profit) is recorded in the accounts of Premier Foods plc Group.

The directors have taken advantage of the exemption available under section 230 of the Companies Act 1985 and not presented an income statement for the Company.

The Company has taken exemption under Financial Reporting Standard 1 "Cash Flow Statements" to not prepare a cash flow statement. The Company is also exempt under the terms of Financial Reporting Standard 8 "Related Party Transactions" from disclosing related party transactions with entities that are part of the Premier Foods plc Group or investees of the Premier Foods plc Group.

Fixed asset investments

Investments held as fixed assets are stated at cost less any provision for impairment in their value.

Taxation

The charge for taxation is based on the profit for the year and takes into account deferred taxation. The Company provides in full for deferred tax arising from timing differences between the recognition of gains and losses in the financial statements and their inclusion in tax computations to the extent that a liability or an asset is expected to be payable or recoverable in the foreseeable future.
The Company discounts its deferred tax liability as appropriate.

Cash and liquid resources

Short-term cash deposits, which can be called on demand without any material penalty, are included within cash balances in the balance sheet.

Share-based payments

The fair value of employee share option plans is calculated using an option-pricing model. In accordance with Financial Reporting Standard 20 "Share based payment", the resulting cost is charged to the income statement over the vesting period of the options or treated as an investment in subsidiaries. The value of the charge is adjusted to reflect expected and actual levels of options vesting.

Leases

Rentals under operating leases are charged to the income statements on a straight-line basis over the lease period.

2. Operating profit

Audit fees have been paid by another group company.

The Company has nine employees (2005: eight). Total staff costs are £2.3m (2005: £1.7m).

Notes to the Company financial statements
continued

3. Investments

	2006 £m	2005 £m
Shares in subsidiary undertakings		
At 1 January	**396.8**	356.0
Additions	**1.1**	245.1
Disposals	**–**	(204.3)
At 31 December	**397.9**	396.8

During 2005, a capital contribution of £1.1m (2005: £0.6m) was given in the form of share incentive awards to employees of subsidiary companies which was reflected as an increase in investments.

On 26 September 2005, Premier Brands Cayman Limited ("PBC") paid a dividend to the Company of £25.6m and transferred reserves amounting to £204.3m to the Company. The reserves transferred to the company represented the principal and accrued interest relating to interest bearing loan notes due 2017 ("Loan Notes") that have been issued by its subsidiary Premier Foods Investments No. 3 Limited ("PFI 3").

On 7 October 2005 the Company ceased to retain its interest in PBC upon the liquidation of PBC the only other direct wholly owned subsidiary of the Company.

Between 26 September 2005 and 19 December 2005, the Company accrued £5.3m of interest on the loan notes. On 19 December 2005 the total amount of loan notes were capitalised by the Company in return for 100 £1 ordinary shares in PFI 3.

During 2005, the Company increased its investment in PFI 3 by an additional £9.4m.

4. Debtors

	2006 £m	2005 £m
Amounts falling due within one year:		
Amounts owed by subsidiaries	**388.0**	16.6
Prepayments	**0.3**	0.3
Corporation tax	**1.2**	1.4
Total debtors falling due within one year	**389.5**	18.3

The above balances are not subject to interest rate risk as they are interest free. Carrying value approximates fair value.

5. Creditors

	2006 £m	2005 £m
Amounts payable within one year:		
Amounts due to subsidiaries	**3.0**	46.4
Accruals	**1.1**	1.1
Total creditors falling due within one year	**4.1**	47.5

The above balances are not subject to interest rate risk as they are interest free. Carrying value approximates fair value.

6. Share capital and other reserves

	Share capital £m	Share premium £m	Profit and loss reserve £m	Total £m
At 1 January 2005	2.4	320.9	48.9	372.2
Profit for the year	–	–	27.5	27.5
Dividends paid	–	–	(33.8)	(33.8)
Share based payments (a)	–	–	1.1	1.1
Shares issued (b)	0.1	–	–	0.1
Issue costs refund	–	0.6	–	0.6
At 31 December 2005	2.5	321.5	43.7	367.7
Rights issue (c)	2.5	456.1	–	458.6
Rights issue costs (c)	–	(17.0)	–	(17.0)
Loss for the year	–	–	(3.8)	(3.8)
Dividends paid	–	–	(23.5)	(23.5)
Share based payments (a)	–	–	2.2	2.2
At 31 December 2006	**5.0**	**760.6**	**18.6**	**784.2**

(a) These costs reflect the cost of share option schemes in operation.
(b) On 13 October 2005, Premier Foods plc issued 2,951,045 1 pence ordinary shares upon the exercise of share options as follows:
(i) 1,416,374 1 pence ordinary shares were issued to Mr Schofield, an executive director, and were fully paid up;
(ii) 575,502 1 pence ordinary shares were issued to Mr Thomas, an executive director, and were fully paid up;
(iii) 959,169 1 pence ordinary share were issued to key employees of the Group and were fully paid up.

Details of the share options and assumptions applied in arriving at share based payment costs as they apply to the Company are described in note 25 in the consolidated financial statements. The share option expense recorded in the income statement for the year was £0.8m (2005: £0.5m).

(c) On 14 August 2006, Premier Foods plc issued 247,848,157 new 1 pence ordinary shares for a premium of 184 pence, in a one for one Rights Issue of existing ordinary shares. Gross proceeds were £458.6m and Rights Issue costs of £17.0m were incurred and have been charged to the Share Premium account. The issuance of new ordinary shares includes:

(i) 230,709 1 pence ordinary shares were issued to Mr Schofield, an executive director as part of the Rights Issue, and were fully paid up;
(ii) 124,070 1 pence ordinary shares were issued to Mr Thomas, an executive director as part of the Rights Issue, and were fully paid up;
(iii) 211,742 1 pence ordinary shares were issued to certain key employees as part of the Rights Issue and were fully paid up;

Also during the year, 9,409 1 pence ordinary shares were issued to certain employees at a premium between 230 and 182 pence per ordinary share upon exercise of share options and were fully paid up.

7. Operating lease commitments

At 31 December 2006 the Company had annual commitments under non-cancellable operating leases in respect of land and buildings as follows:

	2006 £m	2005 £m
Within one year	**0.3**	–
Between 2 and 5 years	**1.4**	–
After 5 years	**2.3**	–
	4.0	–

The lease expense has been borne by a subsidiary undertaking.

Corporate information

Company Secretary and registered office
Andrew Astin
Premier Foods plc
Premier House
Centrium Business Park
Griffiths Way
St Albans
Hertfordshire
AL1 2RE

Principal bankers
BNP Paribas
Lloyds TSB plc
JP Morgan plc
The Royal Bank of Scotland

Registrars and transfers office
Lloyds TSB Registrars
The Causeway
West Sussex BN99 6DA
Worthing

Corporate brokers
Merrill Lynch International
Merrill Lynch Financial Centre
2 King Edward Street
London EC1A 1HQ

Hoare Govett Limited
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London EC2M 4AA

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Auditors
PricewaterhouseCoopers LLP
1 Embankment Place
London WC2N 6RH

Lawyers
Weil, Gotshal & Manges
One South Place
London EC2M 2WG

Financial calendar 2007
(All future dates may be subject to change)
Preliminary dividend date details

Announcement date 6 March 2007
Ex dividend date 6 June 2007
Record date 8 June 2007
Annual General Meeting date 10 May 2007
Payment of dividend 6 July 2007

Interim dividend date details
Announcement date 4 September 2007
Ex dividend date 19 December 2007
Record date 21 December 2007
Payment of dividend 22 February 2008

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of Premier Foods plc ("the Company") will be held on Thursday 10 May 2007 at 11.00am at Haberdashers' Hall, 18 West Smithfield, London EC1A 9HQ, to consider the following resolutions:

Ordinary resolutions

Resolution 1
That the report of the directors and auditors, and the audited accounts of the Company for the year ended 31 December 2006 be received.

Resolution 2
That the final dividend of 2.55p per ordinary share in the Company recommended by the directors be declared and be payable on 6 July 2007 to shareholders on the register at close of business on 8 June 2007.

Resolution 3
That the directors' remuneration report for the year ended 31 December 2006 be approved.

Resolution 4
That Louise Makin be re-elected as a director.

Resolution 5
That David Felwick be re-elected as a director.

Resolution 6
That Ian McHoul be re-elected as a director.

Resolution 7
That PricewaterhouseCoopers LLP be reappointed auditors of the Company to hold office until the conclusion of the next general meeting at which accounts are laid before the Company and that their remuneration be fixed by the directors.

Resolution 8
That the directors be generally and unconditionally authorised under section 80 of the Companies Act 1985 to allot relevant securities (as defined in that Act) up to an aggregate nominal value of £2,813,418. This authority will expire at the conclusion of the next Annual General Meeting or, if earlier, 15 months from the date of this resolution. However, before this authority expires, the Company may make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the directors may allot relevant securities under such an offer or agreement as if the authority had not expired.

Special resolutions

Resolution 9
That, provided that resolution 8 in the notice of this meeting has been passed, the directors be empowered under section 95 of the Companies Act 1985 to allot equity securities (as defined in that Act) for cash pursuant to the authority conferred by that resolution as if section 89(1) of that Act did not apply to any such allotment, provided that this authority shall be limited to:

(a) the allotment of equity securities in connection with a rights issue, open offer or any other pre-emptive offer in favour of ordinary shareholders where the equity securities respectively attributable to the interests of all ordinary shareholders are proportionate as nearly as may be to the respective number of ordinary shares held or deemed to be held by them, subject to such exclusions or other arrangements as the directors may deem necessary or expedient to deal with fractional entitlements, legal or practical problems arising in any overseas territory, the requirements of any regulatory body or stock exchange or any other matter whatsoever; and
(b) the allotment (otherwise than pursuant to sub-paragraph (a) above) of equity securities up to an aggregate nominal value of £422,013;

and shall expire at the conclusion of the next Annual General Meeting or, if earlier, 15 months from the date of this resolution. The Company may before such an expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities under such an offer or agreement as if the power had not expired.

By order of the Board

Andrew Astin

Company Secretary
Premier Foods plc
Premier House
Centrium Business Park
Griffiths Way
St Albans
Hertfordshire
AL1 2RE

10 April 2007

Notice of Annual General Meeting
continued

Recommendation
Your directors are of the opinion that the resolutions to be proposed at the Annual General Meeting are in the best interests of shareholders as a whole and recommend you to vote in favour of them. They will be doing so in respect of their own beneficial shareholdings.

Explanation of resolutions
Resolution 1: To receive the' report and accounts
The directors are required to present to the meeting the directors' and auditors' reports and the accounts for the year ended 31 December 2006.

Resolution 2: To declare a dividend
The proposed 2006 final dividend of 2.55p per share will be paid on 6 July 2007 to shareholders who are on the register on 8 June 2007. The final dividend will be paid in cash to all shareholders.

Resolution 3: To approve the directors' remuneration report of the Company.
The Board is required to present the directors' remuneration report to shareholders for approval at the meeting. The remuneration report is set out on pages 50 to 60. The Board considers that appropriate executive remuneration plays a vital part in helping to achieve the Company's overall objectives. The vote will have advisory status in respect of the remuneration policy and overall remuneration packages and is not specific to individual levels of remuneration.

Resolutions 4: To re-elect Louise Makin.
Article 115 of the Company's Articles of Association allows the Board to appoint a person to the Board during the year, subject to them being re-elected at the subsequent Annual General Meeting. Accordingly Dr. Louise Makin offers herself for re-election.

Resolutions 5 & 6: To re-elect David Felwick and Ian McHoul.
Article 124 of the Company's Articles of Association requires one third of the directors to retire and offer themselves for re-election. Each of the directors, except Dr Louise Makin were originally elected to the Board at the time of the IPO; 19th July 2004 and the Board has agreed that the above named directors should offer themselves for re-election at the 2007 annual general meeting.

Directors' biographical details are shown on page 6.

Resolution 7: To reappoint PricewaterhouseCoopers LLP as auditors.
This resolution proposes the reappointment of PricewaterhouseCoopers LLP as auditors, and permits the directors to fix their remuneration.

Resolutions 8 and 9:
Authority to allot shares and disapplication pre-emption rights. Under section 80 of the Companies Act 1985, the directors cannot generally allot shares in the Company unless they are authorised to do so by the Company in general meeting. Resolution 8 will authorise the directors to allot new shares up to a nominal value of £2,813,418 representing one third of the issued share capital of the Company as at the date of this notice. The authority will expire at the conclusion of the next Annual General Meeting or, if earlier 15 months from the date of passing of this resolution. The directors have no present intention of issuing shares, except as needed to satisfy the exercise of options under the Company's employee share schemes.

If shares are to be allotted for cash, section 89 of the Companies Act 1985 requires those shares to be offered first to existing shareholders in proportion to the number of shares held by them. This right of shareholders is commonly known as a pre-emption right. Under resolution 14, the directors will remain subject to constraints on the issue of shares for cash. Unless they comply with the pre-emption procedure under section 89 of the Companies Act, they will be able to issue such shares for cash only:

- in connection with a rights issue, open offer or other pre-emptive offer or,
- up to £422,013, representing approximately 5% of the nominal value of the Company's issued share capital as at the date of this notice.

Attendance and voting

Only those shareholders who are registered on the Company's share register at 6.00 pm on 8 May 2007 shall be entitled to attend the Annual General Meeting and to vote in respect of the number of shares registered in their names at that time. Changes to entries on the share register after 6.00 pm on 8 May 2007 shall be disregarded in determining the rights of any person to attend or vote at the meeting. Please bring with you the accompanying Admission Card. It will facilitate your right to attend, speak and vote, and will speed your admission. Please keep it until the end of the meeting. The meeting will commence at 11.00am and light refreshments will be available from 10.30am and also after the conclusion of the meeting.

Whether or not you intend to attend the Annual General Meeting, you are requested to complete the enclosed Form of Proxy and return it to the Company's registrars at the following address; Response Licence No. SEA 10855, Lloyds TSB Registrars, The Causeway, Worthing BN99 6ZX as soon as possible and in any event so as to be received no later than 11.00am on 8 May 2007. Any Form of Proxy received after this time will be void.

The completion and submission of a Form of Proxy will not prevent you from attending and voting in person if you so wish.

You may also find it helpful to bring your Annual Report with you so that you can refer to it at the meeting.

If you do not wish, or are unable, to attend, you may appoint either the Chairman of the meeting or one or more persons of your choice to act on your behalf and to vote in the event of a poll. That person is known as a "proxy". You are advised to use the enclosed Form of Proxy to appoint a proxy.

A proxy need not be a shareholder and may attend and vote on behalf of the shareholder who appointed him or her.

At the meeting, the proxy can act for the member he or she represents. This includes the right to join in or demand a poll. The proxy is also valid for any adjournment of the meeting.

Please mark the appropriate box alongside each resolution on the Form of Proxy to indicate whether you wish your votes to be cast "for", or "against", or whether you wish to withhold your vote from, that resolution. Unless you give specific instructions on how to vote on a particular resolution, your proxy will be able, at his or her discretion, either to vote "for" or "against" that resolution or to withhold from voting.

Before posting the form to the registrar, please check that you have signed it. In the case of joint holders, any of you may sign it.

The register of directors' interests and copies of their service contracts or letters of appointment will be available for inspection at the registered office of the Company during usual business hours between the date of this notice and the Annual General Meeting and at the venue of the Annual General Meeting for 15 minutes prior to the commencement of the meeting until its conclusion.

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