

# Annual report and accounts 2008



# 2008 performance highlights

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

Financial highlights	Operational highlights
<p><b>£2,603.6m</b><sup>1</sup>      +22.5%</p> <p>Turnover (2007: £2,125.2m)</p>	<ul style="list-style-type: none"> <li>– £261m out of £270m of cost inflation recovered in 2008</li> <li>– £53m of synergies delivered, run rate at end of 2008 £89m</li> <li>– Successful relaunch of <i>Hovis</i>, market share gains</li> </ul>
<p><b>£310.2m</b><sup>1,2</sup>      +14.1%</p> <p>Trading profit (2007: £271.9m)</p>	<ul style="list-style-type: none"> <li>– Implementation of SAP progressing – orders to cash successfully implemented in Grocery</li> <li>– Factory rationalisation completed, nine factories closed ahead of original schedule</li> </ul>
<p><b>£(40.5)m</b><sup>1</sup></p> <p>Operating (loss)/profit (2007: £72.0m)</p>	
<p><b>£183.6m</b><sup>1,3</sup>      +13.0%</p> <p>Adjusted profit before tax (2007: £162.5m)</p>	<p><b>Cautionary Statement</b></p> <p>The purpose of this annual report is to provide information to shareholders of Premier Foods plc ("the Company"). The Company, its directors, employees, agents and advisers do not accept or assume responsibility to any other person to whom this document is shown or into whose hands it may come and any such responsibility or liability is expressly disclaimed. It contains certain forward-looking statements with respect to the financial condition, results, operations and businesses of the Company. These statements and forecasts involve risk and uncertainty because they relate to events and depend upon circumstances that will occur in the future. There are a number of factors that could cause actual results or developments to differ materially from those expressed or implied by these forward-looking statements and forecasts. Nothing in this annual report and accounts should be construed as a profit forecast.</p>
<p><b>15.5p</b><sup>1,4</sup>      +5.4%</p> <p>Adjusted earnings per share (2007: 14.7p)</p>	<p><sup>1</sup> Continuing operations</p> <p><sup>2</sup> Trading profit is defined as operating profit from continuing operations before exceptional items, amortisation of intangible assets, the revaluation of foreign exchange and other derivative contracts under IAS39 and pension credits or charges in relation to the difference between the expected return on pension assets and interest costs on pension liabilities.</p> <p><sup>3</sup> Adjusted profit before tax is defined as Trading profit less net regular interest payable. Adjusted profit before tax is not a measure of profitability defined under IFRS and may not be comparable from one company to another.</p> <p><sup>4</sup> Adjusted earnings per share is defined as Adjusted profit before tax less tax at a notional tax rate for the Group divided by the average number of shares in issue during the period.</p>

# A GREAT BRITISH FOOD COMPANY WITH A **PASSION** FOR CREATING GREAT FOOD AND BRANDS THAT PEOPLE LOVE

## Transformation of Premier Foods

The acquisition of Campbell's and RHM transformed our scale creating one of the UK's leading food producers. We have undertaken a transformation programme to leverage the benefits of the Group's increased scale, outlined below. All these aspects of the programme are focused on maximising Premier's competitive position whilst delivering improved shareholder returns.



### Brands

Increased focus on innovation behind a broad portfolio of iconic British brands

(see pages 02, 03 and 20)



### Customer relationships

Developing our customer relationships through our insight and broad product offering

(see page 07)



### Consumer insight

Developing deeper and broader insight into the shopping and consumption habits of UK consumers

(see page 11)



### Operational efficiency

Improving the efficiency of our supply chain through the manufacturing rationalisation and logistics integration programmes; whilst maintaining a lean overhead base and flat management structure to enable rapid decision making and response to changing market conditions

(see page 24)

## This year's report

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# WE HAVE A PASSION FOR GREAT BRITISH BRANDS

	Brand	Category	UK retail sales value	Category market share	Category position
	<b>Hovis</b> <sup>(2,5)</sup>	Wrapped bread	£415.6m	23.0%	2
	<b>Mr Kipling</b>	Ambient cake	£140.1m	16.8%	1
	<b>Quorn</b> <sup>(2)</sup>	Meat-free	£118.3m	57.8%	1
	<b>Ambrosia</b> <sup>(4)</sup>	Ambient desserts	£73.4m	29.5%	1
	<b>Bisto</b>	Gravy	£73.3m	66.6%	1
	<b>Sharwood's</b> <sup>(3)</sup>	Asian meal solutions	£66.4m	23.1%	1
	<b>Batchelors</b>	Dried soup	£34.6m	51.4%	1
	<b>Batchelors</b>	Dried noodles	£27.5m	74.0%	1

## Notes

(1) Under licence

(2) Hovis and Chilled & Ireland Divisions – Source: IRI Total Grocery Outlets, 52 weeks ending 27 December 2008

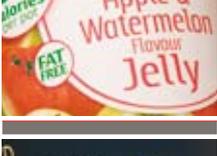
(3) Asian Meal Solutions comprises cooking sauces, accompaniments and ingredients, in the Ambient Indian, Chinese, Thai and Other Oriental categories.

(4) Ambient desserts excludes Ambient fruit

(5) Hovis brand definition includes *Nimble*.

At Premier we have a passion for great British brands. We have a strong track record of brand rejuvenation and innovation to date, for example with *Mr Kipling* Cake Bites, *Batchelors* Soupfulls, *Oxo* liquid stock, and *Quorn* picnic eggs.

Going forward we intend to leverage our broad range of category capabilities and brand strength to drive revenue growth in the business.

	Brand	Category	UK retail sales value	Category market share	Category position	
	<b>Cadbury<sup>(1)</sup></b>	Ambient cake	£60.4m	7.2%	2	Business review
	<b>Branston</b>	Pickles & relishes	£25.8m	20.5%	1	
	<b>Branston</b>	Baked beans	£23.8m	8.5%	2	Corporate governance
	<b>Hartley's</b>	Preserves	£21.5m	16.6%	1	
	<b>Hartley's</b>	Jelly	£27.6m	85.5%	1	Financial statements
	<b>Lloyd Grossman<sup>(1)</sup></b>	Ambient cooking sauces	£46.1m	9.6%	2	
	<b>Oxo</b>	Stock	£30.9m	42.2%	1	Shareholder information
	<b>Cauldron<sup>(2)</sup></b>	Meat-free	£18.3m	9.0%	2	

Source: IRI Major Multiples, 52 weeks ending 27 December 2008.

**We announced on 5 March 2009 that the Company proposes to undertake a placing and open offer and a firm placing to raise approximately £379 million.**

**We believe that the support for the placing and open offer and firm placing from both existing shareholders and new investors represents an important endorsement of Premier's long-term strategy and vision, and underscores the confidence of these institutions in Premier and in its management team.**



David J Kappler  
Chairman

2008 has been a challenging year for Premier Foods. Our share price fell from 204 pence to 30 pence over the year as the stock market became concerned over our debt position and related covenant and repayment terms, given the collapse in the credit markets.

This debt position was largely created by the acquisition of RHM, our inability to sell non-core assets in the 2008 financial climate, and our higher working capital needs as a result of raw material inflation. The RHM acquisition however is, strategically and commercially, a success, and the realisation of synergies, an important achievement.

During 2008 we have experienced a substantially more challenging trading, economic and credit environment. The significant cost inflation that occurred in the second half of 2007 and first three quarters of 2008 due to commodity price increases required the Group to seek significant price increases, whilst in the second half of 2008 and early 2009 the financial markets and the broader economic backdrop deteriorated significantly, putting consumer confidence and spending into a marked decline.

In view of the volatile operating conditions and the Group's significant level of leverage following the acquisitions of Campbell's and RHM, the Board and its advisors have spent recent months examining ways of accelerating the reduction of Group debt in order to establish additional financial headroom and a more appropriate long-term capital structure.

The potential disposals of certain businesses have been explored as a means of providing additional financial headroom. However, against the backdrop of current market conditions, the ability to achieve valuations that would materially reduce the Group's leverage has been limited and we have only implemented certain small disposals.

Following discussions with our lending banks and considering the potential for the credit environment to remain difficult, the Board concluded that raising additional equity combined with a renegotiated agreement with our lending banks and an agreement with our Defined Benefit Pension Plans would be the optimal route to move to a more appropriate capital structure and achieve the desired increase in financial headroom given the more challenging trading environment.

We announced on 5 March 2009 that the Company proposes to undertake a placing and open offer and a firm placing to raise approximately £379 million (net of expenses related to the equity financing) through the issue of 1,553,416,776 new Ordinary shares at an issue price of 26 pence per new Ordinary share.

We believe that the support for the placing and open offer and firm placing from both existing shareholders and new investors represents an important endorsement of Premier's long-term strategy and vision, and underscores the confidence of these institutions in Premier and in its management team. In addition the open offer structure allows existing shareholders to participate in the issue of the open offer shares on a pre-emptive basis while providing the Group with the flexibility to raise the necessary quantum of equity capital.

Full details of the placing and open offer and firm placing are set out in the Prospectus sent to shareholders on 5 March 2009.

#### Dividends

As announced on 18 November 2008, the Board considered it appropriate to suspend dividend payments. The Board is committed to resuming dividend payments when possible but the future payment of dividends will be dependent upon the Company's ability to reduce its level of debt, the limitations on dividends imposed by the Group's proposed amended debt agreements and the condition of the credit markets at the relevant time.

#### Overview of year

We have made significant progress with our integration programme. This is targeted to deliver £113 million of annual cost synergies largely through consolidating administration functions and manufacturing facilities and increased procurement efficiency. This integration programme remains on track to deliver the targeted synergies in full from 2010. The total net cost of the integration programme is anticipated to be £203 million after accounting for the proceeds from the disposal of surplus properties. At 31 December 2008, £178 million of this expenditure had been incurred with the majority of the remaining £25 million expected to be incurred during 2009 and 2010.

The implementation of SAP, the enterprise resource planning software system, is progressing well with the implementation of orders to cash in the Grocery division now complete. Another key element of the transformation programme was the factory rationalisation. This has now been completed with nine factories closed, ahead of schedule, in 12 months.

We have been successful in recovering cost inflation through a combination of pricing and cost cutting.

During 2008 the *Hovis* range was relaunched, with improved recipes, new packaging, a new range of 400 gram loaves and a major new TV advertising campaign. As a result *Hovis*' total market share grew by 2.4 percentage points to 24.7% between August 2008 and January 2009.

Despite the challenging trading, economic and credit environment the business has continued to perform well and has delivered sales of £2,603.6m up 22.5% and trading profit of £310.2m up 14.1% on last year (on a continuing operations basis).

**£2,603.6m\*** +22.5%

Turnover (2007: £2,125.2m)

**£310.2m\*** +14.1%

Trading profit (2007: £271.9m)

**£1,572.2m\*** 60.4%

Branded turnover of total turnover

\*Continuing operations

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# Chairman's statement

Continued

## Divisional structure

As part of the Company's transformation programme we have organised the business into three divisions and 2008 will be the first year we report our full year results on this basis:

Grocery	Hovis	Chilled & Ireland
Comprising the shelf stable or "ambient" grocery products	Comprising wrapped bread, morning goods and bulk and bagged flour	Comprising chilled and frozen meat-free products, operations in the Republic of Ireland and retailer brand chilled ready meal and cake businesses.

## Disposals

In January 2009 we announced that we had received firm offers for our Speciality Bakery Group in France which employs around 1,250 people in France and the UK. This includes Martine Spécialités SAS which produces retailer branded frozen patisserie products and Sofrapain SAS and Le Pain Croustillant who produce retailer branded part baked frozen bakery products principally for major multiple retailers in the UK and France. The sales of Le Pain Croustillant and Martine Spécialités SAS completed on 2 March 2009 with completion of the sale of Sofrapain SAS expected during the second quarter of 2009. These disposals are consistent with our strategy of investing behind our UK branded business.

## Employees

This has been another challenging year for employees, particularly against the backdrop of the worsening economic and trading climate and the fall in the Company's share price. The successful completion of the factory integration and the ongoing implementation of SAP have clearly demonstrated the dedication and commitment of staff and their ability to work together effectively across the combined Group.

We introduced the Premier Employee Recognition Award in 2008 to recognise and reward the skill, dedication and creativity of employees who are helping the Company to deliver its strategy.

## Board changes

In June we welcomed Tim Kelly to the Board as an additional executive director. Tim joined Premier Foods in March 2007 following the Company's acquisition of RHM, where he was Chief Operating Officer, Cakes & Customer Partnerships. In December 2007 he assumed additional responsibility for the Hovis Baking and Milling businesses. Tim has had significant and varied experience in consumer goods markets.

## Outlook

Current trading is in line with our expectations and we believe that our brands will continue to be resilient in the difficult economic environment. Food inflation, although at lower levels than in 2007 and 2008 remains a concern, particularly due to the effect of the weakening of sterling.

The remaining elements of the integration programme are expected to be completed in 2009. In February we opened the new group-wide shared service centre in Manchester (a platform which will enable the full benefits of the SAP ERP system to be realised) and the roll out of SAP to the ambient cake business is on track for April. In addition we intend to complete the reorganisation of the Grocery logistics network and the realisation of additional procurement synergies.

Following the completion of this transformation programme, we intend to shift the focus of the Group from cost reduction to sales growth in order to drive long-term growth in profitability. Going forward, we intend to leverage our broad range of category capabilities and brand strength, coupled with the insight we have into UK consumer behaviour and needs, to drive revenue growth in the business.



David J Kappler  
Chairman  
5 March 2009

# WE HAVE A PASSION FOR BUILDING STRONG RELATIONSHIPS WITH CUSTOMERS

Premier has a leading market position in the UK and the Republic of Ireland. We are the largest UK ambient branded grocery supplier with 6.5% share of the £23bn ambient grocery market.

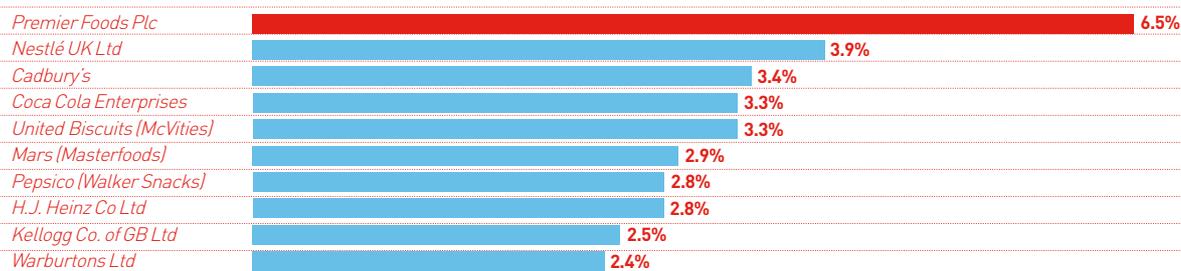
We supply our products through a broad range of customers including the major multiple retailers, cash and carry and convenience stores, discounters and foodservice operators.

Our increased scale gives us the ability to operate across categories with both branded and retailer-branded products. We can develop joint business

plans that incorporate opportunities across the Group, we can co-ordinate the timing and consistency of our messages with customers and we can focus on joint value creation at a customer level.

Relationships with our customers are also enhanced by the additional insight and breadth of service we are able to supply which we believe provides us with a competitive advantage against other food manufacturers.

**Total market ambient grocery manufacturer shares – 52 weeks ending 28 December 2008**



Source: TNS data 52 weeks ending 28 December 2008



**At the time of our preliminary results for 2007, we set out our priorities for 2008. These were: cost inflation recovery; synergy delivery from the integration of RHM and Campbell's; the relaunch of *Hovis*; the implementation of certain key modules of the enterprise software system, SAP; and to progress our factory rationalisation plans.**

**We have achieved all of these commercial priorities despite the backdrop of an exceptionally challenging trading and financial environment.**



## **2008 performance**

The first and second halves of 2008 showed marked differences in the economic environment and also the trading patterns of the Group.

The first half of 2008 was dominated by the need to increase prices to recover significant commodity cost inflation whilst capacity was constrained in the Grocery division by the manufacturing rationalisation programme and the implementation of core modules of SAP. In *Hovis*, whilst we stabilised our market share, the performance reflected lower year-on-year volumes. In the Chilled & Ireland division, meat-free continued to grow strongly and our business in Ireland focused on delivering its integration synergies. The chilled retailer brand business experienced tough underlying trading conditions but was successful in winning new contracts which commenced in August.

In the second half, from September we began to see good sales volume growth in our Grocery division as we were able to return promotional activity to more normal levels having completed the manufacturing rationalisation programme. As the economic downturn became more apparent, many of our Grocery categories began to show volume growth as consumers looked for brands and products they could trust and which offer good value for money. Following the relaunch of *Hovis* we saw improvements in brand equity measures, followed by increases in market share. The meat-free business continued to show strong growth, assisted in its export markets by the weakening of sterling whilst profit development in our Irish business continued to be driven by integration synergies. The benefit of the new contracts in the chilled retailer brand business was partly offset by the weakening of demand for its premium quality products due to the economic downturn.

Trading profit growth in the second half for the Group was primarily due to integration synergies. The synergies were, however, partly offset by increased manufacturing costs in the Grocery division, an under-recovery of cost inflation in the Chilled & Ireland division and a small year-on-year decline in volumes in the *Hovis* division in the third quarter.

We believe that the Group finished 2008 with significant momentum, with year-on-year volume growth in its two largest divisions, Grocery and *Hovis*. In spite of concerns that the economic downturn might lead to consumers trading down to retailer-branded products, in the majority of our categories, branded products have seen volume growth ahead of retailer-branded products.

## **Integration**

In April 2008, we implemented some core elements of the SAP information system in our Grocery division, following which we continued with the manufacturing rationalisation programme. We have closed nine factories across our Grocery division in the space of 12 months, a considerable accomplishment which has significantly increased the scale and efficiency of the remaining factories.

We remain on track to deliver the full £113m of annual cost synergies identified at the time of the acquisition of RHM with an annualised run rate as we enter 2009 of £89m. With the major administration integration and manufacturing rationalisation programmes complete, the remaining elements of the integration programme in 2009 include the opening of a group-wide shared service centre in

Manchester, rationalising the Grocery division logistics network and realising further procurement synergies. The shared service centre, envisaged to employ approximately 300 people, will provide the ideal platform upon which the full benefits of the SAP systems and processes can be realised. The logistics programme will result in the operation of a 3 hub strategy across the UK with key distribution centres in East Anglia, the North West and the Midlands.

In January 2009, we announced that we had received firm offers for the businesses of Le Pain Croustillant ("LPC"), Sofrapain SAS ("Sofrapain") and Martine Spécialités SAS ("Martine") for a net consideration totalling approximately £47m. The sales of LPC and Martine completed on 2 March 2009 and we expect the sale of Sofrapain to complete in April 2009. These businesses are principally own label businesses outside the UK and Ireland and are therefore not core to Premier's stated strategy.

### Capital Structure

We have now completed our capital structure review and have proposed raising approximately £404m gross equity proceeds, which we believe, combined with the amended lending agreement and new pensions framework agreement, will enable us to put in place a more appropriate capital structure for the business going forward and in turn, provide a solid platform for future development. Further details of the equity raising are set out in the Prospectus sent to shareholders on 5 March 2009.

### Outlook

One of the most pleasing aspects of the business in 2008 is how robust trading has been during a tough period for consumer-facing businesses.

Current trading is in line with our expectations and we believe that our brands will continue to be resilient in the difficult economic environment. Food inflation, although at lower levels than in 2007 and 2008 remains a concern, particularly due to the effect of the weakening of sterling.

The integration programme continues to progress well. The Group's new shared service centre was opened in February 2009 and the implementation of SAP in the Group's ambient cake business is on track for April 2009.

We believe that with the momentum developed by our Grocery business over the last four months of 2008, combined with successful relaunch of *Hovis* and remaining integration synergies, we are well positioned for further progress in 2009.



**Robert Schofield**  
Chief Executive  
5 March 2009

## Operating review

£m	2008	2007 <sup>2</sup>
Turnover		
Grocery	<b>1,419.0</b>	1,232.9
Hovis	<b>756.3</b>	534.9
Chilled & Ireland	<b>428.3</b>	357.4
Turnover for continuing operations	<b>2,603.6</b>	2,125.2
Trading profit <sup>1</sup> for continuing operations	<b>310.2</b>	271.9
Trading profit margin – continuing operations	<b>11.9%</b>	12.8%
Amortisation of intangibles	<b>(76.7)</b>	(62.0)
Foreign exchange valuation items credit	<b>6.9</b>	4.7
Pension financing credit	<b>15.6</b>	16.1
Operating profit before exceptional items	<b>256.0</b>	230.7
Exceptional items	<b>(296.5)</b>	(158.7)
Operating (loss)/profit	<b>(40.5)</b>	72.0
Operations discontinued in 2008		
Turnover	<b>173.0</b>	122.4
Trading profit <sup>(1)</sup>	<b>10.0</b>	8.3

(1) Trading profit is defined as operating profit from continuing operations before exceptional items, amortisation of intangible assets, the revaluation of foreign exchange and other derivative contracts under IAS39 and pension credits or charges in relation to the difference between the expected return on pension assets and interest costs on pension liabilities. Trading profit for discontinued operations excludes any allocation of central overhead costs.

(2) The results for 2007 include only 41 weeks trading for RHM which was acquired in March 2007. As such the results for 2008 and 2007 are not directly comparable.

### We are now leveraging the scale we have created

The combined Premier business has significant competitive advantages:

- deeper, broader, consumer and customer insight;
- broad brand and product portfolio of staple foods;
- scale brands;
- broad customer base;
- bigger, better invested factories;
- lower cost, more flexible distribution capabilities;
- lean admin functions supported by common IT platform; and
- stable, cash generative business.

# Strategy and key strengths

## We have a well-defined strategy to develop our business.

We believe that this strategy allied to the transformation programme that we have been successfully implementing following the acquisition of Campbell's and RHM and the experience of our management team, considerably enhances our competitive strengths in a number of key areas and positions us well to create value for shareholders. As we move to lower leverage over the next few years, our emphasis will be on the first three elements of this strategy rather than on further acquisitions.

### 1. Driving organic branded sales growth

Premier's products hold a number of category leading positions in the UK and Republic of Ireland, with most of our principal brands ranked as the No. 1 or No. 2 brand within their respective categories. We operate across a wide range of food categories with both branded and retailer-branded products and this provides us with a strong platform for continued organic branded sales growth in our core markets and also a certain degree of resilience and protection against shifts in consumption patterns.

### 2. Focusing on the UK and Republic of Ireland

The breadth of the categories that Premier supplies and our focus on the UK and Republic of Ireland provides us with deep and broad insight into the shopping and consumption habits of UK consumers, enabling highly focused innovation, sales and marketing strategies, as well as greater strategic co-operation with key customers. This enables us to successfully rejuvenate, develop and extend existing brands. In addition, the broad range and scale of our brands enables us to launch new innovation more cost-effectively as new products can be launched under existing brands. The Group intends to capitalise upon its strong brand recognition to drive the growth and profitability of new product development.

### 3. Leveraging our scale to enhance customer relationships, improve manufacturing and supply chain efficiency and reduce overhead costs

#### Broad range of customers and enhanced relationships with major customers

We supply our products through a broad range of customers including the major multiple retailers, cash and carry and convenience stores, discounters and foodservice operators. Our relationships with our customers are enhanced by the additional insight and breadth of service we are able to supply which we believe provides us with a competitive advantage against other food manufacturers.

#### Improved manufacturing and supply chain efficiencies

The scale of the Group's manufacturing facilities increases our production efficiency and supports our innovation programme through the wide range of food production technologies available to us. Furthermore, the broad range of product formats we supply and the significant volumes being delivered enhance the efficiency of our distribution network and enable us to offer our customers an increased and integrated range of logistics solutions. In addition, the scale of our raw material procurement enables the Group to obtain lower per unit input costs.

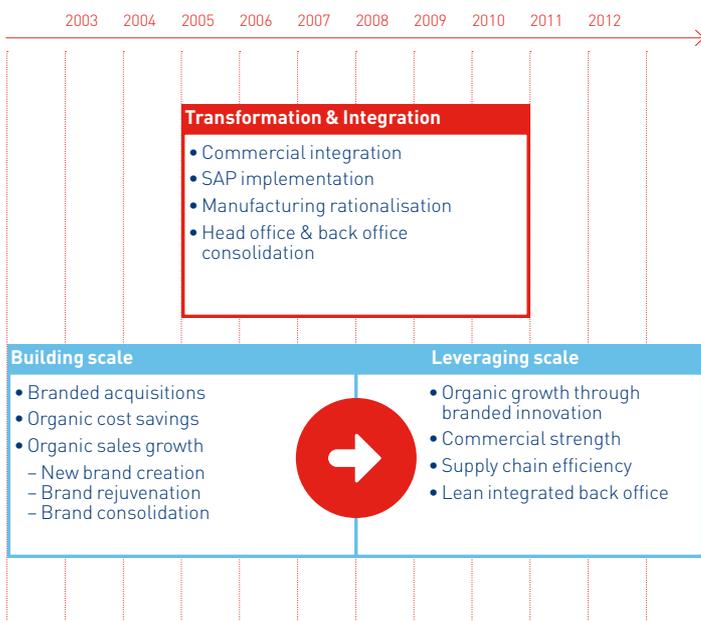
#### Centralised administration, low-cost support and IT efficiency

The costs of Premier's administration and support are spread over a large business, again reducing the cost per unit of these functions. The implementation of the enterprise resource planning software SAP will help us to realise the full potential of cost synergies from acquisitions and to manage working capital more efficiently.

### 4. Acquiring "Great British Brands" in order to drive long-term Shareholder value

Premier's senior management team has significant experience in branded UK food and beverage businesses. The Group has demonstrated its ability to rapidly integrate and synergise acquisitions, as well as to drive successful brand rejuvenation, extension and innovation. We believe that this provides us with an excellent platform from which to drive accelerated sales growth following the completion of the transformation programme.

## Evolution of Premier Foods



# WE HAVE A PASSION FOR UNDERSTANDING CONSUMERS' NEEDS

The breadth of categories we supply and our focus on the UK and Republic of Ireland provides us with deeper and broader insight into the needs of consumers.

This insight provides us with a clearer understanding of the key shopping and consumption habits of consumers, the key trends in the UK food industry and how our brands should respond to meet these needs.

This in turn enables focused sales and marketing strategies which will drive category and brand growth.

## **Branston**

*Branston* relish increased market share by 35% with sales of £5.7m during 2008 further cementing the brand's No.1 position. New Red Onion & Cranberry pickle – a seasonal edition – was launched in October 2008.

Source: IRI, Major Multiples, data to 27 December 2008.

## **Hartley's Low Calorie Jelly**

*Hartley's Low Calorie Jelly* is our lowest calorie dessert with only 10 calories, perfect for those looking for a sweet treat but also wanting to watch their diet. During 2008 sales grew 75% against the previous year to £3.3m.

Source: IRI, Total Grocery Outlets, 52 Weeks ending 27 December 2008.

## **Quorn**

Mini Savoury Eggs – a new format for *Quorn*, providing a healthier meat-free option for picnics, parties and kids' lunch boxes. Launched in May 2008 and has delivered sales of £2.0m in the year.

Source: IRI, Total Grocery Outlets, 52 Weeks ending 27 December 2008.



# Overview of business

## Group

Premier Foods is one of the UK's leading food producers, producing a wide range of category leading branded and retailer-branded food products.

### Three focused divisions

Following the acquisitions of Campbell's and RHM, we have organised the business into three divisions:

## £2,603.6m

Turnover

### Grocery

Comprising the shelf stable or "ambient" grocery products.



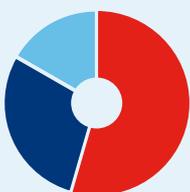
### Hovis

Comprising wrapped bread, morning goods and bulk and bagged flour.



### Chilled & Ireland

Comprising chilled and frozen meat-free products, operations in the Republic of Ireland and our retailer-branded chilled ready meal and cake businesses.



- Grocery
- Hovis
- Chilled & Ireland

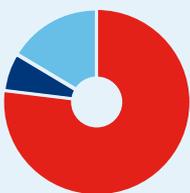
£1,419.0m	54.5%
£756.3m	29.0%
£428.3m	16.5%

## £310.2m

Profit

### Organised to maximise scale with customers and suppliers

Each division operates a sales force organised into customer-focused teams, with strong co-ordination across the Group directed by the Group Sales Director and category-focused marketing teams. Each division operates a management strategy and planning function to co-ordinate marketing and promotional strategies, ensuring that Premier's production capacity is matched to demand. These promotions are aimed at increasing consumer awareness, building customer loyalty and increasing usage and purchase frequency of our products. In addition, in some categories we assist our major multiple retailer customers to design and implement marketing promotions for their retailer-branded business, in order to encourage further demand for Premier's retailer-branded products. The Group's administration functions, namely Procurement, Finance, Information Services, Technical and Human Resources are managed on a group-wide basis. These functions will undergo further integration during 2009 and 2010 in conjunction with the further roll out of the enterprise resource planning software system, SAP.

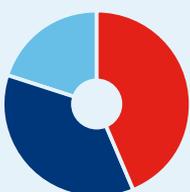


- Grocery
- Hovis
- Chilled & Ireland

£239.2m	77.1%
£20.9m	6.7%
£50.1m	16.2%

## 15,913

Employees



- Grocery
- Hovis
- Chilled & Ireland

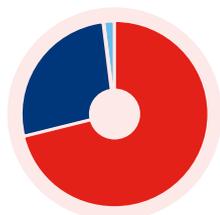
6,973
5,761
3,179

## Grocery

The Grocery division manufactures a wide range of shelf stable or "ambient" food products under a number of category leading brands and retailer-branded products. For the year ended 31 December 2008, the Grocery division reported turnover of £1,419.0m of which 71.2% was branded and trading profit of £239.2m.

# £1,419.0m

Turnover



● Branded	£1,009.9m	71.2%
● Retailer-branded	£385.0m	27.1%
● Business to business	£24.1m	1.7%

### Manufacturing Footprint

● Manufacturing	12
○ Distribution/Logistic centres	2

#### Manufacturing Sites

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

#### Distribution/Logistic centres

- 1 Long Sutton
- 2 Rugby



## Business

Premier's principal brands include *Mr Kipling* cake, *Cadbury* ambient cake (under licence), *Batchelors* soup, noodles and vegetables, *Sharwood's* Asian meal solutions, *Loyd Grossman* cooking sauces (under licence), *Bisto* gravy, *Oxo* stock, *Branston* pickles, relishes and baked beans, *Hartley's* preserves and jelly, *Robertson's* preserves and *Ambrosia* desserts.

Premier also has a wide range of other well-known but smaller brands. These include *Paxo* stuffing, *Saxa* salt, *McDougalls* flour, *Frank Cooper's* preserves, *Atora* suet, *Lyons* cakes, *Fray Bentos* meat pies, *Homepride* cooking sauces, *Sun-Pat* peanut butter, *Rose's* marmalades, *Bird's* custard, *Gale's* honey and lemon curd, *Sarson's* vinegar, *Haywards* pickles, *Smash* instant mashed potato, *Marvel* powdered milk creamer and *Angel Delight* instant desserts.

## Strategy

During 2008 the Grocery division carried out a major strategic review of its business. This recognised the importance of prioritising resources across the division's portfolio of brands and categories.

The division's aim is to become the No.1 food supplier in the UK by:

- aligning behind clear category and branded choices - "Drive", "Core" and "Classic";
- building growth through innovation - utilising the full scope of its consumer insights, technologies and brands;
- being the most attractive partner for customers; and
- leveraging manufacturing and supply chain scale.

## Integration

The Grocery division has seen substantial benefit from the integration of Campbell's and RHM having integrated the sales, marketing, finance and IT functions of each business, thereby realising significant cost synergies. In addition during the year we completed the rationalisation of the Grocery manufacturing base, closing nine factories over a 12 month period with production being transferred to the remaining 12.

The division distributes its products to customers using a number of third-party logistics providers. The division commenced a rationalisation of its distribution functions in 2008 which it intends to complete in 2009.

## Market and competitive environment

Due to the breadth of categories that the division covers, Premier has no principal competitor who operates across all of the same categories. The competitors that the Grocery division face range from multi-national food companies to smaller family or private equity owned businesses. Competitors in which we have significant branded shares in the categories in which we operate include H. J. Heinz Company (soup, baked beans), Baxters Food Group (soup, pickles), Unilever plc (stocks, cooking sauces), Masterfoods (part of Mars Incorporated Group) (cooking sauces) and Andros UK Ltd (preserves). In addition, Premier's brands face competition from retailer-branded products.

# Overview of business

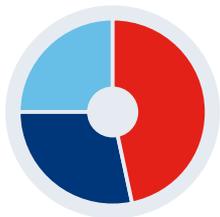
Continued

## Hovis

The *Hovis* division operates principally in the wrapped bread market, marketed under brands such as *Hovis*, *Mother's Pride* and *Nimble*. In addition, the division manufactures own label bread and morning goods. *Hovis* is the second largest wrapped bread brand in the UK.

# £756.3m

Turnover



● Branded	£353.0m	46.7%
● Retailer-branded	£216.3m	28.6%
● Business to business	£187.0m	24.7%

### Manufacturing Footprint

● Bakeries	12
■ Milling sites	10
○ Depot/Regional Distribution centres	9

Bakeries	Depot/RDC
1 Avonmouth	1 Bradford
2 Belfast	2 Dagenham
3 Birmingham	3 Chandlers Ford
4 Eastleigh	4 Inverness
5 Erith	5 Martland Mill
6 Forest Gate	6 Mendlesham
7 Glasgow	7 Mossend
8 Greenford	8 Newcastle
9 Leicester	9 Plymouth
10 Nottingham	
11 Mitcham – Sebon	
12 Wigan	

Milling sites
1 Andover Mill
2 Barry Mill
3 Gainsborough
4 Glasgow Mill
5 Lichfield – Holgran
6 Manchester Mill
7 Newbridge – Fleming Howden
8 Selby Mill
9 Southampton Mill
10 Wellingborough Mill



### Business

The division is also the largest vertically-integrated baker and flour miller in the UK and produces a wide range of bulk flours and branded and own label bagged flours. We supply 57% of the branded flour sold business to business in the UK under brands such as *Hovis* and *Granary*. We also produce *Elephant Atta*, the leading branded flour in the Asian ethnic market with 53% market share.

For the year ended 31 December 2008, the *Hovis* division reported turnover of £756.3m of which 46.7% was branded and trading profit of £20.9m.

The division operates from 12 bakeries and ten milling sites in the UK. The wrapped bread and morning goods business operates its own logistics infrastructure, delivering to customers' warehouses or direct to store from the bakeries and an additional nine depots. Flour milling products are distributed through third-party logistics providers.

### Strategy

During 2008, the *Hovis* division implemented a new strategy to rebuild volumes in the bread business after recent market share declines. Approximately £16m was invested during 2008 in capital and recipe improvements to improve the texture and flavour of *Hovis* bread and to ensure that all the divisions products meet consumer's expectations. *Hovis* launched its "softest ever" white loaf during the first half of 2008, which, supported by a strong advertising and promotional campaign, has seen its share of the white bread market grow by 3.2 percentage points to 16.8%.

In August the remainder of the *Hovis* range was relaunched, with improved recipes to ensure that it retains consumer preference across the whole range, new packaging, a new range of 400 gram loaves and a major new TV advertising campaign. As a result *Hovis'* total market share grew by 2.4 percentage points to 24.7% between August 2008 and January 2009.

### Market and competitive environment

*Hovis'* principal competitors in the wrapped bread and morning goods markets are Warburtons Ltd, and Associated British Foods plc through their Kingsmill, Allinsons and Burgen brands.

Our mills use approximately 1.25m tonnes of wheat a year, 80% from UK farmers. Our flour is used primarily by *Hovis* and other Group companies with the remainder being sold in the market. The principal competitor in the bulk flour market is ADM Milling Ltd.

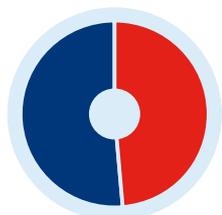
The wheat market has experienced significant volatility over the last 18 months with prices reaching a peak in February and March 2008. Whilst prices have fallen since then, they remain significantly higher than historical levels.

## Chilled & Ireland

The Chilled & Ireland division comprises Premier's chilled and frozen meat-free business, operations in the Republic of Ireland and retailer-brand chilled ready meal, cake and frozen pizza base businesses.

# £428.3m

Turnover



● Branded	£209.3m	48.9%
● Retailer-branded	£219.0m	51.1%

### Manufacturing Footprint

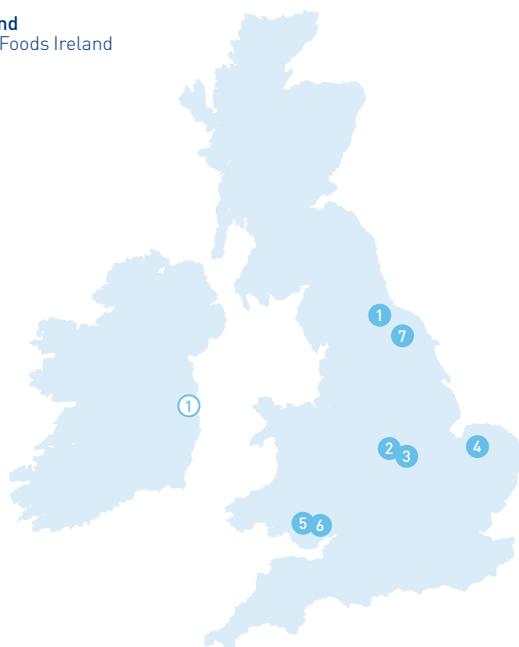
- Manufacturing 7
- Premier Foods Ireland

#### Manufacturing sites

- 1 Belasis
- 2 Leicester – Charnwood
- 3 Leicester – RF Brookes
- 4 Methwold
- 5 Rogerstone – Avana
- 6 Rogerstone – RF Brookes
- 7 Stokesley

#### Premier Foods Ireland

- 1 Dublin – Premier Foods Ireland



For the year ended 31 December 2008, the Chilled & Ireland division reported turnover of £428.3 m of which 48.9% was branded and trading profit of £50.1 m.

The meat-free business comprises myco-protein based foods under the *Quorn* brand and tofu and vegetable based products under the *Cauldron* brand. *Quorn* and *Cauldron* are respectively the No.1 and No.2 brands in the meat alternative market. *Quorn* is unique within Premier as the only brand with significant international presence with sales in Norway, Sweden, Holland and the US. Sales of *Quorn* continue to grow strongly, turnover having grown by 34.1% from £84.4m in 2005 to £113.2m in 2008. The division operates from three manufacturing sites but also uses a number of co-manufacturers.

Premier's business in the Republic of Ireland sells ambient grocery products in a number of categories including cake, dessert, soup, sauces and spreads under a range of well known Irish brand names including *Gateaux*, *Erin* and *Chivers*. Over the year the three Irish businesses of Campbell's, RHM and Chivers have been integrated into one business. They now operate from a single office site with a single warehouse facility. The products are predominantly manufactured by our Grocery manufacturing facilities in the UK and sold via the main Irish multiples.

We supply retailer-branded chilled ready meals, cakes and frozen pizza bases from four manufacturing facilities primarily for Marks & Spencer plc, Pizza Hut (UK) Ltd and other leading food service retailers in the out-of-home market. Each business in the division distributes its products to customer distribution centres through third-party logistics providers. During the year the chilled ready meals business successfully tendered for a £21m Italian category business with Marks & Spencer plc. Premier's principal competitors in the chilled market are Northern Foods plc, Bakkavör Group h.f., Kerry Group plc and Greencore Group plc. In the Republic of Ireland our principal competitors are the same as those for the UK grocery market.

### Group suppliers

In 2008 we spent around £1.7bn on externally sourced goods and services. This is split between "direct" spend on items such as ingredients, wheat, packaging and energy and "indirect" spend on items such as non-production goods & services logistics, sales & marketing and utilities.

### Supply base

We have a supply base of around 10,000 suppliers. Our top 250 suppliers account for approximately 75% of Group spend and our top 1,000 suppliers account for approximately 95% of Group spend.

During the year we conducted a review of our supply base which involved the categorisation of suppliers as strategic, preferred or approved. We have identified preferred suppliers to the business and continue to implement a partnership programme designed to promote long term relationships and commitment between the Company and its key strategic suppliers.

# Key risks, factors and market trends

Through its normal business operations, Premier is exposed to a number of risks, factors and market trends which could impact on the results of the Group. These may be common to the food industry generally or relate specifically to the Company. The key factors identified by the Board are highlighted below together with the relevant management responses which are designed, where possible, to help mitigate the potential impact on the business. Further information on our risk management process and internal controls can be found on page 38.

## Risk area and potential impact

## Management response

### Industry risks and trends

#### Raw materials

The Group purchases a significant amount of raw materials each year. Since 2007 there has been a significant increase in the cost of raw materials and other input costs such as utilities. Any inability or delay in passing on increases in raw material costs to our customers or to source raw materials of an acceptable type or quality could adversely affect the results of the Group.

Premier has a centralised Procurement function with a global sourcing strategy. We are a significant purchaser of raw materials in the UK which assists us in negotiating better terms and lower per unit costs. We are able to source goods from around the world and develop strong relationships with our key suppliers. During 2008 we were successfully able to recover substantially all of the cost increases seen in the year.

#### Competition

There is strong competition between manufacturers in the grocery business. The market is served by a number of well-established companies that operate on both a national and international basis within single or multiple product categories. We face competition at a category level from these companies on both branded and unbranded products. Our ability to compete effectively requires us to be successful in the sales and marketing of our existing products, new product development and innovation.

Our focus on the UK and Ireland and our scale and breadth enable us to operate across categories with both branded and unbranded goods often with category leadership. Relationships with our customers are further enhanced by the additional insight we have into the behaviour and needs of the UK consumer and the breadth of service we are able to offer.

#### Economy

Our business could be adversely affected by general business conditions and a worsening of the economy both generally and in the UK and Ireland in particular. Factors such as interest rates, inflation, the availability and cost of credit, and the liquidity of the global financial markets could significantly affect the activity level of customers. An economic downturn may lead to a decline in the volume of sales of premium brands, and may increase pressure on retailers to reduce prices.

Whilst general economic conditions are outside of the Company's control we believe that our portfolio of staple food products and popular brands should continue to prove resilient in the current difficult economic environment.

#### Customers

Our ability to compete in the retail food industry and the results of our operations could be adversely affected if the concentration and buying power of grocery retailers increases. The strength of the major multiple retailers' bargaining position gives them significant leverage over their suppliers in dictating pricing, product specification and the level of supplier participation in promotional campaigns and offers.

Our focus on the UK and Ireland and our scale and breadth enable us to operate across categories with both branded and unbranded goods often with category leadership. Relationships with our customers are further enhanced by the additional insight we have into the behaviour and needs of the UK consumer and the breadth of service we are able to offer.

Risk area and potential impact	Management response
<b>Industry risks and trends (continued)</b>	
<p><b>Customer preferences</b>                      There are a number of trends in consumer preferences which impact on Premier and the industry as a whole. These include, amongst others, dietary concerns and fashions and an increase in preference for fresh and chilled foods, ready prepared foods and organic foods. Furthermore, concerns as to the nutritional value of certain foods may increasingly result in food manufacturers being encouraged to produce products with reduced levels of salt, sugar and fat and to eliminate trans-fatty acids from the ingredients used. These trends may reduce demand for certain of our products and providing or developing modified or alternative products may increase our costs, and either or both of these factors may affect the results of our operations.</p>	<p>We believe that our broad range of branded and own label staple food products and broad customer base leaves us well positioned to cope with these trends and that the Group's operational and financial performance displays substantial resilience when faced with shifts in overall consumer consumption patterns and difficult economic conditions.</p>
<p><b>Regulation</b>                      As a manufacturer of products intended for human consumption, we are subject to extensive UK and EU legislation and regulation in respect to: product composition, manufacturing, storage, handling, packaging, labelling, advertising and the safety of our products, the health, safety and working conditions of employees, pensions, and our competitive and marketplace conduct. Failure to comply with regulations or the introduction of new regulatory requirements may effect our business operations and have an adverse effect on our results.</p> <p>In April 2008, the UK Office of Fair Trading (OFT) notified us, and a number of other UK based retailers, of an enquiry into potential co-ordination of retail prices in sectors of the grocery market. Premier are co-operating with the enquiry, which is in the information gathering stage. Due to the preliminary nature of the investigation it is not possible to predict how the investigation will proceed and when it will be concluded or determine any outcome in advance.</p>	<p>Premier is committed to complying with all its statutory and regulatory obligations and to managing its business in a socially responsible manner. Foods quality and safety is imbedded in the Quality Management System we operate at each site. Performance in the areas of Food safety and Health &amp; Safety are closely monitored and reported to and reviewed by the Group Executive and Board on a regular basis.</p>
<b>Risk area and potential impact</b>	
<b>Operational risks and trends</b>	
<p><b>Suppliers</b>                      We are dependent on the provision of products from key suppliers. A loss of these suppliers could cause short-term disruption to the operational ability of the Group.</p> <p>Some of our suppliers take out trade credit insurance on their customers ability to pay them. As a result of the general worsening economic environment this insurance may be harder for customers to obtain and may effect there ability to supply us.</p>	<p>Our procurement team reviews and monitors suppliers by category as part of its ongoing risk assessment process. This identifies where we have key relationships with suppliers and where the loss of such a supplier could have a serious impact on the operational ability of the Group. Business continuity risk can be assessed across a number of factors including: commodity type; availability of alternative sources of supply; financial status of suppliers; and the ability to switch supply sources. Where necessary contingency plans are put in place and the situation monitored.</p> <p>The Company is working with suppliers and where appropriate credit insurers to address current credit insurance concerns.</p>
<p><b>Seasonality</b>                      Consumer demand for convenience foods tends to be higher in colder months of the year. Sales of certain of our products may therefore be affected by unseasonable weather conditions. Also certain of our products see increased sales during the pre-Christmas period and this has an impact on working capital as production is higher and stock levels build in the run up to this period.</p>	<p>Management plans for changes in seasonal demand for its products and where possible builds contingency around changes in seasonality.</p>

# Key risks, factors and market trends

Continued

Risk area and potential impact	Management response
<b>Operational risks and trends (continued)</b>	
<p><b>Licences and intellectual property</b>                      Whilst the majority of the intellectual property used in our business is owned, we have entered into medium to long-term licensing arrangements for the use of certain brands. These agreements and licences under which we produce certain of our branded products will expire and may not be renewable on terms acceptable to us or at all. The failure to renew one or more of our licences could have an adverse effect on the results of our operations.</p>	<p>Premier develops long-term and lasting relationships with the owners of licensed brands. We also recognise that our own intellectual property is one of our most important assets and in order to maintain and increase the value of these assets, we actively manage our brand portfolio. We ensure that our trademarks are registered in the jurisdictions where our products are marketed.</p>
<p><b>Brand management</b>                      We are dependent on the successful management of our key brands. Most of our key brands have been marketed for several decades. Our Marketing teams must continue to support our brands through programmes of investment in new product development, product repackaging, brand relaunches and marketing efforts in order to continue to generate revenues and maintain or increase market share. We must also anticipate changes in consumer preferences and develop new products in response to these changes. If we are not successful in our brand management efforts, the results of our operations and our profitability could be materially adversely affected.</p>	<p>Premier has a strong track record of brand rejuvenation and innovation. Our focus on the UK and Ireland and our scale and breadth enable us to operate across categories with both branded and unbranded goods often with category leadership. Our relationships with our customers are further enhanced by the additional insight we have into the behaviour and needs of the UK consumer and the breadth of service we are able to offer.</p>
<p><b>Pension schemes</b>                      We have defined benefit pension plans that are currently in deficit (on an actuarial basis). Valuations of all defined benefit plans are dependant upon market conditions and the actuarial methods and assumptions (including assumptions as to mortality), and we may be required to pay increased pension contributions which may have an adverse effect on our financial condition.</p>	<p>The Board regularly reviews the value of assets and liabilities under the Group's pension schemes as well as the potential impact of changes in actuarial assumptions.</p>
<p><b>Damage to sites</b>                      Certain of our manufacturing sites are at a statistical risk of suffering damage from floods or fire, given the flammable nature of flour and the frying and baking activities carried out at several such sites. We are also exposed to losses from inadequate or failed internal information technology processes and systems.</p>	<p>Fire and flood risks are monitored closely under Health &amp; Safety and reported to and reviewed by the Group Executive and Board on a regular basis. Detailed business continuity and disaster recovery plans are in place across the Group. We also have in place a Group insurance policy which covers all sites.</p>
<p><b>Product quality and safety</b>                      Our products are subject to a number of supply and manufacturing processes. A failure to control the quality of these processes, or the occurrence of some external event (e.g. third party contamination) may result in remedial action such as product recalls which could result in damage to our brands' reputation.</p>	<p>The Company takes product quality very seriously and has rigorous quality assurance processes in place to minimise any potential risk.</p>

Risk area and potential impact	Management response
<p><b>Financial risks and trends</b></p>	
<p><b>Leverage and liquidity</b>                      Our substantial leverage could adversely affect our financial well-being. There is a risk that a greater level of cash flow than anticipated may be required to service our debt (for example, due to a rise in interest rates) or that our debt level may limit our ability to react to changing market conditions, changes in our business and changes in the industry in which we operate. There is a risk that in certain circumstances, we may be unable to meet our obligations when they fall due and to replace existing facilities when they are withdrawn.</p> <p>During periods of market dislocation, such as those experienced recently, our ability to manage liquidity requirements may be impacted by a reduction in the availability of wholesale term funding for market participants, as well as an increase in the cost of raising wholesale funds.</p>	<p>The Board closely monitors the Group's level of debt and liquidity to ensure that it meets its covenant requirements and also has sufficient working capital.</p> <p>We seek to mitigate the effect of movements in interest rates by entering into interest rate swaps that reduce our level of exposure to floating rates in relation to the debt portfolio of the Group.</p> <p>The Board has now completed its review of the Group's capital structure and has announced on 5 March 2009 an equity issue, which we believe, combined with amended banking facilities and an agreed schedule of pension deficit contributions, will enable us to put in place a more appropriate capital structure for the Group and in turn, provide a solid platform for future development.</p>
<p><b>Interest rates swaps</b>                      As set out above we enter into interest rate swaps. There is a risk that we will not be able to replace the interest rate swaps and other financial derivatives on favourable terms when they expire, or at all. The terms and conditions of some of our swaps result in a rise in the Group's interest cost as interest rates fall. In addition we have a number of long dated interest rate swaps outstanding, which can be terminated at the option of our counterparties. In the event that such a swap is terminated, we could be liable to make a payment to the counterparty based on the mark-to-market value of the swap at such time. Any such payment may be a material cost and have a material adverse effect on our liquidity and the results of our operations.</p>	<p>The Group's policy is to have interest rate hedging in place for the majority of its borrowing, however, we actively monitor our interest rate exposure and recognise that the level of debt makes our profitability sensitive to movements in interest rates.</p>
<p><b>Currency exchange fluctuations</b>                      We source raw materials from countries around the world and export our products to various countries. Therefore, our financial position and the results of our operations are subject to currency transaction risk primarily against the U.S. dollar, Euro and Swedish Krona. We generate some of our profits in non-sterling currencies and have assets in non-sterling jurisdictions, principally the Euro.</p>	<p>The translation exposure resulting from these Euro-denominated profits and overseas net assets is hedged. We enter into forward currency contracts to hedge partially against our exposure to foreign currency exchange rate fluctuations in the purchase of raw materials and in our export business. This hedging helps to reduce our exposure to short-term volatility in exchange rates.</p>

# WE HAVE A PASSION FOR REJUVENATING CLASSIC BRANDS

The relaunch of *Hovis* in 2008 is a great example of Premier's strategy of acquiring and rejuvenating a classic British brand.

At the end of 2007 it was clear that there were a number of challenges facing *Hovis*. Margins and market share had been falling, the brand was facing increased competition and costs were going up. Following a major strategic review of the division, *Hovis* was relaunched in 2008 with a focus on superior quality and rebuilding consumer identification with the brand.

## Recipe improvements

We have invested around £16m in product quality – significant recipe improvements, better quality ingredients and investment in new equipment.

The new *Hovis* recipes have resulted in significant improvements in the perception of *Hovis*' quality and taste following the relaunch as reflected in consumer preference surveys:

Attributes	Increase compared to 12 months ago
"Better quality than others"	+20%
"Healthier than others"	+30%
"Worth paying more for"	+20%
"Buy nowadays"	+26%

Source: Millward Brown, 12 weeks ending 1 February 2009.

## New product range and packaging

The range was strengthened with the introduction of new 400g loaves. New packaging was also introduced to give *Hovis* a consistent look and give the brand standout shelf preference.



## Major advertising campaign

A number of initiatives were undertaken in the year. Most notably the introduction of the new *Hovis* white – our softest white ever – in May and in September 2008 a major new TV advertising campaign "Go on lad" was launched to rebuild emotional attachment with the brand.

The new campaign has received a number of awards including the prestigious "Campaign of the Year" award for 2008 from Campaign Magazine.



## Building Momentum

The response to the relaunch of *Hovis* has been very positive. We have now returned *Hovis*' market share to year-on-year growth reaching 24.7% in January 2009, an increase of 2.4 percentage points since August 2008. Volume growth also increased during Q4 2008 and this growth has continued into 2009. Whilst there is still much work to be done we believe that we have built a platform for sustainable future profit development.

24.7%

Market share for the 4 weeks to 24 January 2009

+2.4%

Market share growth between August 2008 and January 2009



# Operating review



## Grocery

£1,419.0m

Sales (2007: £1,232.9m)

£239.2m

Trading profit (2007: £214.1m)

The Grocery division comprises the original Premier business with the exception of the meat-free business, the Campbell's business, RHM's Culinary Brands division, Ledbury Preserves from RHM's Customer Partnerships division and Manor Bakeries from the RHM Cakes division.

Turnover from the Grocery segment was £1,419.0m for 2008, an increase of £186.1m, or 15.1%, as compared to £1,232.9m for 2007. The increase in turnover was principally due to the acquisition of RHM. The increase in trading profit was primarily due to the inclusion of a full year of RHM trading and the integration synergies partly offset by unrecovered cost inflation during the first half of the year.

Of the three divisions, the Grocery division has experienced the greatest change from the integration of the RHM and Campbell's businesses. Following the completion of the initial integration of the administration functions in 2007, our focus in 2008 turned to our manufacturing rationalisation programme and the implementation of SAP. These two projects required a more stable sales profile, particularly during the first half of the year. This limited the division's level of promotional activity, leading to reduced sales volumes.

On preparing the detailed plans for the manufacturing rationalisation programme during early 2008, we identified an opportunity to accelerate the programme and in so doing, complete the closure of all nine factories by the end of November 2008, earlier than originally envisaged. We deemed the acceleration of the programme would reduce the risk to the business by removing capacity constraints more quickly and so enable it to return its focus to organic growth sooner. The rationalisation programme was successfully completed in line with this accelerated timetable.

In the second half, the impact of the economic downturn which led to increased volumes in our categories, together with the newly improved capacity across our manufacturing network led to a noticeable increase in our sales volumes over the last four months of the year. This combined with price increases to recover raw material cost inflation, resulted in an increase in sales of 10.8% against the same period in 2007.

We believe that the outlook for the division in 2009 is good. The evidence to date suggests that the economic backdrop is positive for many of the categories we operate in as consumers look for brands and products that they can trust and which offer good value for money. Following the completion of the manufacturing rationalisation programme, we are now shifting our attention to delivering branded sales growth through product innovation.



**Hovis**

**£756.3m**

Turnover (2007: £534.9m)

**£20.9m**

Trading profit (2007: £17.4m)

The Hovis division comprises the RHM Bread Bakeries division.

Turnover from the Hovis segment was £756.3m for 2008, an increase of £221.4m, or 41.4%, as compared to £534.9m for 2007. The increase in turnover was primarily due to the acquisition of RHM and increases in prices primarily as a result of increased wheat and energy costs. The increase in trading profit is primarily due to the inclusion of a full year of RHM trading partly offset by lower volumes in the second and third quarters of 2008 and the additional investment behind the *Hovis* brand.

As announced in our preliminary results for 2007, we embarked on a new strategy for our Hovis division. The principal elements of this strategy, which we have rolled out through the year, were: improved quality, redesigned packaging, new advertising and an extended range, including new 400g loaves. We commenced the implementation of the new strategy with an improved recipe and new packaging for *Hovis* white bread in the spring, returning it to sales volume growth. We then rolled out improved recipes, manufacturing processes and consistent packaging across the whole range during the second half. In September we aired our award winning new TV advert "Go on lad". We were delighted by the consumer response to the relaunch and *Hovis* market share has improved by 2.4 percentage points from August 2008 to January 2009 to reach 24.7%, its highest level for 16 months. We have also seen a significant improvement in brand equity measures, particularly quality, health, and "willing to pay more for". Turnover for the division in the second half of the year was 10.0% higher than the same period in 2007, due to price increases to recover cost inflation partly offset by the lower overall volumes over the second half.

Wheat prices have remained elevated compared to historic levels for the duration of 2008, although they have decreased from the highs of late 2007 and early 2008. The 2008 UK wheat harvest saw a significant increase in tonnage of wheat harvested but, due to the wet summer, it was of poorer quality than generally used for bread making. Therefore, whilst feed wheat prices have fallen sharply, the premium required for bread making wheat has been at record levels during the second half of 2008.

**Chilled & Ireland**

**£428.3m**

Turnover (2007: £357.4m)

**£50.1m**

Trading profit (2007: £40.4m)

The Chilled & Ireland division comprises the RF Brookes and Charnwood chilled foods and pizza base businesses from RHM's Customer Partnerships division, Avana Bakeries from RHM's Cakes division, Premier's meat-free business and all of our operations in the Republic of Ireland.

Turnover from the Chilled & Ireland division was £428.3m for 2008, an increase of £70.9m, or 19.8%, as compared to £357.4m for 2007. The increase in turnover was primarily due to the acquisition of RHM though we also saw strong sales volume and value growth in meat-free operations. The increase in trading profit was primarily due to integration synergies and the inclusion of a full year of RHM trading.

*Quorn*, our category leading meat-free brand, experienced another year of strong sales growth with progress both in UK and overseas markets. Internationally, there was good volume growth in Sweden, Belgium and the USA, whilst the brand was launched for the first time in Norway. We have recently launched a significant new advertising campaign for the first half of 2009 which focuses on the health benefits and versatility of *Quorn*. This will be supported by continued strong new product development.

The chilled ready meals business won a number of new contracts in August 2008 and this helped to offset Christmas trading, which was softer than expected in the ready meals and own label cake business units. This reflected the impact of the economic downturn on the premium products these business units supply.

The Irish business unit has undergone a year of bedding down the new integrated structure for the combined RHM, Campbell's and Chivers Ireland businesses. Following the integration, products for the Irish market are now predominantly produced at the Group's factories in the UK. The resultant synergy benefits are flowing through, ensuring profit progression despite the background of the tough economic environment in Ireland, which we are seeing at the current time.



# WE HAVE A PASSION FOR EFFICIENCY

Part of Premier's strategy is to leverage its scale to improve manufacturing and supply chain efficiency and reduce overhead cost. During 2008 we successfully completed one of the largest and most complex restructuring of food manufacturing operations in the UK and made significant progress in implementing the enterprise resource planning software system, SAP.

## Manufacturing restructuring

The objective of the restructuring project was to create an operational base for the Grocery division that delivers scale with competitive advantage through lower cost and higher technical standards. This was delivered by reducing a 21 site footprint to 12 sites through investment in five core manufacturing sites, all within just 12 months.

The success of the project also demonstrated the excellent levels of cross functional communication and co-operation across the Group.

## Scale of change

- Nine sites closed within a 12 month period (November 2007 – November 2008)
- 1,000 products transferred
- £47m capital investment delivering £19m of synergies

## SAP implementation

In addition during 2008 we have made significant progress in the implementation of SAP the enterprise resource planning software system.

This will introduce a set of leading processes and systems integrating forecasting & planning, order processing & distribution, factory planning & scheduling and operational maintenance across the Group.

The implementation is on a phased basis with a number of site implementations completed during the year most notably in Easter 2008 when the Grocery division (excluding Cake) went live in respect of the forecasting, order processing, invoicing and distribution modules. Further significant steps in the system roll-out will be undertaken in 2009.

## Tonnage relocated to receiving sites

	Receiving sites				
	Histon	Bury	Worksop	Ashford	Knighton
<b>Ledbury</b>					
Jam, mincemeat	18,000				
<b>Droytsden</b>					
Preserves	12,000				
Sauces			13,000		
Chutney & catering		5,000			
<b>Wythenshaw</b>					
Poppadoms			1,000		
Stuffing & pepper				7,500	
<b>Middlewich</b>					
Bisto granules & Bisto Best			23,000		
Bisto powder				3,000	
Salt			25,000		
<b>Reading</b>					
Desserts					3,000
Balance of foodservice				5,700	
<b>Bristol</b>					
Custard					500
Balance of foodservice				16,000	
<b>Coolock</b>					
Preserves	2,000				
<b>Thurles</b>					
Soup & curry				2,000	
<b>Total transferred (in tonnes)</b>	<b>32,000</b>	<b>5,000</b>	<b>62,000</b>	<b>34,200</b>	<b>3,500</b>
<b>Pre-restructuring output (in tonnes)</b>	<b>74,000</b>	<b>74,000</b>	<b>21,000</b>	<b>14,000</b>	<b>28,000</b>
<b>Post-restructuring output (in tonnes)</b>	<b>106,000</b>	<b>79,000</b>	<b>83,000</b>	<b>48,200</b>	<b>31,500</b>
<b>Increase</b>	<b>43%</b>	<b>7%</b>	<b>295%</b>	<b>244%</b>	<b>12.5%</b>



**Turnover from continuing operations was £2,603.6m for 2008, an increase of £478.4m, or 22.5% as compared to 2007.**



Paul Thomas  
Finance Director

Due to legal restrictions associated with the issue of new equity, all figures referred to in this review are only on a statutory basis, rather than a pro forma basis which treats acquired businesses as if they had been owned for the whole of the current and prior reporting periods.

The equity issue is dependent on shareholder approval. Further details are set out within the Basis of Preparation note to the financial statements. The audit opinion on the 2008 annual report and accounts contains an emphasis of matter in relation to the material uncertainty relating to the equity fund-raising referred to in the Basis of Preparation note.

### Group structure

As previously announced, following the acquisition and integration of Campbell's and RHM, the Group implemented a new divisional structure with effect from 1 January 2008. It has defined three segments being "Grocery", "Hovis" and "Chilled & Ireland" with the primary drivers of the structure being the commonality of the categories it operates in and the supply chain used to serve them.

In January, the Group announced firm offers for the purchase of its speciality bakery businesses, Martine Spécialités S.A.S. ("Martine"), Le Pain Croustillant ("LPC") and Sofrapain S.A.S. ("Sofrapain"). The sales of LPC and Martine completed on 2 March 2009. The contract for the sale of Sofrapain was signed and control of the business passed to the purchaser on 6 February, with legal completion expected during April 2009. The results of these businesses have been classified as discontinued operations and are set out in note 10 to the financial statements. The income statement for 2007 has been restated to reflect these businesses as discontinued operations. All discussion of the numbers included below refers to the continuing business unless otherwise stated. The assets and liabilities relating to the speciality bakery businesses as at 31 December 2008 have been presented as held for sale on the balance sheet. Full details of this are set out in note 17 to the financial statements.

### Income statement

Turnover from continuing operations was £2,603.6m for 2008, an increase of £478.4m, or 22.5% as compared to 2007. The primary reason for the increase is the inclusion of a full year of RHM trading in 2008 (compared to 41 weeks post-acquisition trading in 2007). In addition, the Group had to increase prices in order to recover the high levels of input cost inflation experienced since the second half of 2007.

### Operating profit/(loss)

Operating profit for the business before exceptional items was £256.0m, an 11.0% increase on last year. This increase was largely due to the inclusion of a full year of RHM trading in 2008 and the synergies arising on the integration of Campbell's and RHM, partly offset by lower volumes in the Grocery division in the first half of the year as the Group implemented SAP and integrated the manufacturing operations and lower volumes in the Hovis division during the first three quarters of the year.

Trading profit for the continuing business and the speciality bakery businesses combined was £320.2m, an increase of 14.3% in comparison to 2007, due to the inclusion of a full year of RHM trading in 2008 and the cost savings and volume referred to above.

# Financial review

continued

Operating profit after exceptional items fell from a profit of £72.0m in 2007 to a loss of £40.5m in 2008 after recognising an impairment charge against the goodwill attributable to the Hovis division of £194.4m (2007: £nil) and £102.1m (2007: £158.7m) of other exceptional items, primarily related to the integration programme.

## Exceptional items – restructuring costs

Consistent with its ongoing approach to financial reporting, the Group has classified all non-recurring integration costs as exceptional items, the full impact of which is set out in note 5 to the financial statements.

In the current and prior years these items have primarily related to the significant integration programmes undertaken to achieve the cost savings and reshaping of the business following the Campbell's and RHM acquisitions. These integration programmes are now largely complete.

Overall exceptional items associated with restructuring for the year resulted in a net charge of £102.1m (2007: £158.7m). Total cash outflow on exceptional items in the year was £121.8m (2007: £105.5m). The integration of the Campbell's business continued with the closure of manufacturing operations and warehousing facilities at King's Lynn, incurring costs of £6.3m.

The Group incurred £60.6m of expenses in the year in relation to the integration of RHM's UK operations, primarily due to the closure of certain RHM sites and the resulting transfer of production from those factories to other Group facilities, the integration of certain warehousing facilities into other Group warehouses and the creation of a Group-wide shared service centre in Manchester.

The completion of the restructuring of our meat-free business and the commissioning of a new chilled facility at Methwold to enable the manufacture of chilled products for *Quorn* and *Cauldron* products on a single site has resulted in costs of £3.5m.

Costs associated with the integration of our Irish operations into a single operating business were £6.0m.

The Group also incurred £21.1m of costs relating to a number of restructuring projects that have taken place across our Hovis division implementing new business processes and preparing for the roll-out of SAP into this division. The 2008 exceptional charge also includes an impairment of assets and redundancy costs relating to the closure of its Rotherham mill, onerous lease costs for properties and impairment recognised against certain plant and machinery relating to discontinued production lines.

Other exceptional costs of £6.7m include costs associated with the roll-out of a new SAP software package, various cost reduction and supply chain initiatives and also re-financing project fees.

The integration programme has resulted in a number of sites becoming available for sale and, during the year, the Group sold properties in Bristol, Droylsden, Middlewich, Wythenshawe and Stoke in the UK, and Thurles in the Republic of Ireland. Total proceeds from the sale of fixed assets were £26.4m. A net profit of £2.1m was recognised on these disposals.

## Exceptional items – impairment charge

During the year the Group has recognised an impairment charge of £194.4m against the goodwill allocated to the Hovis

Cash Generating Unit ("CGU"). This impairment charge has arisen as a result of the significant increase in the discount rate used to calculate the recoverable amount of the CGU which increased from 8.4% in 2007 to 11.1% in 2008.

The increase in discount rate is a result of the deterioration in the economic climate, resulting in increased costs of debt and increased levels of return expected by equity investors. Had discount rates remained at 2007 levels, no impairment charge would have been recognised.

The Group has also recognised an impairment charge of £68.5m to write down the net assets attributable to the speciality bakery businesses (LPC, Sofrapain and Martine) to their recoverable amount.

## Financing

On 29 February 2008, the Group amended certain terms of its Term and Revolving Credit Facilities by agreement with its lending banks to provide greater covenant headroom for the remainder of its financing period. The Group also converted its £100m Acquisition line to a Working Capital line and renegotiated a further £125m of short-term facilities with three of its leading banks.

Subsequent to 31 December 2008 an additional £60m of short-term financing maturing on 31 March 2009 was agreed to cover working capital requirements in this period.

As part of its capital structure review and subsequent to the year end, the Group agreed amendments to its Term and Revolving Credit Facilities. These amendments include a rephasing of the amortisation of these facilities to an extended maturity date of December 2013 and the reset of the covenant schedule. Further details are provided in note 34 to the financial statements.

## Net interest payable and other financial charges and income

Net interest payable and other financial charges and income for the continuing business was £144.5m, compared with £118.6m in 2007. Net cash interest costs are £119.0m, an increase of £13.8m, reflecting a higher level of borrowings carried for the full year in 2008 compared with only the post-acquisition period in 2007, and also an increased level of average borrowing in the year.

## Movement on fair valuation of interest rate swaps

Marking to market our portfolio of interest rate swaps resulted in a charge in 2008 of £218.9m (2007: a charge of £31.0m). These are non cash interest costs and reflect the difference between the actual fixed rate interest cost and the theoretical interest cost on a floating rate basis over the life of the swaps. Refer to note 8 of the financial statements for further details.

The Group has interest rate hedging in place for the majority of its borrowing. At the end of the year a total of £1,650m was hedged of which £465m was swapped into short-dated fixed rate instruments, £600m into long-dated callable swaps. £350m was hedged by swaps with a cap and floor structure, and £235m was hedged by other callable swaps. Further details are given in note 22. Based on LIBOR as at 31 December 2008, the average hedge rate for the first quarter of 2009 was 4.7%. Based on LIBOR at the current date, the average hedge rate would increase to 5.1%.

## Taxation

The taxation credit on continuing activities for the year was £30.6m (2007: £39.8m). This is made up of a current

tax charge of £2.8m, and a deferred tax charge of £0.9m on overseas activities; a deferred tax credit of £4.6m on underlying continuing UK operations; a current year credit of £20.6m on allowable exceptional items and a credit of £9.1m from the release of prior year provisions as a result of the favourable resolution of outstanding issues with HMRC and adjustments to deferred tax balances.

The £4.6m credit on UK operations is made up of a credit on underlying activities of £32.2m, at an effective rate of 26.8%, reduced by charges of £25.4m as a result of the enactment in the 2008 Finance Act of provisions to abolish taxation relief for investment in industrial buildings and £2.2m relating to share based payments to reduce the deferred tax asset thereon to their fair value.

The credit relating to exceptional items was adversely affected by items not allowable for tax, being primarily the write down of goodwill, which reduced the tax credit by £55.4m and other amounts totalling £8.2m.

### Dividends

As announced on 18 November 2008, the Board considered it appropriate to suspend dividend payments. The Board is committed to resuming dividend payments when possible but the future payment of dividends will be dependent upon the Group's ability to reduce its level of debt, the limitations on dividends imposed by the Group's proposed amended debt agreements and the condition of the credit markets at the relevant time, with any final dividend being subject to the approval of the Group's Shareholders at a general meeting. The proposed amended debt agreements impose restrictions on the ability to announce dividends which are subject to a leverage test and an interest cover test, with the payment being restricted to no more than 50% of consolidated profits attributable to shareholders for the previous financial year.

### Earnings per share

Basic loss per share of 44.2 pence (2007: 4.9 pence) on continuing operations has been calculated by dividing the loss attributed to ordinary shareholders of £373.3m (2007: £37.8m) by the weighted average number of shares in issue during the year.

Adjusted earnings per share for continuing operations is 15.5 pence (2007: 14.7 pence). Adjusted earnings per share for continuing operations has been calculated by dividing the adjusted earnings (defined as operating profit before exceptional items, amortisation of intangible assets, the movement in the IAS 39 valuation of forward foreign exchange contracts and other derivative contracts and the pension financing credit in relation to the difference between the expected return on assets and interest costs on pension liabilities less net regular interest payable and notional taxation) attributed to ordinary shareholders of £131.3m (2007: £113.8m) by the weighted average number of ordinary shares in issue during each year. These earnings have been calculated by reflecting tax at a notional rate of 28.5% (2007: 30%). Adjusted earnings per share for continuing operations and the speciality bakery businesses combined is 16.4 pence (2007: 15.5 pence).

### Cash flow and borrowings

During the year, the net borrowings of the Group increased from £1,618.5m at 1 January 2008 to £1,766.8m, an increase of £148.3m. Of this movement, the cash and non-cash elements were £122.2m and £26.1m respectively. The non-

cash movement related to foreign exchange differences and debt issuance costs.

The cash inflow from operating activities was £84.1m (2007: £270.9m). This comprises cash from operations of £189.4m (2007: £360.2m). Despite the increase in the interest charge for the year, net cash interest paid of £105.4m was only £7.4m up on the 2007 payment of £98.0m. This is due to the timing of interest payments around the respective year ends and reflects an increase in accrued interest payable of approximately £10m.

The fall in cash generated from operating activities from £360.2m in 2007 to £189.4m is primarily due to the non-recurrence of the working capital movements arising from the mid-period acquisition of RHM during March 2007.

During the year the Group continued to take advantage of the £100m non-recourse securitisation programme on certain trade receivables, £90m of which, being the maximum allowable, was drawn at the end of the year. The programme provided the Group with a saving in interest costs of around 40bps compared to the cost of drawing the amounts under the Revolving Credit Facility.

Capital expenditure in the year was £129.8m on tangible fixed assets and £31.2m on intangible assets (2007: £115.9m on tangible fixed assets and £8.7m on intangible assets), due to the completion of the final year of integration and rationalisation of its manufacturing operations. Proceeds received in respect of disposal of fixed assets were £26.4m in 2008 (2007: £48.9m). The Group also paid dividends of £54.7m (2007: £61.1m).

### Pension schemes

At 31 December 2008 the Group's defined benefit pension schemes showed a net deficit of £11.5m (2007: deficit of £123.2m). This comprises a £172.3m net deficit in relation to Premier schemes and a net surplus of £160.8m in relation to the schemes associated with RHM.

This improvement in the IAS 19 pension valuation is primarily the result of two factors. Firstly scheme liabilities are valued using a discount rate derived from the yield on AA rated corporate bonds. As a result of recent economic turbulence these yields, and the associated discount rates, have increased from 5.9% as at 31 December 2007 to 6.3% as at 31 December 2008. This has had the effect of reducing the present value of the liabilities of each of our schemes. Secondly, the RHM scheme invests in interest rate and inflation swaps that increase or decrease in value as these two variable assumptions change. These helped to reduce the impact of the current economic conditions on the assets of the scheme and, combined with the movement on yields referred to above, resulted in the movement of the RHM scheme to a surplus of £160.8m as at 31 December 2008. These factors are partly offset by changing the mortality assumption from short cohort to medium cohort for the Premier schemes.



Paul Thomas  
Finance Director

## CORPORATE RESPONSIBILITY DOING THE RIGHT THING

At Premier we are committed to “doing the right thing” and reducing the impact we have on the natural environment through striving to be the most efficient food manufacturer in the UK. For 2009 we have set ourselves six challenging KPIs which are directly aligned to one of our key strategic goals – using our scale to deliver cost savings and business simplification.

Further information on the work we have done this year in the area of Corporate Responsibility can be found in the Corporate Governance report on pages 38 to 42, or else by visiting our corporate website [www.premierfoods.co.uk](http://www.premierfoods.co.uk)

### Energy

To reduce energy consumption in 2009 by 5% relative to tonnes of product manufactured against a 2008 baseline year

-5%

### Carbon

To achieve a 5% CO<sub>2</sub>(e) reduction in 2009 relative to tonnes of product manufactured against a 2008 baseline year

-5%

### Waste

To reduce waste sent to landfill by 20% in 2009 relative to tonnes of product manufactured against a 2008 baseline year

-20%

### Packaging

To reduce product packaging used by 2% in 2009 relative to tonnes of product manufactured against a 2008 baseline year

-2%

Pictured in this insert and in the main photograph is our Rogerstone Park facility in Newport, Wales which produces a range of retailer-branded chilled ready meals for Marks & Spencer plc and other major food retailers.



### Transport

To reduce delivery miles travelled by 5% in 2009 relative to tonnes of product manufactured against a 2008 baseline year

-5%

### Water

To reduce water consumption by 5% in 2009 relative to tonnes of product manufactured against a 2008 baseline year

-5%

# Board of directors and senior management

## Board of directors

### EXECUTIVE DIRECTORS

**1. Robert Schofield\*, Aged 57**  
Chief Executive Officer

Robert Schofield joined the Group in 2001 taking responsibility for its branded business. He was appointed Chief Executive in January 2002. Mr 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 53**  
Finance Director

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

**3. Tim Kelly\*, Aged 51**  
Chief Operating Officer, Hovis

Tim Kelly was appointed as a director in June 2008. Mr Kelly joined Premier Foods in March 2007 following the Company's acquisition of RHM, where he was Chief Operating Officer, Cakes & Customer Partnerships. In December 2007 he assumed additional responsibility for the Group's Baking and Milling businesses. Prior to that

Mr Kelly was with Constellation Brands where he was the Chief Operating Officer, International. Mr Kelly previously held senior marketing roles at Diageo and Coca-Cola Schweppes Beverages.

### NON-EXECUTIVE DIRECTORS

**4. David Kappler, Aged 61**  
Chairman

David Kappler joined the Group on flotation in 2004 as Chairman. Mr Kappler is currently the Deputy Chairman, senior independent director and Chairman of the Audit Committee at Shire plc and senior independent director and Chairman of the Audit Committee at Intercontinental Hotels Group plc. Prior to this he was the Finance Director of Cadbury Schweppes plc, non-executive director and latterly Chairman of HMV plc and a non-executive director of Camelot plc.

**5. David Felwick CBE, Aged 64**  
Senior independent director

David Felwick joined the Group on flotation in 2004. Mr Felwick is currently the Chairman of Product of the Year Ltd. Prior to this he was the Deputy Chairman of the John Lewis Partnership and Managing Director of Waitrose. His previous appointments include Chairman of the British Retail Consortium and Leckford Estate Limited and non-executive director of Dairy Farmers of Britain.

**6. David Beever, Aged 68**  
Non-executive director

David Beever joined the Group in January 2008. He is a non-executive director of JJB Sports plc. He was previously Chairman of London and Continental Railways plc and International Chairman of KPMG Corporate Finance. He spent most of his career at SG Warburg & Co Ltd where he was a Vice Chairman. He has been a non-executive director of a number of listed companies including The Paragon Group of Companies plc and Volex Group plc.

**7. Christine Cross, Aged 57**  
Non-executive director

Christine Cross joined the Group in January 2008. Mrs Cross is an independent advisor in retail management having previously spent 14 years at Tesco plc in a number of senior management roles including Group Business Development Director. Prior to this Mrs Cross lectured at Edinburgh and Bath Universities. She is currently a non-executive director of Next plc and Empire Company Ltd (owner of Sobeys Inc, a grocery retail chain in Canada) as well as Retail Advisor to Apax Partners Venture Capital and Private Equity.

**8. Ian McHoul, Aged 49**  
Non-executive director

Ian McHoul joined the Group on flotation in 2004. He is also Chief Financial Officer of AMEC plc. Until April 2008, Mr McHoul was the Group Finance Director of Scottish & Newcastle plc. He was previously the Finance and Strategy Director of the Intrepreneur Pub Company Limited and prior to that spent 10 years with Courage Limited and its parent company Fosters Brewing Group in a variety of roles. Mr McHoul is a Chartered Accountant.

**9. Louise Makin, Aged 48**  
Non-executive director

Dr Makin joined the Group in 2006. She is currently Chief Executive Officer of BTG plc, a growing life sciences company focused on the development and commercialisation of speciality pharmaceuticals. 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.

## Senior management

**1. Brian Carlton\*, Aged 52**  
Group HR Director

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

**2. Will Carter\*, Aged 52**  
Managing Director Ambient

Will Carter joined Premier Foods and the Group Executive in May 2008 and has responsibility for the ambient grocery business including cake, cooking sauces, desserts, pickles, and beverages. He was previously Chief Executive of Whitworths and prior to that Managing Director of KP-McVities. Mr Carter held a number of Marketing and General Management roles at United Biscuits.

**3. Mark Hughes\*, Aged 48**  
Group Procurement Director

Mark Hughes joined Premier Foods and the Group Executive in 2007 following the acquisition of RHM. Mr Hughes 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 Director at Archer Daniels Midland Milling (UK) and has held a number of senior positions with Associated British Foods plc.

**4. Robert Lawson\*, Aged 43**  
Commercial Director

Robert Lawson joined Premier in 2005 and joined the Group Executive in October 2006. Mr Lawson is responsible for the meat-free business, Integration, Mergers and Acquisitions and Investor Relations. Prior to joining Premier Foods, Mr Lawson was Strategy Director at Kraft Foods Europe and United Biscuits and was a management consultant at Arthur D Little.

**5. Bob Spooner\*, Aged 54**  
Group Operations Director

Bob Spooner joined Premier Foods in April 2007 with responsibility for all manufacturing and logistics activities for the Group. Prior to joining Premier, Mr Spooner was previously Managing Director of Northern Foods' Pastry Products business and prior to that held senior operational and supply chain roles with ICI Paints, and Sara Lee.

**6. Mark Vickery, Aged 54**  
Group IS & Change Director

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

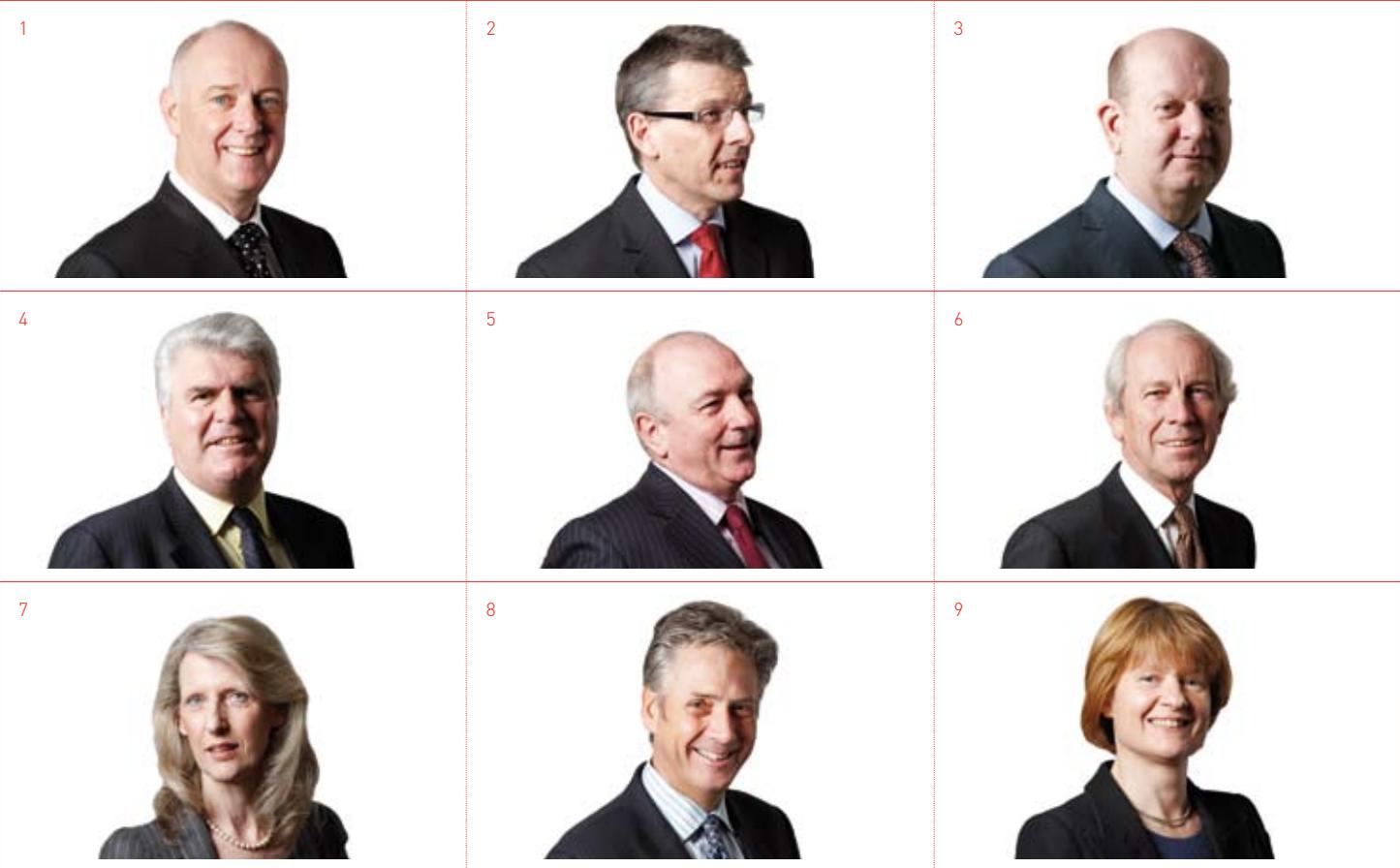
**7. Suzanne Wise\*, Aged 47**  
General Counsel & Company Secretary

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

**8. Ian York\*, Aged 49**  
Group Sales Director

Ian York 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.

\*Member of Premier Foods Group Executive



**Front row** (left to right) – Will Carter, Robert Schofield and Paul Thomas  
**Middle row** (left to right) – Mark Vickery, Mark Hughes, Tim Kelly, Robert Lawson, Suzanne Wise, Bob Spooner, Brian Carlton and Ian York  
**Back row** (left to right) – Stephen Ager (Kitchen Coordinator), Mark Rigby (Senior Development Chef) and Jim Charlesworth (Development Chef)

# Directors' report

The directors have pleasure in presenting the annual report and audited financial statements of Premier Foods plc and its subsidiaries for the year ended 31 December 2008.

## Business review

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

- Overview of the year on pages 00 to 09.
- Business Review on pages 10 to 29.
- Environmental, employee, social and community issues are discussed on pages 38 to 42.
- A review of the principal risks and uncertainties on pages 16 to 19.
- Group key performance indicators (KPIs) on pages 00, 28 and 29.

## Principal activities

Premier Foods plc is a public limited company incorporated in England and Wales, registered number 5160050, with its registered office at Premier House, Centrium Business Park, Griffiths Way, St Albans, Hertfordshire AL1 2RE. The principal activities of the Group are food manufacturing, processing and distribution. Further information can be found on pages 12 to 15.

## Financial statements

The audited financial statements are presented on pages 54 to 110.

## Profit and dividends

The loss on ordinary activities before tax for the year ended 31 December 2008 was £403.9m (2007: loss of £77.6m). The directors do not recommend the payment of a dividend for the year ended 31 December 2008.

## Research and development

Applied research and development work continues to be directed towards the introduction of new and improved products, the application of new technology to reduce unit and operating cost and to improve service to customers. Research and development costs of £7.0m (2007: £3.9m) were incurred in continuing operations during the year.

## Land and buildings

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

## Donations

No donations were made to political parties (2007: £nil). During the year the Group made charitable donations amounting to £287,000 (2007: £158,000) further information on charitable giving can be found on page 42.

## Directors

The present directors of the Company are listed on page 35 of the corporate governance report.

Details of the interests in the share capital of the Company of the directors in office as at 31 December 2008 are set out on page 49 of the directors' remuneration report.

## Statement of Directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, and the parent company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). The Group and parent company financial statements are required by law to give a true and fair view of the state of affairs of the company and the Group and of the profit or loss of the Group for that period.

In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state that the Group financial statements comply with IFRSs as adopted by the European Union, and with regard to the parent company financial statements that applicable UK Accounting Standards have been followed; and
- prepare the Group and parent company financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the financial statements and the Directors' remuneration report comply with the Companies Act 1985 to 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Each of the directors, whose names and functions are listed in the corporate governance report confirms that, to the best of their knowledge:

- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and loss of the Group; and
- the directors' report, and the sections of the annual report which are incorporated by reference, includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

In addition, the Companies Act 1985 to 2006 requires directors to provide the Group's auditors with every opportunity to take whatever steps and undertake whatever inspections the auditors consider to be appropriate for the purpose of enabling them to give their audit report. The directors, having made appropriate enquiries, confirm that:

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

### Substantial shareholdings

As at 5 March 2009 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
Franklin Templeton Investment Management Ltd	154,446,914	18.29%
JPMorgan Chase & Co	41,782,608	4.95%
Legal & General Investment Management Limited	36,737,013	4.35%
Morgan Stanley Investment Management Limited	35,730,122	4.23%
DuPont Capital Management Corporation	30,618,796	3.63%
Franklin Mutual Series	30,678,283	3.63%
Putnam Investments	29,832,405	3.53%

### Share capital and control

As at 31 December 2008, the Company's authorised share capital was £15,000,000 divided into 1,500,000,000 ordinary shares of 1 pence each nominal value (ordinary shares). On 31 December 2008 there were 844,604,805 ordinary shares in issue. The ordinary shares are listed on the London Stock Exchange. All of the ordinary shares rank equally with respect to voting rights and the rights to receive dividends.

The holders of ordinary shares are entitled to receive the Company's reports and accounts; to attend and speak at General Meetings of the Company; to appoint proxies and to exercise voting rights. There are no restrictions on transfer or limitations on the holding of any class of shares and no requirements for prior approval of any transfers. None of the shares carry any special rights with regard to control of the Company. There are no known arrangements under which financial rights are held by a person other than the holder of the shares and no known agreements or restrictions on

share transfers or on voting rights. Shares acquired through Company share schemes and plans rank pari passu with the shares in issue and have no special rights.

A summary of rules regarding the appointment and replacement of directors are given on page 36. The powers of the directors are determined by UK legislation and the Memorandum and Articles of Association of the Company in force from time to time. The Company's shareholders approved a resolution at the 2008 AGM for the directors to allot relevant securities (as defined in the Companies Act 1985) up to an aggregate nominal value of £2,815,349. At the AGM in 2008 shareholders also authorised the directors to make market purchases of ordinary shares. Any ordinary shares so purchased may be cancelled or held in treasury. This authority will expire at the conclusion of the 2009 AGM at which a further authority will be sought. No share purchases were made during the year.

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

The Company does not have agreements with any director or employee that would provide compensation for loss of office or employment resulting from a takeover except that provisions of the Company's share schemes and plans may cause options and awards granted to employees under such schemes and plans to vest on a takeover.

### Contractual relationships

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

The Group has a number of borrowing facilities provided by various banking groups including a £2.1bn Term and Revolving Facilities Agreement originally entered into in 2006 which has subsequently been amended on 5 March 2009, a £125m Revolving Credit Facilities Agreement dated 28 February 2008 which was repaid in full on 23 December 2008, a £60m Working Capital Facility Agreement dated 12 January 2009 and a Receivables Purchasing Agreement and guarantee dated 30 December 2007.

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

The Group entered into a Placing Agreement with Goldman Sachs International, NM Rothschild & Sons Limited, Citigroup Global Markets U.K. Equity Limited and RBS Hoare Govett on 5 March 2009.

Pursuant to a Placee Commitment Letter, Warburg Pincus has conditionally agreed to subscribe for 246,153,846 firm placed shares and 246,153,846 conditional placed shares in the capital of the Company at an issue price of 26 pence per share. In addition the Group entered into a Relationship Agreement with Warburg Pincus on 5 March 2009 setting out the terms and conditions under which Warburg Pincus shall have the right to appoint a director to the Board of Premier Foods and also governing the retention of its shareholding in Premier Foods and the purchase of further shares in the Company.

# Directors' report

continued

The Group has a licence for certain of Cadbury Limited's trade marks in connection with ambient packaged cakes. The current licence expires in 2010 and the Group is currently in negotiation with Cadbury Limited to extend this licence until 2019. The Group has as an exclusive, worldwide licence to use the *Lloyd Grossman* name on sauces, oils and dressings, accompaniments, toppings and marinades for a term lasting until 2026.

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

## Employment policies

A summary of the Group's employment policies and the actions to involve employees is set out in the corporate responsibility section of the corporate governance report on pages 38 to 42.

## Creditor payment policy

Premier Foods plc is a holding company and had no amounts owing to trade creditors at 31 December 2008 (2007: £nil). The Group's creditor days outstanding at 31 December 2008 were 61 days (2007: 70 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.

The Group has standard payment terms of 60 days, however, it operates a variety of payment terms with suppliers. Payment terms for purchases under major contracts are agreed as per the contract negotiations.

## Financial instruments

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

## Post balance sheet events

Details of post balance sheet events are set out in note 34 of the financial statements.

## Office of Fair Trading

In April 2008, the UK Office of Fair Trading (OFT) notified us, and a number of other UK based retailers, of an enquiry into potential co-ordination of retail prices in sectors of the grocery market. Premier are co-operating with the enquiry, which is in the information gathering stage. Due to the preliminary nature of the investigation it is not possible to predict how the investigation will proceed and when it will be concluded or determine any outcome in advance.

## Independent 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 have made enquiries into the adequacy of the Group's financial resources, through a review of the current financial projections, which includes capital expenditure plans, trading cash flow forecasts and the funding facilities available. The Board has concluded that in view of the volatile operating conditions and the Group's substantial level of leverage that the raising of additional equity combined with a renegotiated agreement with the Group's lending banks and an agreement with the Trustees of the Group's UK Defined Benefit Plans (all of which are inter-conditional) would provide a more appropriate capital structure. The proposed equity raising requires that a resolution be passed by shareholders at an EGM. The Board has concluded that these circumstances represent a material uncertainty that casts significant doubt upon the Group's ability to continue as a going concern. However, after considering these uncertainties, the Board has a reasonable expectation that the Group will be successful in obtaining the necessary resolution and for this reason believes it is appropriate to continue to adopt the going concern basis in preparing the accounts. Further disclosures are made on the matters to be considered by the directors and related uncertainties in the "basis of preparation" section of note 2 of the notes to the financial statements.

The audit opinion on the 2008 annual report and accounts contains an emphasis of matter in relation to the material uncertainty regarding the shareholder vote and impact on going concern.

## Annual General Meeting business

The Annual General Meeting of the Company will be held at Insurance Hall, 20 Aldermanbury, London EC2V 7HY on 22 May 2009 at 11.00am. The Notice convening the AGM will be issued separately, together with details of the business to be considered, and full explanations of each resolution that is being proposed.

By order of the Board



## Suzanne Wise

General Counsel & Company Secretary  
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Griffiths Way  
St Albans  
Hertfordshire  
AL1 2RE

Registered in England and Wales No. 5160050

5 March 2009

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 35 to 42 describes how the Group has applied the principles of good corporate governance as set out in section 1 of the revised Combined Code on Corporate Governance issued by the Financial Reporting Council in June 2006 ("the Combined Code").

In respect of the period from 1 January 2008 to 31 December 2008, the Board considers that the Group has complied with the provisions set out in the Combined Code.

## The Board

### Board structure

As at the year end, the Board consisted of a non-executive Chairman, three 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 as the senior independent director. David Beaver and Christine Cross were appointed as additional non-executive directors on 21 January 2008, Sharon Hintze retired as a non-executive director on 16 May 2008 following the Company's Annual General Meeting and Tim Kelly was appointed as an executive director on 30 June 2008.

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 2008:

	Designation	Appointment
David Kappler	Chairman	19 July 2004
Robert Schofield	Chief Executive	22 June 2004
Paul Thomas	Finance Director	22 June 2004
Tim Kelly	Chief Operating Officer-Hovis	30 June 2008
David Felwick CBE	Senior independent director	19 July 2004
Sharon Hintze	Non-executive director	Retired on 16 May 2008
Louise Makin	Non-executive director	1 October 2006
Ian McHoul	Non-executive director	19 July 2004
David Beaver	Non-executive director	21 January 2008
Christine Cross	Non-executive director	21 January 2008

Details of the directors' service contracts, letters of appointment, 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 43 to 53.

## 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 10 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 36.

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 Group Executive, which consists of the senior executives who head up the Group's principal operations and functions.

The Chairman, David Kappler, is currently a non-executive director of Shire plc and Intercontinental Hotels Group plc. 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 page 30.

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.

# Corporate governance

continued

## Meetings

The following table sets out the number of formal meetings of the Board and its Committees and individual attendances thereat during the financial year to 31 December 2008.

In addition to the meetings detailed below, a number of additional meetings of the Board, Committee of the Board and the Remuneration Committee were held for the consideration of specific business. (\*denotes attendance by invitation).

	Group Board	Audit	Nomination	Remuneration
David Kappler	10/10	4*	3/3	4*
Robert Schofield	10/10	5*	3*	4*
Paul Thomas	10/10	5*	3*	–
Tim Kelly <sup>(1)</sup>	5/5	3*	–	–
David Felwick CBE	10/10	5/5	3/3	4/4
Sharon Hintze <sup>(1)</sup>	4/4	1/1	–	3/3
Louise Makin	9/10	4*	3/3	4/4
Ian McHoul	10/10	5/5	3/3	1*
David Beever	10/10	4/5	2/2	–
Christine Cross	10/10	4*	2/2	4/4

(1) Tim Kelly was appointed as an Executive Director on 30 June 2008 and Sharon Hintze retired from the Board on 16 May 2008.

## 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 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 43 to 53.

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.

## Appointment, reappointment and retirement by rotation

The rules about the appointment, reappointment and retirement by rotation of directors are contained in the Articles of Association ("the Articles") of the Company. As per the Articles, directors may be appointed by the Company by an ordinary resolution or by the Board. A director appointed by the Board holds office only until the next Annual General Meeting (AGM). At each AGM one third of the directors (rounded down) will retire by rotation and be eligible for re-election. The directors to retire will be those who wish to retire and those who have been longest in office since their last appointment or reappointment, with the proviso that all must retire within a three year period.

Tim Kelly was appointed as an executive director on 30 June 2008 and accordingly will offer himself for election at the forthcoming AGM. David Kappler and Louise Makin, retire by rotation and being eligible, offer themselves for re-election at the AGM to be held on 22 May 2009.

Directors' biographical details are provided on page 30.

## Board Committees

The Board has 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](http://www.premierfoods.co.uk).

## Audit Committee

Ian McHoul chairs the Audit Committee. Its other members are David Felwick and David Beever. Only independent non-executive directors who have no links with the external auditors may serve on the Committee. Two members of the Committee, Ian McHoul, as the Chief Financial Officer of Amec plc, and David Beever, as former International Chairman of KPMG Corporate Finance have 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 meets with 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 ensuring 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 keeps 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 normally 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.

During the year PricewaterhouseCoopers (PwC) were employed to undertake a number of projects as part of the Group's review of financing arrangements. In particular, PwC:

- undertook procedures supporting the issuance of a prospectus, including providing a report on management's working capital forecasts;
- prepared a business review report, which involved reviewing and assessing the Group's strategy, operations and performance forecasts; and
- performed due diligence procedures.

Fees incurred in relation to this work amounted to £3.1m in 2008 with further fees to be charged in respect of 2009. Before commissioning PwC to undertake the work discussions were held between PwC, the Finance Director and the Chairman of the Audit Committee to assess any potential threat to the external auditors' independence and it was agreed that appropriate safeguards had been put in place by PwC. The Company has assessed that PwC are best placed to perform this additional non-audit work in view of their knowledge of the business, the time constraints in completing the work and likely costs.

The Committee has approved a revised whistle-blowing policy during the year 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;
- conducted a review of the effectiveness of the internal audit function;
- approved a revised Group whistle-blowing policy;
- approved the Internal Audit Charter as part of an annual process;
- considered the external auditors' report for the year ended 31 December 2007;
- conducted an internal review of the Group's external auditors which included a review of the auditor's independence and objectivity and the effectiveness of the audit process;
- conducted an internal review of its own effectiveness.
- approved the Company's Risk Management policy and process; and
- reviewed matters relating to the Group's key performance indicators and proposals to embed good governance throughout the organisation.

#### Remuneration Committee

David Felwick chairs the Remuneration Committee. The other members of the Committee are Louise Makin and Christine Cross. Sharon Hintze was a member of the Committee until her retirement from the Board on 16 May 2008. 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 43 to 53.

#### Nomination Committee

David Kappler chairs the Nomination Committee, and its other members are Ian McHoul, David Felwick, Louise Makin, David Beever and Christine Cross. 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 a process for Board appointments that it considers to be formal, rigorous and transparent and includes the use of external search consultants. 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:

- approved directors for reappointment at the AGM;
- approved the selection and appointment of an executive director; and
- 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](http://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 2008 this was an internal process and was combined with individual performance evaluation as described below:

- the Chairman appraises the Chief Executive annually;
- the senior independent 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; and
- the senior management are formally appraised annually by the Chief Executive, who also appraises the executive directors.

# Corporate governance

continued

In accordance with good practice the Company aims to carry out an independent review of the Board performance every 3 years. Accordingly, Boardroom Review, an independent consultant was engaged to perform a review in early 2009. This included one to one meetings with all Board members in January 2009 and attendance at the Board and Committee Meetings in February. The findings of the review will be reviewed by the Board in April 2009.

## 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 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 Company announces trading updates and/or interim management statements at relevant times throughout the year followed by conference calls with analysts and major shareholders and the Group's website, [www.premierfoods.co.uk](http://www.premierfoods.co.uk), contains the full text of such reports, together with Stock Exchange Announcements, after their release to the market. The Company's Investor Relations function provide detailed reports on shareholder make up, Analyst's forecasts and feedback at each Board Meeting.

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 directors are responsible for the Group's systems of internal control and for reviewing their effectiveness annually. The Board has conducted a review of the effectiveness of the Group's internal controls covering all material controls, including financial, operational and compliance controls and risk management systems in place throughout the year under review. Necessary actions have been, or are being, taken to remedy any significant failings or weaknesses identified from the Board's review of the effectiveness of the internal control system.

The Board has delegated direct 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 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 reviewed and approved 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 self assessment 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 divisional and functional unit level. The Risk Review Group 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 Group Executive. These include social, environmental and ethical risks (see the Corporate Responsibility section below). In addition the Group Executive formally reviews and reassesses the top corporate 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.

## 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, to ensure compliance with the requirements of the 2005 Turnbull Guidance on internal control and risk management. The Board annually reviews the top corporate risks of the Company, but delegates day-to-day responsibility for risk management to the Group Executive. Details of the key risks facing the Group are discussed on pages 16 to 19.

## Corporate Responsibility

Premier Foods is committed to managing its business in a socially responsible manner; indeed it believes strongly that Corporate Responsibility ("CR") is one of its key strategic priorities.

In today's grocery marketplace, all of our stakeholders – particularly employees, customers, suppliers and consumers – are concerned with the quality and "healthiness" of our products, the ethical way in which we source food ingredients and the effect that the production and transportation of our products has on the environment.

In 2008, we have further improved our performance across a range of CR related issues, highlights of which we have included within this report. We have also recruited a dedicated Group Corporate Responsibility Manager to ensure the co-ordination and delivery of CR related activities. Whilst the business units within Premier Foods pursue the policy of “doing the right thing”, it is the Board’s responsibility to ensure that the Company operates in a responsible manner.

In 2009, we have set challenging targets to further improve our performance across a range of environment and social compliance indicators. Our 6 environmental KPIs for 2009 are set out on pages 28 and 29. We will report progress against these measures regularly on our corporate website [www.premierfoods.co.uk](http://www.premierfoods.co.uk).

Our Chief Executive, Robert Schofield continues to take a leading role and chairs the quarterly Corporate Responsibility Steering Group through which our strategy is developed and delivered.

### Climate change

Premier Foods is committed to supporting the UK Government’s position on climate change and the Kyoto Protocol. We are an active participant in the UK Climate Change Agreement and the EU Emissions Trading Scheme, and are committed to reducing the carbon intensity of our operations.

Six of our larger manufacturing facilities are subject to the EU Emissions Trading Scheme, three of which were active participants in Phase I of the scheme, the remainder have exercised the option to “opt out” of the first phase of the scheme, but became active participants in Phase II which commenced in January 2008.

Premier Foods is a major user of vegetables and cereals relying on UK national and imported supplies of raw materials from a variety of sources around the world, consistent with customer demands. Over the years regional crop failures and quality issues have resulted in the development of a robust procurement strategy designed to secure suitable raw materials in the event of a natural disaster affecting supplies. This strategy will continue to be developed in response to changes in the availability of food resources.

Few of our operating sites have a history of flooding or are located in or near a flood plain. Those sites at greatest potential risk have been identified and contingency plans are in place or are being assembled. Temperature increases are likely to result in an increased energy demand for cooling and refrigeration in the bakeries and the chilled and frozen food manufacturing facilities, a proportion of which will be offset by a reduction in energy used for heating. Our Carbon Policy can be seen on the Premier Foods corporate website at <http://www.premierfoods.co.uk/our-responsibilities/>

### Environmental management - Premier Foods “5 Star Environmental Awards”

Premier Foods “5 Star Environmental Award Scheme” provides a structured approach to environmental management and establishes the framework for all sites to reduce their environmental impacts, achieve cost savings, ensure compliance with legislation and deliver continuous performance improvement.

The Scheme has been developed to be fully compatible with national and international standards in order to accommodate independent recognition or certification. The Five Star Environmental Award Scheme will be rolled out to all operational sites throughout 2009.

### Energy management

Premier Foods is the largest food producer in the UK and a significant energy user. In 2008, we used approximately 1,738,564 mega watt hours (MWh) of electricity producing 482,469 tonnes of carbon dioxide (CO<sub>2</sub>). CO<sub>2</sub> has been identified as one of the main greenhouse gases causing global climate change.

An Energy Steering Group (ESG) was established in 2008, chaired by Bob Spooner, Group Operations Director, in order to ensure a focus on delivering against set energy saving targets. The cross functional ESG is made up of members from group procurement, operational excellence and management at our manufacturing sites.

In 2008 energy surveys were carried out on most Premier Foods manufacturing sites, and a plan is in place to complete energy surveys at all our sites during 2009. The surveys will help identify energy saving opportunities to support the delivery of our 5% energy reduction target in 2009.

### Waste management

Premier Foods has committed to sending zero waste to landfill by 2015. In 2008, Premier Foods’ total waste disposal to landfill was reduced by 8,000 tonnes, from 38,000 tonnes to 30,000 tonnes which represents a 21% reduction of waste sent to landfill in 2008 when compared with 2007.

Premier Foods’ waste disposal to landfill per tonne of product manufactured was reduced by 2.2 kg per tonne, from 11.8 kg to 9.6 kg which represents a 19% reduction of waste sent to landfill per tonne of product in 2008 when compared to 2007.

This reduction has been achieved through close partnerships with specialist suppliers, resulting in a combination of site-based waste reduction initiatives and improved waste segregation at source which has led to an increase in the number, and quantity, of materials sent for recycling and recovery. We are actively seeking to eliminate waste from all areas of operation and are working in conjunction with our waste management service providers to identify further opportunities to divert waste from landfill each year.

In 2009, we have set a target to divert 20% of the waste we produce being sent to landfill, this equates to a further 6,000 tonnes, which will bring us closer to our goal of zero dependence on landfill sites by 2015.

# Corporate governance

continued

## Packaging

Each year Premier Foods spends approximately £250 m on packaging which includes the purchase of 1.2 bn steel cans. We are keen to support the UK packaging sector and upwards of 80% of all packaging we buy are sourced from within the UK.

In 2008, we saw sharp increases in fuel prices which resulted in higher costs for packaging production and transportation. The soaring cost of oil, across the year, also drove the price of plastic packaging upwards as this material is directly linked to the price of oil. Premier Foods has, in most cases, been able to absorb these price increases and we have worked hard to minimise the amount of packaging used by removing, light-weighting and down-gauging packaging wherever possible.

Premier Foods is a signatory to both the Food and Drinks Federation (FDF) "Five Fold Environmental Ambition" and the Waste Resources Action Programmes' (WRAP) "Courtauld Commitment".

In October 2008, the Premier Foods CR Steering Group decided to adopt a generic suite of on-pack recycling symbols developed by WRAP. Premier Foods took the decision to include these symbols, on all our brands, to ensure that consumers are equipped with the key information to help them recycle more packaging, more often. It is important that consumers understand what they can, and cannot, currently recycle. We intend to apply these recycling symbols, on a rolling programme throughout 2009, as and when new packaging artwork is originated or when we bring a new product to market.

We are also keen to work with our retail customers in order to identify opportunities to improve the environmental footprint of their own brand packaging.

In October 2008, Premier Foods were invited, by one of our retail customers, to become a member of a cross industry multi-stakeholder steering group made up of leading opinion formers, government and campaigning organisations. The aim of the group is to shape an industry leading packaging scorecard, and assessment tool, in order to benchmark packaging sustainability across its entire "life cycle". We will look to report the groups' progress, on our corporate website, throughout 2009.

## Water use and conservation

Water is an important resource to the food industry, where it is used for raw material cleaning and preparation, as an ingredient, for processing and for plant cleaning and hygiene purposes. In the UK the food industry is estimated to use 250 m cubic metres of water per year, which represents 10% of all industrial use. With such high rates of usage the Food and Drink Industry has been identified by Defra as being in a position to make a significant contribution to the sustainability of the nation's water supplies.

An additional consequence of water use is the generation of process effluent, which requires treatment before it can be discharged back into the environment. Effluent treatment is either carried out at the local sewerage treatment works, or where this is not practical by on-site treatment facilities. Premier Foods operate eight on-site effluent treatment plants which either discharge high quality treated effluent directly into a local watercourse, or where this is not possible via the public sewer for further treatment. The cost of effluent treatment is generally twice the cost of purchasing water from mains supply.

Premier Foods is committed to reducing its use of water by 20% by 2020 from a 2007 baseline. We will achieve this through the active participation of all sites in the Federation House Commitment (FHC2020) on water reduction. In 2008, Premier Foods set, and achieved, a target to reduce water usage by 3% from a 2007 baseline, consistent with its long-term commitment under the FHC2020.

In 2009, we have commissioned a series of independent water audits and surveys to identify areas of water usage and highlight opportunities for water saving. We have set a further 5% water reduction target in 2009 relative to tonnes of product manufactured against a 2008 baseline.

## Transport

In September 2008, Premier Foods was one of the first organisations to sign up to the Food and Drinks Federations' (FDFs) Transport Efficiency Commitment and has agreed to take steps to embed environmental standards in our transport practices, including contracts with hauliers as they fall for renewal, to achieve "fewer and friendlier" food transport miles and contribute to an absolute target for the food chain to reduce its environmental and social impacts by 20% by 2012 compared to 2002.

In 2009, Premier Foods will introduce a 10 Point Checklist for Greener Food Transport to be used as a review tool in relation to our own fleets or to embed its principles at the heart of our relationships with third-party road hauliers.

## Employees

As a major employer, Premier Foods is aware of its responsibility to its employees and our policy on employee welfare and human rights sets a minimum standard to which all of the Group companies adhere in order to meet their moral, legal, ethical and humanitarian responsibilities.

We recognise that our employees are our single most valuable asset and we strive to be an employer of choice in the areas in which we operate. 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.

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

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

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 encouraging 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;
- employee questionnaires;
- Employee Recognition Awards; and
- Premier Life, a quarterly company magazine sent to all employees

#### Health and safety

With around 16,000 employees, operating out of over 60 sites and against the backdrop of arguably the largest and most ambitious multi-site rationalisation project ever undertaken in the UK Food Sector, Premier Foods consistently and successfully demonstrated its commitment to Health & Safety ("H&S") in the Workplace throughout 2008.

Building upon the H&S performance improvements set out in the 2007 Annual Report and Accounts, the Group can report another year of Health & Safety improvement.

The RIDDOR Reportable Accident Frequency Rate for 2008 was 0.4 Reportable Accidents per 100,000 hours worked. This represents a year-on-year improvement of > 25% which taking into account the restructuring of our manufacturing footprint in 2008 is an outstanding improvement. It is worth noting that in addition to our own employees, the formula used to calculate this rate includes contractors, agency workers and visitors to our sites. The Company regards the inclusion of these groups as wholly appropriate and consistent with both our moral and our legal obligation.

We are committed to the provision of a workplace in which employees feel safe and secure and have the freedom and the support to deliver and grow as part of a winning team. As we move into financial year 2009 our aim, set out in our 2009 H&S Corporate Plan, is to improve upon the performance of 2008 and we have set our strategy and our objectives accordingly.

As in previous years, we have identified a number of key themes which will inform and drive our efforts in 2009 and these include:

#### 1. Safety Leadership, Employee Engagement and Building Competence:

- (i) Throughout 2009 we will provide for the H&S training and development of our line managers through a bespoke Safety Leadership programme developed with, and delivered by, our chosen external H&S strategic partners.
- (ii) Senior managers will continue to receive training through the IOSH Safety for Senior Executives course.
- (iii) Total Observation Process (TOPS) – through regular time-tabled and logged safety audits of the workplace, managers and employees have the opportunity to spend dedicated time identifying potential safety hazards within the working environment and monitoring processes, plant, procedures and behaviours. Employee engagement is a crucial part of our overall strategy and a key element in the successful delivery of our H&S objectives and targets.

#### 2. Premier Foods' Occupational Health and Safety Management System:

- (i) During 2008, independent external OHSAS 18001/HSG65 audits were completed at all sites which reported very favourably on our H&S System and practice.
- (ii) Throughout 2009, independent external audits will be carried out to the recently established British Standard OHSAS 18001:2007 and HSG65.

#### 3. Risk Assessments and the Principle of ALARP (as low as reasonably practicable):

- (i) The Premier Foods' Risk Assessment and Risk Management process has been further developed to apply, where appropriate, the ALARP principle more explicitly.
- (ii) Workshops will be held through 2009 to provide line managers with the skills and the competencies necessary to ensure that our risk assessments are even more effective.

#### Food safety and quality

A key focus during 2008 has been the development and implementation of a Corporate Technical Standard (CTS) which defines the technical standards against which our manufacturing sites operate and against which they are audited on a regular basis. We also work to ensure Good Manufacturing Practice is embedded across all our manufacturing sites through site Quality Management Systems which help manage compliance with the CTS and within which Food Safety Plans are embedded. As part of this, we ensure that hazard controls are in place for every manufacturing process and are regularly reviewed.

# Corporate governance

continued

During 2008 we commenced the introduction of a group-wide Technical Data Management System to replace the variety of legacy systems inherited during recent business acquisition. This single system will provide a common group-wide platform for technical data across the business, facilitating more efficient access to key raw material, product and supplier data and communication with Premier Foods' suppliers.

## Health and nutrition

Consumers are at the heart of our business and we are committed to providing foods that meet dietary and lifestyle needs, through the primary elements of taste, nutrition, quality and convenience. Our versatile brands fit well within the food groups of the Food Standards Agency "Eat Well Plate" enabling consumers to achieve a healthy, balanced diet.

Premier Foods will continue to further reduce salt as an ingredient in all Premier Foods branded products in order to achieve the Food Standard Agencies 2010 Voluntary Salt Targets. We are committed to removing Hydrogenated Vegetable Oils (HVOs) from Premier Foods branded products and, in the small number of cases, where this is not possible due to consumer acceptability other options are being researched. We will ensure that saturated fat levels will not increase due to the removal of HVOs and our products will contain less than 2% of artificially produced trans-fats.

Premier Foods branded products are actively working towards displaying Guideline Daily Amounts (GDAs) on the front facing of our products packaging.

## Ethical trading

Operating in global and emerging markets, we recognise that there are always challenges within our supply base and opportunities for improvement. As a founder member of the Ethical Trading Initiative (ETI), we have been active in the area of labour standards since 1992. Since that time we have been working to embed good practices within our own business, to communicate our requirements to our suppliers, and assess their performance against them.

Our approach is to ensure that as a minimum, our suppliers comply with the requirements of the ETI Base Code

As an active member of Sedex, the web-based system for sharing information on international supply chain labour standards, we will be encouraging our suppliers to join this initiative and share information on labour standards within their supply chains. Whilst continuing with our ongoing programme of ethical assessments, this information will help further focus our efforts towards those who need it most, improving conditions for workers supplying our business and providing an increased level of assurance to our customers.

Through our long-term association with the initiation and development Sedex coupled with our election to the Sedex Board, we have been actively involved in the development of this key initiative. In conjunction with other Board members and supporters of Sedex, the development of robust and transparent governance, strategic investment in systems and the development of new modules that have expanded its reach into other areas including the environment have strengthened the initiative and seen the significant growth in its international membership.

## Sustainable food and agriculture

As a responsible food manufacturer, Premier Foods supports the Roundtable on Sustainable Palm Oil (RSPO) and its criteria for sustainable palm oil production including controls over the conversion of high conservation value forest (HCVF). Our objective is to source ingredients in a way that minimises adverse impact on the environment. We have set ourselves a target to source 100% Roundtable on Sustainable Palm Oil (RSPO) certified sustainable palm oil by 2011.

## Charitable giving

In 2008, we asked our employees which national charity they would most want to support as our corporate charity. Cancer Research UK (CRUK) was chosen following a great response from our employees. Premier Foods has committed to raising £250,000 in support of CRUK by the end of our partnership in 2010.

In 2008, Premier Foods, working with a number of charitable organisations, donated approximately 116,000 cases of food to help feed people in urgent social need both here in the UK and in the developing world.

## Community involvement

Premier Foods is one of the largest UK food manufacturers with around 16,000 employees across all our sites. Our employees are our greatest asset, not only doing a great job for our business, but also playing an active role in the communities in which our businesses are located.

In 2008, we asked all of our sites to identify an employee who would be willing to take on the voluntary role of the "Community Champion" and we now have Champions at 90% of our sites.

The Community Champions' role is to identify worthy local causes which the site can get involved with and also to co-ordinate site based fundraising activities in support of our national corporate charity.

# Directors' remuneration report

For the year ended 31 December 2008

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 ended 31 December 2008:

David Felwick CBE	(Committee Chairman)
Louise Makin	
Christine Cross	appointed 21 January 2008
Sharon Hintze	retired 16 May 2008

### Meetings

During 2008 the Committee met formally on four occasions with an additional three meetings held and one written resolution passed for specific business. Details of meeting attendance are given on page 36. The Chairman, the Chief Executive and the Director of Human Resources 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 General Counsel & Company Secretary and for overseeing the Group's share plans and bonus schemes.

The Committee recommends and monitors the structure and levels of remuneration for senior managers throughout the Group and ensures that contractual terms on termination, and any payments made, are fair to the individual and the Company, ensuring that failure is not rewarded and that the departing manager's duty to mitigate loss is fully recognised.

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](http://www.premierfoods.co.uk).

### Responsibilities

- to review and recommend the remuneration policy of executive directors and senior managers, including the Company Secretary & General Counsel;
- 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; and

- reviewing and recommending appropriate performance conditions and targets for the variable element of remuneration packages and determining the extent to which performance targets have been achieved.

### Advisers

Deloitte 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 best practice. During the year Deloitte also provided valuation services to the Group. Additional advice in relation to the Premier Foods Co-Investment Plan was provided to the Company by Hewitt 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:

- in the context of evolving market practice in the economic downturn reviewed the remuneration policy for executive directors and senior managers;
- carried out 2008 salary reviews for executive directors and senior managers;
- reviewed and recommended the annual bonuses for executive directors and senior executives in respect of 2007 and set the targets for the annual bonus in respect of 2008;
- granted awards under the Premier Foods Co-Investment Plan ("CIP") and Premier Foods Long-Term Incentive Plan ("LTIP");
- determined the extent to which awards under the Executive Share Option Scheme ("ESOS"), 2005 LTIP and Premier Group Performance Share Plan ("PSP") had vested; and
- granted awards under the Premier Foods employee sharesave scheme ("SAYE"), which included all eligible employees in the United Kingdom and Ireland.

### Remuneration policy

#### Broad policy

The Committee has an ongoing process for monitoring its policies, including its arrangements for performance related pay, against evolving market practice and relevant guidance. This is particularly relevant recognising the share price performance over the last year. It is also particularly pertinent in the current climate as the breadth and depth of the economic downturn continues to evolve. However, 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.

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# Directors' remuneration report

continued

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 will continue to be reviewed annually and to focus on performance-related incentives, as well as annual salary, to encourage the alignment of operating objectives as well as delivering shareholder value.

Our policy is to rigorously test, review and set salaries at levels not normally exceeding median for companies of a comparable size, complexity and market share. 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, but only if stretching and demanding performance conditions are met.

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 (if any) and reviews the proposed pay awards for the Company with the Chief Executive Officer.

## Share ownership

A minimum shareholding requirement was introduced in 2006 whereby executive directors are required to hold shares with a market value at the time of purchase at least equal to their annual basic salary, within three years of the introduction of the guidelines or date of appointment if later. Details of directors' shareholding as at 31 December 2008 are given on page 49.

## 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.

For 2008, the balance between fixed and variable remuneration for the executive directors was as follows:

	At Target	At Maximum
Chief Executive Officer	40% Fixed: 60% Variable	13% Fixed: 87% Variable
Finance Director	44% Fixed: 56% Variable	16% Fixed: 84% Variable
Chief Operating Officer – Hovis	50% Fixed: 50% Variable	21% Fixed: 79% Variable

As the Committee has yet to determine the 2009 award under the Co-Investment Plan, as explained below, the balance between fixed and variable remuneration for the executive directors in 2009 cannot be specified. Nevertheless the objective of the Committee for 2009 is to reduce the maximum variable amount achievable without increasing the fixed amount.

## 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 set with reference to the relevant marketplace for companies of a comparable size and complexity, and for 2008 were £606,900 (2007:£595,000) for the Chief Executive, £408,000 (2007: £400,000) for the Finance Director and £352,275 for the Chief Operating Officer – Hovis (appointed 30 June 2008). Salary levels for 2009 for the Chief Executive, Finance Director and Chief Operating Officer – Hovis will not be increased and will remain at their 2008 levels.

## 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. Executive directors are required to defer 50% of any such bonus earned into shares in the Company until they have built up a significant personal shareholding in the Company (see Share ownership above). 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.

The Committee reviewed the performance targets during the year and recommended changes to reflect the increased importance of cash management to the business and also to bring executive directors' bonus arrangements in line with other members of the Premier Foods senior management team. As a result performance targets for 2008 were set such that 60% of the bonus was based on the delivery of trading profit, 20% was linked to the year-end debt figure and the remaining 20% linked to the achievement of personal performance targets. These changes were relayed to major shareholders by letter in August 2008.

The Committee has determined that no bonus awards will be made to the executive directors in respect of 2008 performance. Mr Kelly received a pro rata bonus of £24,019 in respect of the period before he became an executive director.

For 2009, the annual bonus will be based on the same criteria as for 2008 and the annual bonus potentials are set at 75% of salary for each of the executive directors (for 2008 the bonus potential for Mr Schofield was 100% of salary), with a target level of 50% of salary. Bonuses are not pensionable.

#### Pensions

Mr Schofield elected for enhanced protection under the Finance Act 2004 with effect from 6 April 2006, and no longer accrues benefits under the Premier Foods Pension Scheme ("PFPS"). Instead Mr Schofield receives a payment in lieu of pension accrual which is included in his salary. His benefit accrued up to 6 April 2006 continues to be linked to his final salary, subject to the Scheme "earnings cap".

Mr Thomas is a member of the PFPS which is a funded, registered, scheme that provides benefits on a defined benefit (final salary) basis and is contracted out of the State Second Pension. Under the PFPS he accrues benefit at the rate of 1/45th of final salary for each year of pensionable service. Final salary is subject to a Scheme "earnings cap" equivalent to that previously imposed by the Finance Act 1989.

Mr Kelly is a member of the RHM Pension Scheme ("RHMP") which is a funded, registered scheme that provides benefits on a defined benefit (final salary) basis and is contracted out of the State Second pension. Under the RHMP he accrues benefit at the rate of 1/30th of pensionable salary for each year of pensionable service. Pensionable salary is subject to a scheme "earnings cap" equivalent to that previously imposed by the Finance Act 1989. In addition, the RHMP is currently operating a pensionable salary freeze.

Further details of pension arrangements can be found on pages 52 and 53.

#### 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 £18,301 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. None of the executive directors currently serve as a director of another public company.

#### Share Plans

The Premier Foods Co-Investment Plan ("CIP") is currently intended to be the primary long-term incentive arrangement for executive directors and other key individuals and looks to ensure that those who are most able to have a real impact on performance are sufficiently and appropriately incentivised. However, during 2009 the Committee intends to review the Group's ongoing strategy for long-term incentives.

The Premier Foods Long-Term Incentive Plan ("LTIP") has been retained for the purposes of incentivising other members of senior management. 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.

In 2007 the Company also adopted the Premier Group Performance Share Plan ("PSP"). The awards granted under this plan were made to individuals previously employed by RHM and replaced awards previously made under the RHM Group Performance Share Plan that lapsed on the date of the completion of the RHM acquisition. No further grants will be made under the PSP.

Awards made under the CIP, LTIP, ESOS and PSP 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 are 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 is 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 Group performance targets and 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, 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.

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. At the discretion of the Committee, the maximum level of invested shares pledged or purchased by executive directors is 200% of salary.

# Directors' remuneration report

continued

In respect of the 2008 grant cycle for the CIP, Mr Schofield was invited to pledge into the plan, shares up to a value of 200% of salary, Mr Thomas up to a value of 150% of salary and Mr Kelly (who was appointed to the Board on 30 June 2008) up to a value of 100% of salary. All three directors decided to pledge up to the full level of invitation.

At tiers of participation below executive director level, the level of investment from the participant was set at a maximum of 100% of base salary.

Performance is measured on the basis of strong EPS growth and by delivering shareholder returns ahead of those provided by the market. The Committee therefore agreed a performance target for the CIP awards which was 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. For awards under the CIP made from 2008 onwards a 3 month averaging period will be used for the purposes of calculating TSR. The interaction between these two key performance criteria for the 2008 grant cycle was as follows:

		Potential match available as % of executive share pledge														
		17.0%+	14.0% <17.0%	11.0% <14.0%	8.0% <11.0%	5.0% <8.0%	<5.0%	10th Percentile	20th Percentile	30th Percentile	40th Percentile	50th Percentile	60th Percentile	70th Percentile	80th Percentile	90th Percentile
Real EPS growth p.a.	17.0%+	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
	14.0% <17.0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
	11.0% <14.0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
	8.0% <11.0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
	5.0% <8.0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
	<5.0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
		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 therefore required for the maximum match. The Committee believes that the performance scale represents a truly exceptional level of stretch which will require a confluence of both internal and external factors.

The Committee has determined that the CIP will be retained for the 2009 grant cycle which will take place following the completion of the capital structure review and will take effect from the start of the year. As in previous years, performance will be measured on the basis of strong EPS growth and delivering shareholder returns which outperform the market. It is intended that the EPS and TSR targets will continue to be structured as a performance matrix, to make payouts co-dependant on strong performance against both metrics.

However, it has been determined that the precise targets for the matrix and vesting levels will not be set until the capital structure review has been completed. Following the capital structure review, the Committee will be better able to define targets that are suitably appropriate and robust in the context of the financial position of the Company at the time. It remains the objective of the Committee that truly exceptional EPS and TSR performance will be required for the maximum match to be achieved.

For the 2009 grant cycle, Messrs Schofield, Thomas and Kelly will not be invited to participate under the CIP by reference to a multiple of salary as in previous years. Instead, the invitation levels are expected to be comparable to the 2008 awards in terms of the number of shares which may be pledged. The Committee believes this to be an appropriate recognition of recent volatility in the Company's share price.

There is 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 51). It is not currently intended that the executive directors will participate in future awards.

Following the approval and implementation of the CIP, the Committee also reviewed the performance conditions of the LTIP. The Committee decided that the performance conditions used for the CIP should also apply to the LTIP, in order to align all levels of senior management. The same will apply for the 2009 grant cycle.

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 future awards made under the LTIP, with the exception that no investment shares will be required in order to qualify for matching shares. As with the CIP a three month TSR averaging period has been adopted for awards under the LTIP made from 2008 onwards.

The maximum value of initial awards under the LTIP is 33.3% of base salary with the potential to achieve up to three times this award (i.e. 300% match) for exceptional EPS and TSR performance. As in previous years, awards for full vesting therefore remain capped at 100% of base salary.

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.

Following the end of the performance period for the 2005 LTIP in 2008 the Committee determined that the required TSR performance conditions had not been achieved and the award lapsed in full.

### Premier Group Performance Share Plan

As part of the integration of the RHM business into the Premier Foods Group former RHM employees who held outstanding RHM share awards were given the opportunity to receive proportionate replacement Premier Foods awards. The size of these special "rollover" awards correspond to the 2005 and 2006 RHM PSP awards which lapsed due to the pro-rating of the awards, as a result of the acquisition.

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. The Committee believed that this was the most appropriate way of aligning all levels of senior management throughout the enlarged Premier Foods Group.

Following the end of the performance period for the 2005 PSP in 2008 the Committee determined that the required TSR performance conditions had not been achieved and the award lapsed in full.

The awards under the 2006 PSP awards will ordinarily vest in July 2009, subject to continued employment and the same performance conditions as applied to the 2006 LTIP award. No further awards will be granted under the PSP.

### Share options

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

The Company adopted the ESOS at the time of Admission in 2004. 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 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 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 the on a straight-line basis to full vesting for upper quartile performance.	Full vesting of the above portion if 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)

In respect of the 2004 ESOS awards, the performance periods for the two TSR portions of the award ended during 2007. Following independent review of performance, the Committee decided that 37.5% of the total award vested and became available for exercise; accordingly 12.5% of the award lapsed on this date. The remaining 50% of the award, which is subject to EPS targets was considered by the Remuneration Committee during the year. As the performance target was not met, the Remuneration Committee will consider a final re-test following the 2008 year-end.

No further options will be granted under the ESOS, other than in exceptional circumstances (e.g. in relation to recruitment).

# Directors' remuneration report

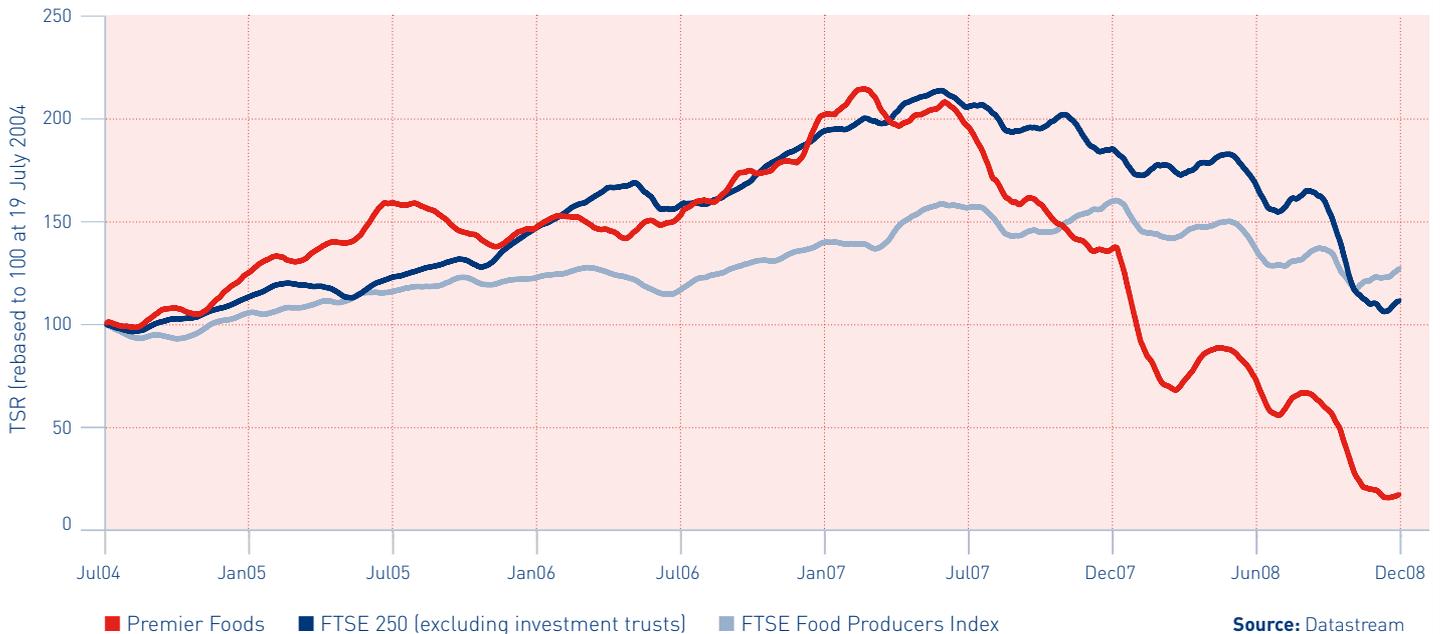
continued

## 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.

## Premier Foods total shareholder return since listing relative to appropriate comparators



## All employee share schemes

The Company offers annual invitations to employees to participate in Savings Related Share Option Schemes and in 2007 this was extended to include all Republic of Ireland-based employees. 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 these schemes.

## 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. Both Mr Schofield's and Mr Thomas' service agreements are dated 20 July 2004 and Mr Kelly's service agreement is dated 11 February 2009.

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 have 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 2006 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 is 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 initial appointment	Date of current appointment letter	Expiry Date	Notice Period
David Kappler	19 July 2004	14 June 2008	13 June 2010	One month
David Felwick CBE	19 July 2004	20 July 2007	19 July 2010	One month
Louise Makin	1 October 2006	1 October 2006	30 September 2009	One month
Ian McHoul	19 July 2004	20 July 2007	19 July 2010	One month
David Beever	21 January 2008	21 January 2008	20 January 2011	One month
Christine Cross	21 January 2008	21 January 2008	20 January 2011	One month

### 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 31.12.08	As at 31.12.07
Robert Schofield	1,820,043	1,163,040
Paul Thomas	702,800	626,836
Tim Kelly (appointed 30 June 2008)	50,000	–
David Kappler	373,522	247,558
David Felwick CBE	104,772	74,418
Louise Makin	28,283	4,000
Ian McHoul	84,418	84,418
David Beever (appointed 21 January 2008)	75,000	–
Christine Cross (appointed 21 January 2008)	40,293	–

Directors' share interests include the interests of their spouses, civil partners and infant children, or step children as required by Section 822 of the Companies Act 2006. There were no changes in the beneficial interests of the directors in the Company's shares between 31 December 2008 and 5 March 2009.

### Information subject to audit

#### Remuneration of executive directors' for the year ended 31 December 2008

Details of the payments made to executive directors in respect of the year ended 31 December 2008 are shown below:

	Salary & Fees 2008	Annual Bonus 2008	Benefits <sup>(3)</sup> 2008	Total 2008	Total 2007
	£	£	£	£	£
Robert Schofield <sup>(1)</sup>	638,845	–	19,618	658,463	736,805
Paul Thomas	418,000	–	24,483	442,483	489,751
Tim Kelly <sup>(2)</sup>	196,586	–	14,172	210,758	–

(1) Included in the figure for Mr Schofield's salary and fees is a supplement in lieu of pension of £34,920 (2007: £33,840).

(2) Appointed as a director on 30 June 2008.

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

# Directors' remuneration report

continued

## 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 are shown below:

	Total Fees 2008 £	Total Fees 2007 £
David Kappler	<b>233,450</b>	206,500
David Felwick CBE	<b>71,875</b>	68,250
Sharon Hintze <sup>(1)</sup>	<b>23,250</b>	54,250
Louise Makin	<b>56,500</b>	54,250
Ian McHoul	<b>69,375</b>	66,375
David Beever <sup>(2)</sup>	<b>53,710</b>	Nil
Christine Cross <sup>(2)</sup>	<b>53,710</b>	Nil

(1) Sharon Hintze retired at the AGM on 16 May 2008.

(2) David Beever and Christine Cross joined the Group in January 2008.

From 1 April 2008, the basic fee for a non-executive director, which includes Committee Membership Fees, increased to £57,000 (2007: £55,000). The basic fee for the Chairman of the Group was increased to £234,600 (2007: £230,000). The Chairmen of the Remuneration and Audit committees receive £10,500 and £13,000 respectively and the senior independent director receives an additional fee of £5,000. There are no changes to the fees for the Chairman and other non-executives for 2009.

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.

## Directors' interest in share options

At the beginning of the year and at 31 December 2008, the following directors had options to subscribe for shares of 1 pence each granted under the terms of the Premier Foods plc Executive Share Option Scheme or Savings Related Share Option Scheme:

	Options as at 31.12.07*	Granted during the Year	Exercised during the Year	Lapsed/ Cancelled during the year	Options as at 31.12.08	Adjusted exercise Price	Exercise Period
Robert Schofield	1,108,910 <sup>(1)</sup>	–	–	–	1,108,910	169.65p	23.07.07 – 22.07.14
	2,078 <sup>(2)</sup>	–	–	2,078	–	182.27p	01.06.08 – 30.11.08
	3,012 <sup>(3)</sup>	–	–	3,012	–	186.22p	01.06.09 – 30.11.09
	–	9,760 <sup>(5)</sup>	–	–	9,760	72.00p	01.12.11 – 31.05.12
Paul Thomas	660,188 <sup>(1)</sup>	–	–	–	660,188	169.65p	23.07.07 – 22.07.14
	2,078 <sup>(2)</sup>	–	–	2,078	–	182.27p	01.06.08 – 30.11.08
	2,938 <sup>(4)</sup>	–	–	–	2,938	196.00p	01.12.10 – 31.05.11
	–	4,853 <sup>(5)</sup>	–	–	4,853	72.00p	01.12.11 – 31.05.12
Tim Kelly	3,918 <sup>(4)</sup>	–	–	3,918	–	196.00p	01.12.10 – 31.05.11
	–	9,760 <sup>(5)</sup>	–	–	9,760	72.00p	01.12.11 – 31.05.12

\* Or date of appointment if later.

(1) Options granted under the Premier Foods plc Executive Share Option Scheme and subsequently adjusted for the rights issue on 14 August 2006. The portion of the award relating to TSR-based measures became partially exercisable in 2007 and the award lapsed to the extent performance conditions were not met. The portion of the award subject to EPS performance targets was assessed by the Committee in 2008 and the performance target was not met. Under the rules of the award there is provision for one re-test which will take place following the 2008 year-end.

(2) Options granted on 15 April 2005, under the Premier Foods plc Savings Related Share Option Scheme and subsequently adjusted for the rights issue of 14 August 2006. Exercise of these options are not subject to any performance conditions. The options vested during the year and lapsed unexercised on 28 November 2008.

(3) Options granted on 18 April 2006, under the Premier Foods plc Savings Related Share Option Scheme and subsequently adjusted for the rights issue of 14 August 2006. These options were cancelled during the year.

(4) Options granted on 5 October 2007, under the Premier Foods plc Savings Related Share Option Scheme. These options were cancelled during the year.

(5) Options granted on 16 October 2008, under the Premier Foods plc Savings Related Share Option Scheme. Exercise of these options are not subject to any performance conditions.

On 31 December 2008 the market price of ordinary shares of Premier Foods plc was 30.5 pence and the range during 2008 was 16.25 pence to 204.75 pence.

There were no changes in the options held by the directors between 31 December 2008 and 5 March 2009. The Register of Interests, which is open to inspection, contains full details of directors' shareholdings and options.

### Co-Investment Plan

The following table shows the executive directors' interests in shares awarded under the Premier Foods Co-Investment plan.

	Award Date	Market price on date of Award	Number of shares pledged	Maximum matching Award	End of period when qualifying conditions must be met
Robert Schofield	16.05.07	315.50p	390,163	1,170,489	16.05.10
	15.04.08	125.50p	1,010,826	3,032,478	15.04.11
Paul Thomas	16.05.07	315.50p	196,721	590,163	16.05.10
	15.04.08	125.50p	509,660	1,528,980	15.04.11
Tim Kelly	16.05.07	315.50p	59,000	300,000	16.05.10
	15.04.08	125.50p	157,350	800,091	15.04.11

The vesting of maximum awards under the CIP for awards made in 2007 and 2008 will be measured against a performance target 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 shown on page 46.

### Long-Term Incentive Plan

The following table shows the executive directors' interests in shares awarded under the LTIP prior to the introduction of the CIP. These figures represent the maximum potential award.

	Award Date	Market price on date of Award	Awards held 31.12.07*	Lapsed during the year	Awards held 31.12.08	End of period when qualifying conditions must be met
Robert Schofield	26.05.05 <sup>(1)</sup>	302.50p	182,849	182,849	-	26.05.08
	13.04.06 <sup>(1)</sup>	289.75p	198,155	-	198,155	13.04.09
Paul Thomas	26.05.05 <sup>(1)</sup>	302.50p	107,251	107,251	-	26.05.08
	13.04.06 <sup>(1)</sup>	289.75p	114,973	-	114,973	13.04.09
Tim Kelly	18.04.07 <sup>(2)</sup>	304.00p	37,676	37,676	-	22.07.08
	18.04.07 <sup>(2)</sup>	304.00p	72,685	-	72,685	13.04.09

\* Or date of appointment if later.

(1) Awards for 2005 and 2006 have been adjusted for the rights issue on 14 August 2006.

(2) Awards granted under the Premier Group Performance Share Plan (PSP) as "rollover" awards in respect of awards which lapsed under the 2005 and 2006 RHM PSP following the acquisition. The performance conditions applicable to these replacement awards are identical to the performance conditions on outstanding LTIP awards for the equivalent performance periods.

For awards made in 2005 and 2006 vesting 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. 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.

For awards in 2007 the performance conditions used for the LTIP were aligned to those used for the CIP. Vesting of awards under the LTIP is therefore subject to a combination of EPS growth and TSR-based performance conditions, as measured over a three-year period and the vesting schedule for the CIP (as detailed above) will also apply.

Following the end of the performance period for the 2005 LTIP and PSP in 2008 the Committee determined that the required TSR performance conditions had not been achieved and the awards lapsed in full.

# Directors' remuneration report

continued

## Pension entitlements

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

	Age at 31 December 2008	Years service at 31 December 2008	Total accrued benefit at 31 December 2008 £	Increase in accrued benefit during the year £	Increase in accrued benefit during the year, excluding inflation £
Robert Schofield	57	4 years 10 months	9,377	375	0
Paul Thomas	53	6 years 6 months	16,322	3,000	2,334
Tim Kelly	51	5 years 4 months	18,133	3,400	2,663

For each director, the total accrued benefit at 31 December 2008 represents the annual pension that is expected to be payable on eventual retirement, given the length of service and salary (subject to the earnings cap) of each director at 31 December 2008. 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 2007.

The increase in accrued pension excluding the effect of inflation over the year is also shown.

Requirements under:	Schedule 7A of the Companies Act 1985		The Listing Rules	
	Transfer value at 31.12.07 of total accrued benefit £	Transfer value at 31.12.08 of total Accrued benefit £	Increase in transfer value of accrued benefit during the year £	Transfer value of the increase in accrued benefit, excluding inflation £
Robert Schofield	115,100	124,200	9,100	0
Paul Thomas	143,600	179,000	35,400	25,600
Tim Kelly	180,400	237,500	49,100	21,600

Mr Schofield's disclosure has been restated following information gained concerning his retained benefits. Inclusion of these benefits restricts Mr Schofield's accrued benefits to 5 April 2006 to 60ths of the earnings cap as at 31 December 2008, giving an accrued pension of £9,377 and corresponding transfer value of £124,200. For the 31 December 2007 Director's Disclosures, his benefit had been based on 30ths of the earnings cap giving an accrued benefit of £18,004 and a corresponding transfer value of £230,100. Had these been based on 60ths of the earnings cap the accrued benefit at 31 December 2007 would have been £9,002 and a corresponding transfer value of £115,100.

All transfer values have been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11 published by the Institute of Actuaries and Faculty of Actuaries, dated 6th April 2001. 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 increase in transfer value of accrued benefits 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 2008 the corresponding transfer value at 31 December 2007. The transfer value of the increase in accrued benefits under the Listing Rules is the transfer value at 31 December 2008 of the increase in accrued benefits during the period, excluding inflation.

The transfer values disclosed above do not represent the 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  
5 March 2009

# 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 2008 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. 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 2008 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 information given in the Directors' Report is consistent with the Group financial statements. The information given in the Directors' Report includes that specific information presented in the Chairman's statement, the Chief Executive's summary, the Business Review and the report on Corporate Governance 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 (2006) 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 only the Directors' Report, the Chairman's statement, the Chief Executive's summary, the Business Review, the report on Corporate Governance, the unaudited part of the Remuneration Report and all of the other information listed on the contents page. 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 judgments 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 2008 and of its loss 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 Group financial statements.

### Emphasis of matter – going concern

In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of the disclosure made in note 2.1 to the financial statements concerning the Group's ability to continue as a going concern. The matters explained in note 2.1 to the financial statements relating to the equity fundraising, indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Group was unable to continue as a going concern.

### PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors  
London  
5 March 2009

### 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 2008 which comprise the Balance Sheet and the related notes. 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 2008.

### 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 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 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 information given in 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 Chairman's statement, the Chief Executive's summary, the Business Review and the report on Corporate Governance 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 Directors' Report, the Chairman's statement, the Chief Executive's summary, the Business Review, the report on Corporate Governance, the unaudited part of the Remuneration Report and all of the other information listed on the contents page. 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 judgments 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 2008;
- 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.

### Emphasis of matter – going concern

In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of the disclosure made in note 1 to the financial statements concerning the Company's ability to continue as a going concern. The matters explained in note 1 to the financial statements relating to the equity fundraising, indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Company was unable to continue as a going concern.

### PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors  
London  
5 March 2009

### 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 2008 £m	Year ended 31 December 2007 (Restated)* £m
<b>Continuing operations</b>			
Turnover	4	<b>2,603.6</b>	2,125.2
Cost of sales		<b>(1,819.5)</b>	(1,476.6)
<b>Gross profit</b>		<b>784.1</b>	648.6
Selling, marketing and distribution costs		<b>(351.0)</b>	(299.9)
Administrative costs		<b>(478.2)</b>	(279.2)
Net other operating income		<b>4.6</b>	2.5
<b>Operating (loss)/profit</b>	6	<b>(40.5)</b>	72.0
Before exceptional items		<b>256.0</b>	230.7
Impairment of goodwill	5	<b>(194.4)</b>	–
Other exceptional items	5	<b>(102.1)</b>	(158.7)
Interest payable and other financial charges	8	<b>(186.1)</b>	(145.4)
Interest receivable and other financial income	8	<b>41.6</b>	26.8
Movement on fair valuation of interest rate swaps	8	<b>(218.9)</b>	(31.0)
<b>Loss before taxation for continuing operations</b>		<b>(403.9)</b>	(77.6)
Taxation credit	9	<b>30.6</b>	39.8
<b>Loss after taxation for continuing operations</b>		<b>(373.3)</b>	(37.8)
Loss from discontinued operations	10	<b>(70.5)</b>	(25.5)
<b>Loss for the year attributable to equity shareholders</b>		<b>(443.8)</b>	(63.3)
Basic and diluted loss per share (pence)	11	<b>(52.5)</b>	(8.2)
Basic and diluted loss per share (pence) – continuing	11	<b>(44.2)</b>	(4.9)
Basic and diluted loss per share (pence) – discontinued	11	<b>(8.3)</b>	(3.3)
Adjusted earnings per share (pence)	11	<b>16.3</b>	15.4

\* Comparatives have been restated to reflect the classification of Martine Spécialités S.A.S., Le Pain Croustillant and Sofrapain S.A.S. as discontinued operations.

The notes on pages 60 to 106 form an integral part of the consolidated financial statements.

# Consolidated balance sheet

	Note	As at 31 December 2008 £m	As at 31 December 2007 (Restated)* £m
<b>ASSETS:</b>			
<b>Non-current assets</b>			
Property, plant and equipment	13	638.9	607.1
Goodwill	14	1,371.3	1,649.5
Other intangible assets	15	1,159.5	1,237.8
Retirement benefit assets	25	163.7	–
<b>Total non-current assets</b>		<b>3,333.4</b>	3,494.4
<b>Current assets</b>			
Assets held for sale	17	124.4	30.6
Inventories	18	238.8	208.4
Trade and other receivables	19	337.0	328.9
Financial assets – derivative financial instruments	22	21.2	8.5
Cash and cash equivalents	29	40.6	23.9
<b>Total current assets</b>		<b>762.0</b>	600.3
<b>Total assets</b>		<b>4,095.4</b>	4,094.7
<b>LIABILITIES:</b>			
<b>Current liabilities</b>			
Trade and other payables	20	(539.8)	(538.5)
Financial liabilities			
– short-term borrowings	21	(174.8)	(112.7)
– derivative financial instruments	22	(250.3)	(25.6)
Accrued interest payable		(22.8)	(12.9)
Provisions	24	(23.6)	(56.6)
Current income tax liabilities		(4.1)	(8.1)
Liabilities held for sale	17	(56.5)	–
<b>Total current liabilities</b>		<b>(1,071.9)</b>	(754.4)
<b>Non-current liabilities</b>			
Financial liabilities – long-term borrowings	21	(1,632.6)	(1,529.7)
Retirement benefit obligations	25	(175.2)	(123.2)
Provisions	24	(28.1)	(18.4)
Other liabilities		(2.7)	(1.1)
Deferred tax liabilities	23	(193.1)	(207.6)
<b>Total non-current liabilities</b>		<b>(2,031.7)</b>	(1,880.0)
<b>Total liabilities</b>		<b>(3,103.6)</b>	(2,634.4)
<b>Net assets</b>		<b>991.8</b>	1,460.3
<b>EQUITY:</b>			
<b>Capital and reserves</b>			
Share capital	26	8.5	8.5
Share premium	27	760.6	760.6
Merger reserve	27	890.7	890.7
Other reserves	27	(23.0)	(3.1)
Profit and loss reserve	27	(645.1)	(196.5)
<b>Capital and reserves attributable to the Company's equity shareholders</b>		<b>991.7</b>	1,460.2
Minority interest	27	0.1	0.1
<b>Total shareholders' funds</b>		<b>991.8</b>	1,460.3

\* The 31 Dec 2007 comparatives have been restated for IFRS 3 fair value adjustments on the acquisition of RHM plc.

The notes on pages 60 to 106 form an integral part of the consolidated financial statements.

Signed on behalf of the Board of Directors, who approved the financial statements on 5 March 2009.



Robert Schofield  
Director and Chief Executive



Paul Thomas  
Finance Director

# Consolidated statement of recognised income and expense

	Note	Year ended 31 December 2008 £m	Year ended 31 December 2007 £m
Actuarial gain on pensions	25	<b>56.2</b>	135.3
Tax charge on actuarial gain on pensions	23	<b>(18.8)</b>	(39.5)
Exchange differences on translation	27	<b>10.8</b>	0.1
Fair value movement on net investment hedge	27	<b>(19.9)</b>	(3.1)
Deferred tax charge on share options	23	<b>(0.5)</b>	(1.1)
Net income recognised directly in equity		<b>27.8</b>	91.7
Loss for the year		<b>(443.8)</b>	(63.3)
<b>Total recognised (expense)/income in the year attributable to equity shareholders</b>		<b>(416.0)</b>	28.4

The notes on pages 60 to 106 form an integral part of the consolidated financial statements.

# Consolidated cash flow statement

	Note	Year ended 31 December 2008 £m	Year ended 31 December 2007 £m
<b>Cash generated from operating activities</b>	29	<b>189.4</b>	360.2
Interest paid		(150.4)	(122.8)
Interest received		45.0	24.8
Taxation received		0.1	8.7
<b>Cash inflow from operating activities</b>		<b>84.1</b>	270.9
Acquisition of RHM		-	(306.1)
Acquisition of Chivers Ireland		-	(18.4)
Acquisition of Campbell's		-	(0.3)
Sale of subsidiaries		-	22.0
Purchase of property, plant and equipment		(129.8)	(115.9)
Purchase of intangible assets		(31.2)	(8.7)
Sale of property, plant and equipment		26.4	47.8
Sale of intangible assets		-	1.1
<b>Cash outflow from investing activities</b>		<b>(134.6)</b>	(378.5)
Repayment of borrowings		(178.7)	(962.9)
Proceeds from borrowings		291.6	1,901.5
Proceeds from securitisation programme		22.4	67.6
Financing costs		(20.2)	(18.8)
Proceeds from share issue		-	1.3
Share issue costs		-	(2.2)
Purchase of own shares		-	(3.0)
Repayment of debt and interest acquired with RHM		-	(793.5)
Dividends paid		(54.7)	(61.1)
<b>Cash inflow from financing activities</b>		<b>60.4</b>	128.9
<b>Net inflow of cash and cash equivalents</b>		<b>9.9</b>	21.3
Cash and cash equivalents at beginning of year		23.8	2.5
<b>Cash and cash equivalents at end of year</b>	29	<b>33.7</b>	23.8

The notes on pages 60 to 106 form an integral part of the consolidated financial statements.

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# 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 34. The principal activity of the Company and its subsidiaries ("the Group"), is the supply of branded and own label food and beverage products, as described in note 16.

These Group consolidated financial statements were authorised for issue by the Board of Directors on 5 March 2009.

## 2. Accounting policies

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

### 2.1 Basis of preparation

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

Following the acquisition of RHM plc in March 2007, the Group has undertaken an extensive integration and restructuring programme, which has been delivered against a substantially more challenging trading, economic and credit environment. In view of the volatile operating conditions and the Group's significant level of leverage following the acquisitions of Campbell's and RHM plc, the Board and its advisors have spent recent months examining ways of accelerating the reduction of Group debt in order to establish additional financial headroom and a more appropriate long-term capital structure.

Following discussions with the Group's lending banks and considering the potential for the credit environment to remain difficult, the Board has concluded that raising additional equity combined with a renegotiated agreement with the Group's lending banks and an agreement with the Trustees of the Group's UK Defined Benefit Plans would provide a more appropriate capital structure, and achieve an increase in financial headroom given the more challenging trading environment. Further details on the equity raising, amended agreement with the lending banks and the agreement reached with the Trustees are shown in note 34.

This approach aims to minimise the quantum of new equity capital that needs to be raised whilst providing the Group with the appropriate comfort regarding its future liquidity and covenant headroom.

The amended agreement with the lending banks and the agreement with the Trustees are both conditional on the equity raising. The proposed equity raising requires that a resolution be passed by Shareholders at an Extraordinary General Meeting in order to proceed and in order for the amended terms under the Group's Term and Revolving Credit Facilities to take effect.

In the event that the resolution is not passed, the amended Term and Revolving Credit Facilities Agreement will not become effective. The Group would be required to re-enter negotiations with its lending banks. Should these further negotiations prove unsuccessful then the Group may have insufficient liquidity shortly thereafter in April or May 2009 and/or would face being unable to meet its financial covenants.

The Board has concluded that the resolution to be passed by Shareholders at the General Meeting in order for the placing and open offer and the firm placing to proceed such that the equity proceeds are received on 27 March 2009 in line with the timetable set out in the Prospectus for the Placing and Open Offer and Firm Placing, represents a material uncertainty that casts significant doubt upon the Group's ability to continue as a going concern. However, after considering the uncertainties described above the Board has a reasonable expectation that the Group will be successful in obtaining the necessary resolution and for this reason believes it is appropriate to continue to adopt the going concern basis in preparing the annual report and accounts. The financial statements do not include the adjustments that would result if the Group was unable to continue as a going concern.

The consolidated financial statements of Premier Foods plc have been prepared in accordance with International Financial Reporting Standards ("IFRS's") as endorsed by the European Union ("EU"), International Financial Reporting Interpretation Committee ("IFRIC") interpretations, and the Companies Act 1985 applicable to companies reporting under IFRS, and on the historical cost basis with the exception of derivative financial instruments, defined benefit pension schemes and share based payments which are incorporated using fair value. The principal accounting policies adopted are set out below.

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

The following accounting standards and interpretations, issued by the International Accounting Standards Board ("IASB") or IFRIC, are effective for the first time in the current financial year and have been adopted by the Group with no significant impact on its consolidated results or financial position:

IFRIC 12 – Service concession agreements

### New standards and interpretations not applied

Up to and during the year ended 31 December 2008, the IASB and the IFRIC have issued the following standards and interpretations with an effective date after the date of these financial statements:

	Effective for accounting periods beginning on or after:	
<b>International Financial Reporting Standards</b>		
IFRS 8	Operating segments	1 January 2009
IFRS 2	Amendment – Vesting conditions and cancellations	1 January 2009
IAS 1 (Revised)	Presentation of financial statements	1 January 2009
IAS 23 (Revised)	Borrowing costs	1 January 2009
IFRS 1/IAS 27	Cost of an investment in a subsidiary, jointly controlled entity or associate	1 January 2009
<b>International Financial Reporting Interpretations Committee</b>		
IFRIC 13	Customer Loyalty Programmes	1 July 2008
IFRIC 14	IAS 19 – the limit on a defined benefit asset, minimum funding requirements and their interaction	1 January 2009

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

The Directors do not anticipate that the adoption of any of these standards and interpretations will have a material impact on the Group's financial statements except for IFRS 8 "Operating segments" which will require additional disclosures and may result in a change to the number of operating segments reported.

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

### International Financial Reporting Standards

IFRS 3 (Revised)	Business combinations
IAS 1/IAS 32 (Amendment)	Puttable financial instruments and obligations arising on a liquidation
IAS 27 (Revised)	Consolidated and separate financial statements
IAS 39 (Amendment)	Financial instruments: recognition and measurement on eligible hedged items

### International Financial Reporting Interpretations Committee

IFRIC 15	Agreements for the construction of real estate
IFRIC 16	Hedges of a net investment in a foreign operation
IFRIC 17	Distributions of non-cash assets to owners
IFRIC 18	Transfers of assets from customers

## 2.2 Basis of consolidation

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

The purchase method of accounting is used for all acquisitions.

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

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. Upon completion of the Group's fair value exercise in accordance with IFRS 3: "Business Combinations" ("IFRS 3") in the 12 months following acquisition, comparatives are restated for the final fair value adjustments. In addition, comparatives are also restated to reclassify disposed businesses into discontinued operations.

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

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

# Notes to the financial statements

Continued

## 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 passes.

### *(ii) Interest income*

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable, taking into consideration the interest element of derivatives.

### *(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 is 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 to each segment based on various cost drivers, including headcount.

## 2.5 Share-based payments

The fair value of employee share option plans is calculated using an option-pricing model. In accordance with IFRS 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 as a separate component of equity. When a foreign operation is sold exchange differences previously taken to equity are recognised in the income statement as part of the gain or loss on sale.

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

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

## 2.7 Dividends

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

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

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

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

All items of PPE are reviewed for impairment when there are indications that the carrying value may not be fully recoverable.

## 2.9 Business combinations and goodwill

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

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

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

## 2.10 Intangible assets

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

### *Acquired intangibles*

Acquired trademarks, brands, customer relationships, licences, recipes and similar assets that are controlled through custody or legal rights and that could be sold separately from the rest of the business are capitalised, where fair value can be reliably measured. A reputable independent specialist performs the valuations. All of these assets are considered to have finite lives and are amortised on a straight-line basis over their estimated useful economic lives that range from 7 to 40 years.

### *Research and development*

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

Costs incurred in developing a product, typically its recipe or packaging, are charged to income in the year in which they are incurred unless the future economic benefits of the project can be regarded as reasonably certain and are in accordance with 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 10 years.

## 2.11 Impairment

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

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

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

## 2.12 Interest

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

## 2.13 Leases

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

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

## 2.14 Inventories

Inventory is valued at the lower of cost and net realisable value. Where appropriate, cost includes production and other attributable overhead expenses as described in 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.

## 2.15 Taxation

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

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

# Notes to the financial statements

Continued

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

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

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

## 2.16 Employee benefits

Group companies provide a number of long-term employee benefit arrangements, primarily through pension schemes. The schemes are generally funded through payments to insurance companies or trustee-administered funds determined by periodic independent actuarial calculations. The Group has both defined benefit and defined contribution plans.

### *Defined benefit plans*

A defined benefit plan is a pension plan that defines the amount of pension benefit that an employee will receive on retirement, usually dependent on factors such as age, years of service and compensation.

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

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

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

### *Defined contribution plans*

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

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

## 2.17 Provisions

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

## 2.18 Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and the existence of which will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group or the amount of obligation cannot be measured reliably. A contingent liability is not recognised but is disclosed in the notes to the financial statements. When an outflow becomes probable, it is recognised as a provision.

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

## 2.19 Financial instruments

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

### *Trade and other receivables*

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

The rights and obligations relating to those trade receivables that have been sold to third parties are de-recognised from the balance sheet where the risks and rewards of ownership are considered to have transferred. Cash received from third parties in exchange for the transfer of ownership is recorded within cash and cash equivalents with the cost of financing prior to settlement by the customer recorded as interest on an accruals basis. Amounts received from customers for receivables in respect of which title has transferred, for example under the debtors securitisation programme, represent amounts owed to the transferee and are recorded as short-term borrowings.

#### *Cash and cash equivalents*

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

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

#### *Net investment hedge*

Any gain or loss on the hedging instrument relating to the effective portion of changes in the fair value of derivatives that are designated and qualify as net investment hedges is recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement within other operating income and expenditure.

#### **2.20 Investment in own shares**

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

### **3. Critical accounting policies, estimates and judgements**

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

#### **3.1 Pensions**

The present value of the Group's pension obligations depends on a number of actuarial assumptions. The primary assumptions used include the 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. One such assumption is the assumption of mortality rates and how these are expected to change in the future. If the Group's assumption on the mortality of its members was amended to assume an increase of a further one year improvement in mortality, total liabilities would increase by approximately 3.4%.

# Notes to the financial statements

Continued

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 25.

Negotiations of the timing of deficit payments in relation to the pension schemes was concluded subsequent to the year end, further detail is included in note 34.

### 3.2 Goodwill and other intangible assets

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

The Group has considered the impact of the assumptions used on the calculations and has conducted sensitivity analysis on the impairment tests of the CGUs' carrying values. See note 14 for further details.

Acquired trademarks, brands, customer relationships, recipes and similar assets are considered to have finite lives that range from 7 to 40 years. The determination of the useful lives takes into account certain quantitative factors such as sales expectations and growth prospects, and also many qualitative factors such as history and heritage, and market positioning, hence the determination of useful lives are subject to estimates and judgement. For further details see note 15.

### 3.3 Advertising and promotion costs

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

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

### 3.4 Exceptional items

Exceptional items are not explicitly addressed under IFRS. Accordingly, the Group has defined exceptional items as those items of sufficient financial significance to be disclosed separately in order to assist in understanding the financial performance achieved and in making projections of future results. Each of these items relate to events or circumstances that are material and non-recurring in nature, such as a major restructuring, disposal of a business or asset, or integration of an acquisition. See note 5 for further details.

### 3.5 Securitisation

The Group has sold the rights and obligations relating to certain of its trade receivable balances under a receivables purchasing agreement in order to achieve an overall lower cost of funding and permanently accelerate the generation of cash from working capital. Accounting for a sale of this nature is judgemental and dependent on evidence of the substantive transfer of risk and reward from the Group to a third party. In this instance, transference of the two primary risks, those of late payment and credit default was achieved at the balance sheet date. The Group anticipates that the receivables purchasing agreement will remain in place over the medium term and that de-recognition of the receivables subject to it will continue to be achieved, dependent upon ongoing review of the assessment of risk and reward transfer.

### 3.6 Financial instruments

The Group uses a variety of derivative financial instruments to manage the risks arising from adverse movements in interest rates, commodity prices and foreign currency.

The Group has a policy of not applying hedge accounting to these derivatives (other than in the case of a Net Investment Hedge against Euro denominated assets) and taking any gain or loss on the movement of the fair values of derivatives to the income statement.

#### 4. Segmental analysis

As previously announced, the Group implemented the new segmental structure, effective from 1 January 2008, following the acquisition and integration of the Campbell's and RHM businesses. The Group has defined three segments namely "Grocery", "Hovis" and "Chilled & Ireland" with the primary drivers of the structure being the commonality of the categories operated in and the supply chain to service them.

The Grocery segment comprises the original Premier business with the exception of the Meat-free business, the Campbell's business, RHM's Culinary Brands segment, Ledbury Preserves from RHM's Customer Partnerships segment and Manor Bakeries from the RHM Cakes segment. The Hovis segment comprises the RHM Bread Bakeries segment. It was initially named the "Bread & Milling" segment but has been renamed as the "Hovis" segment reflecting the segment's principal brand. The Chilled & Ireland segment comprises the RF Brookes and Charnwood chilled foods and pizza base businesses from RHM's Customer Partnerships segment, Avana Bakeries from RHM's Cakes segment, Premier's Meat-free business and all operations in the Republic of Ireland.

Results for Martine Spécialités S.A.S., Sofrapain S.A.S. and Le Pain Croustillant are presented as discontinued operations in both the current year and the comparative results.

Each of the segments below primarily supplies the United Kingdom market, although the Group also supplies certain products to other parts of Europe and also 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.

As a consequence of the extensive integration of the business, certain operating costs have been incurred centrally. These costs have been allocated, using various cost drivers including headcount, between the Group's operating segments and are reflected in the analysis below.

Trading profit is defined as operating profit before exceptional items, amortisation of intangible assets, the revaluation of foreign exchange and other derivative contracts under IAS 39 and pension credits or charges in relation to the difference between the expected return on pension assets and interest costs on pension liabilities. The definition of trading profit has changed in comparison to the prior year to exclude the revaluation on other derivative contracts under IAS 39.

Trading profit has been reported in addition to operating profit as the directors believe it provides an alternative measure with which the shareholders can assess the Group's underlying trading performance.

The segment results for the years ended 31 December 2008 and 2007 are as follows:

	Year ended 31 December 2008				Total for Group £m
	Grocery £m	Hovis £m	Chilled & Ireland £m	Unallocated £m	
<b>Total turnover from continuing operations</b>	1,419.0	756.3	428.3	–	2,603.6
<b>Result</b>					
<b>Trading profit</b>	<b>239.2</b>	<b>20.9</b>	<b>50.1</b>	<b>–</b>	<b>310.2</b>
Amortisation	(40.6)	(17.2)	(18.9)	–	(76.7)
Fair value movements on foreign exchange and other derivative contracts	3.1	2.3	1.5	–	6.9
Pension financing credit	6.7	5.3	3.6	–	15.6
<b>Operating profit before exceptional items</b>	<b>208.4</b>	<b>11.3</b>	<b>36.3</b>	<b>–</b>	<b>256.0</b>
Exceptional items	(69.4)	(216.7)	(6.4)	(4.0)	(296.5)
<b>Operating profit/(loss)</b>	<b>139.0</b>	<b>(205.4)</b>	<b>29.9</b>	<b>(4.0)</b>	<b>(40.5)</b>
Interest payable & other financial charges	–	–	–	(405.0)	(405.0)
Interest receivable & other financial income	–	–	–	41.6	41.6
<b>Profit/(loss) before taxation for continuing operations</b>	<b>139.0</b>	<b>(205.4)</b>	<b>29.9</b>	<b>(367.4)</b>	<b>(403.9)</b>
Taxation credit	–	–	–	30.6	30.6
<b>Profit/(loss) after taxation for continuing operations</b>	<b>139.0</b>	<b>(205.4)</b>	<b>29.9</b>	<b>(336.8)</b>	<b>(373.3)</b>
Discontinued operations	–	(72.4)	–	1.9	(70.5)
<b>Profit/(loss) for the year</b>	<b>139.0</b>	<b>(277.8)</b>	<b>29.9</b>	<b>(334.9)</b>	<b>(443.8)</b>
<b>Balance sheet</b>					
Segment assets	2,391.7	895.4	740.8	–	4,027.9
Unallocated assets	–	–	–	67.5	67.5
<b>Consolidated total assets</b>	<b>2,391.7</b>	<b>895.4</b>	<b>740.8</b>	<b>67.5</b>	<b>4,095.4</b>
Segment liabilities	(494.8)	(229.5)	(127.7)	–	(852.0)
Unallocated liabilities	–	–	–	(2,251.6)	(2,251.6)
<b>Consolidated total liabilities</b>	<b>(494.8)</b>	<b>(229.5)</b>	<b>(127.7)</b>	<b>(2,251.6)</b>	<b>(3,103.6)</b>

# Notes to the financial statements

Continued

Other information	Grocery £m	Hovis £m	Chilled & Ireland £m	Speciality bakery businesses £m	Other discontinued £m	Total £m
PPE expenditure	82.9	24.0	23.3	3.8	–	<b>134.0</b>
Intangible asset expenditure	31.0	0.2	–	–	–	<b>31.2</b>
Depreciation	26.6	15.8	8.3	5.8	–	<b>56.5</b>
Amortisation	40.6	17.2	18.9	5.3	–	<b>82.0</b>
Impairment of PPE	0.1	11.3	–	–	–	<b>11.4</b>
Impairment of goodwill	–	194.4	–	68.5	–	<b>262.9</b>

Year ended 31 December 2007 (Restated)\*

	Grocery £m	Hovis £m	Chilled & Ireland £m	Unallocated £m	Total for Group £m
<b>Total turnover from continuing operations</b>	1,232.9	534.9	357.4	–	2,125.2
<b>Result</b>					
<b>Trading profit</b>	<b>214.1</b>	<b>17.4</b>	<b>40.4</b>	<b>–</b>	<b>271.9</b>
Amortisation	(32.7)	(13.3)	(16.0)	–	(62.0)
Fair value movements on foreign exchange and other derivative contracts	3.3	0.6	0.8	–	4.7
Pension financing credit	6.5	6.7	2.9	–	16.1
<b>Operating profit before exceptional items</b>	<b>191.2</b>	<b>11.4</b>	<b>28.1</b>	<b>–</b>	<b>230.7</b>
Exceptional items	(94.6)	(25.3)	(38.8)	–	(158.7)
<b>Operating profit/(loss)</b>	<b>96.6</b>	<b>(13.9)</b>	<b>(10.7)</b>	<b>–</b>	<b>72.0</b>
Interest payable & other financial charges	–	–	–	(176.4)	(176.4)
Interest receivable & other financial income	–	–	–	26.8	26.8
<b>Profit/(loss) before taxation for continuing operations</b>	<b>96.6</b>	<b>(13.9)</b>	<b>(10.7)</b>	<b>(149.6)</b>	<b>(77.6)</b>
Taxation credit	–	–	–	39.8	39.8
<b>Profit/(loss) after taxation for continuing operations</b>	<b>96.6</b>	<b>(13.9)</b>	<b>(10.7)</b>	<b>(109.8)</b>	<b>(37.8)</b>
Discontinued operations	3.5	2.0	(12.5)	(18.5)	(25.5)
<b>Profit/(loss) for the year</b>	<b>100.1</b>	<b>(11.9)</b>	<b>(23.2)</b>	<b>(128.3)</b>	<b>(63.3)</b>

\* Comparatives have been restated to reflect the classification of Martine Spécialités S.A.S., Le Pain Croustillant and Sofrapain S.A.S. as discontinued operations.

## Balance sheet

Segment assets	2,206.4	1,074.5	747.2	–	4,028.1
Unallocated assets	–	–	–	66.6	66.6
<b>Consolidated total assets</b>	<b>2,206.4</b>	<b>1,074.5</b>	<b>747.2</b>	<b>66.6</b>	<b>4,094.7</b>
Segment liabilities	(407.0)	(201.6)	(104.4)	–	(713.0)
Unallocated liabilities	–	–	–	(1,921.4)	(1,921.4)
<b>Consolidated total liabilities</b>	<b>(407.0)</b>	<b>(201.6)</b>	<b>(104.4)</b>	<b>(1,921.4)</b>	<b>(2,634.4)</b>

Other information	Grocery £m	Hovis £m	Chilled & Ireland £m	Speciality bakery businesses £m	Other discontinued £m	Total £m
PPE expenditure	194.0	205.3	76.4	35.1	3.3	<b>514.1</b>
Intangible asset expenditure	1,047.9	617.3	303.6	121.1	–	<b>2,089.9</b>
Depreciation	23.8	9.8	11.3	3.9	1.2	<b>50.0</b>
Amortisation	32.7	13.3	16.0	4.2	0.1	<b>66.3</b>
Impairment of PPE	12.3	–	3.6	–	–	<b>15.9</b>
Impairment of other intangibles	–	0.6	–	–	–	<b>0.6</b>

\* Balance sheet comparatives at 31 Dec 2007 have been restated for IFRS 3 fair value adjustments on the acquisition of RHM plc.

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

## Segmental analysis – secondary

The following table provides an analysis of the Group's turnover allocated on the basis of geographical market destination. The table also contains an analysis of segmental assets and additions to property, plant and equipment and intangible assets allocated by geographical location.

	United Kingdom £m	Other Europe £m	Rest of world £m	Total for Group £m
<b>Turnover by destination</b>				
<b>2008</b>	<b>2,433.5</b>	<b>144.6</b>	<b>25.5</b>	<b>2,603.6</b>
2007 (Restated)*	1,991.6	107.8	25.8	2,125.2
<b>Carrying value of segmental assets by location</b>				
<b>2008</b>	<b>3,904.6</b>	<b>190.8</b>	<b>–</b>	<b>4,095.4</b>
2007 (Restated)**	3,905.7	189.0	–	4,094.7
<b>Total capital expenditure by location</b>				
<b>2008</b>	<b>161.6</b>	<b>3.6</b>	<b>–</b>	<b>165.2</b>
2007 (Restated)**	2,471.1	132.9	–	2,604.0

\* Turnover comparatives have been restated to reflect the classification of Martine Spécialités S.A.S., Le Pain Croustillant and Sofrapain S.A.S. as discontinued operations.

\*\* Balance sheet comparatives at 31 Dec 2007 have been restated for IFRS 3 fair value adjustments on the acquisition of RHM plc.

Capital expenditure for 2007 includes assets purchased as part of the acquisition of RHM plc.

## 5. Exceptional items

During the year the Group continued with its investment and restructuring programme in order to capture the cost and operational synergies available to the enlarged Group following the acquisition of RHM plc and the Campbell's business. This is the primary factor behind total non-recurring integration and restructuring exceptional costs in the year.

Exceptional costs were as follows:

	Year ended 31 December 2008 £m	Year ended 31 December 2007 £m
<b>Exceptional items – continuing operations</b>		
Integration of RHM UK operations	(a) 60.6	88.1
Integration of Campbell's UK operations	(b) 6.3	12.4
Integration of Irish operations	(c) 6.0	21.5
Restructure of Meat-free operations	(d) 3.5	15.3
Hovis restructuring and other costs	(e) 21.1	9.6
Other restructuring and other costs	(f) 6.7	12.2
Gain on property disposals	(g) (2.1)	(0.4)
Goodwill impairment	(h) 194.4	–
<b>Total</b>	<b>296.5</b>	<b>158.7</b>

### (a) Integration of RHM UK operations

On 16 March 2007, the Group acquired RHM plc. In order to achieve the planned synergy benefits from the acquisition, the Group continued to incur a significant level of restructuring expenditure and investment during the year on the integration of RHM plc. The integration costs incurred relate to the following key initiatives:

- On 2 July 2007, the Group announced the results of a review of its combined manufacturing facilities which identified six ex-RHM sites that were to close. The closure programme was completed during 2008, resulting in restructuring and redundancy costs and costs relating to the transfer of production to the remaining Group manufacturing sites.
- The Group has also commenced the restructure and integration of certain warehousing facilities which also resulted in restructuring and redundancy costs being incurred during the year.
- Redundancy and restructuring costs relating to the move of existing administrative functions to a group-wide shared service centre in Manchester.

### (b) Integration of Campbell's UK operations

On 14 August 2006, the Group acquired Campbell's Grocery Products Limited. The closure and subsequent integration of the King's Lynn manufacturing operations and warehousing facilities into the existing operations of the Group was completed in the year resulting in £6.3m of restructuring and redundancy costs.

# Notes to the financial statements

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## (c) Integration of Irish operations

Following the acquisitions of Campbell's Grocery Products Ireland Limited in August 2006, Chivers Ireland Limited in January 2007 and the RHM Ireland business in March 2007, the Group has significantly increased its commercial presence in Ireland. In the year, the Group completed the principal phases of integrating these companies and has created a single operating business, a key step in generating future cost and operating synergy benefits in Ireland. As part of this exercise, the Group has closed two factories (Thurles and Coolock) and implemented a centralised distribution operation.

## (d) Restructure of Meat-free operations

During 2006, the Group announced plans for the closure of its factory at Portishead and the purchase and development of a new chilled facility at Methwold to enable the integration of chilled production for *Quorn* and *Cauldron* products on a single site. The Methwold facility is now fully operational and commissioning costs relating to the new plant have now ceased.

## (e) Hovis restructuring and other costs

The Hovis business has undertaken a number of restructuring projects in 2007 and 2008 in order to align the business with new ways of working and for the preparation of the ERP roll out. These projects involved headcount reductions through organisational and structural changes, new warehouse technology and operating methods and supply chain management restructuring initiatives. The current year exceptional charges also includes an impairment of assets and redundancy costs relating to the closure of our Rotherham mill, onerous lease costs for properties and impairment recognised against certain plant and machinery relating to discontinued production lines.

## (f) Other restructuring and other costs

This category incorporates cost reduction initiatives associated with our warehousing network, factory transformation programme and other supply chain initiatives.

Prior year exceptional charges relate to costs associated with general business restructuring, the restructuring of our warehousing network, training and a number of compliance related initiatives.

## (g) Gain on property disposals

The net disposal gain of £2.1m in the year includes the disposal of sites and plant and machinery in Bristol, Droylsden, Middlewich, Wythenshawe and Stoke in the UK and Thurles in the Republic of Ireland.

## (h) Goodwill impairment

An impairment charge of £194.4m has been recognised against the goodwill allocated to the Hovis CGU (see note 14).

## 6. Operating (loss)/profit for continuing operations

### 6a. Analysis of costs by nature

	Year ended 31 December 2008	Year ended 31 December 2007 (Restated)*
	£m	£m
Cost of inventories sold	<b>1,463.3</b>	1,208.8
Employee benefits expense (note 7)	<b>503.6</b>	499.0
Depreciation of property, plant and equipment:		
– owned assets	<b>50.5</b>	44.3
– under finance leases	<b>0.2</b>	0.6
Amortisation of intangible assets:		
– software and licences	<b>7.7</b>	4.4
– brands and trademarks	<b>34.3</b>	30.1
– customer relationships	<b>34.7</b>	27.5
Impairment of inventory	<b>5.6</b>	0.8
Impairment of property, plant and equipment	<b>11.4</b>	15.9
Impairment of intangible assets	<b>–</b>	0.6
Impairment of goodwill	<b>194.4</b>	–
Operating lease rental payments:		
– plant and machinery	<b>21.2</b>	6.4
– land and buildings	<b>8.8</b>	8.2
Repairs and maintenance expenditure	<b>54.5</b>	39.3
Research and development costs	<b>5.1</b>	3.9
(Gain)/loss on disposal of property, plant and equipment/intangible assets	<b>(0.8)</b>	1.2
Net foreign exchange (gains)/losses	<b>(5.1)</b>	3.8
Auditor remuneration	<b>2.2</b>	2.0

\* Comparatives have been restated to reflect the classification of Martine Spécialités S.A.S., Le Pain Croustillant and Sofrapain S.A.S. as discontinued operations.

Operating lease obligations are further disclosed in note 30.

## 6b. Auditor remuneration

	Year ended 31 December 2008 £m	Year ended 31 December 2007 £m
Fees payable to the Company's auditor for the audit of the Parent Company and consolidated financial statements	<b>0.6</b>	0.6
Fees payable to the Company's auditor and its associates for other services:		
– The audit of the Company's subsidiaries, pursuant to legislation	<b>0.7</b>	0.8
– Other services relating to taxation	<b>0.2</b>	0.1
– Other services pursuant to legislation	<b>0.1</b>	0.1
– Services relating to corporate finance transactions	<b>3.1</b>	0.1
– Other services	<b>–</b>	0.3
<b>Total auditor remuneration</b>	<b>4.7</b>	2.0

Fees of £48,855 were paid to the Company's auditors in respect of the audit and services in relation to one of the Group's pension schemes.

Included within total fees paid to the auditors of £4.7m (2007: £2.0m) are £2.5m (2007: £nil) of costs which are directly attributable to the financing negotiations and proposed equity raising detailed in note 34. These costs are therefore held on the balance sheet.

## 7. Employees

	Year ended 31 December 2008 £m	Year ended 31 December 2007 (Restated)* £m
<b>Staff costs for the Group during the year for continuing operations</b>		
Wages and salaries	<b>429.2</b>	361.6
Social security costs	<b>38.4</b>	35.5
Termination benefits	<b>15.6</b>	79.6
Share options granted to directors and employees	<b>2.2</b>	3.9
Pension costs – defined contribution plans (note 25)	<b>1.1</b>	1.2
Pension costs – defined benefit plans (note 25)	<b>17.1</b>	17.2
<b>Total staff costs</b>	<b>503.6</b>	499.0

\* Comparatives have been restated to reflect the classification of Martine Spécialités S.A.S., Le Pain Croustillant and Sofrapain S.A.S. as discontinued operations.

Average monthly number of people employed (including executive directors)

	Number	Number*
Management	<b>583</b>	984
Administration	<b>1,857</b>	1,757
Production, distribution and other	<b>13,473</b>	13,906
<b>Total employees</b>	<b>15,913</b>	16,647

\* Comparatives have been restated to reflect the classification of Martine Spécialités S.A.S., Le Pain Croustillant and Sofrapain S.A.S. as discontinued operations.

In 2008 the Group standardised the definitions of the classifications shown in the table above. As a result there has been a reallocation between the Management and Administration categories in 2008 when compared to 2007.

Directors' remuneration (including retirement benefits accruing to the directors under defined benefit schemes) is disclosed in the audited sections of the directors' remuneration report on pages 43 to 53, which form part of these financial statements.

## 8. Interest payable and receivable

On 28 February 2008 the Group entered into a supplemental agreement with its banks amending certain terms of its Senior Term Credit Facility and Revolving Credit Facility Arrangement of 16 March 2007. The Senior Term Facility now comprises £1,332m of Term facilities. The Revolving Credit Facility is a multi-currency revolving credit facility of £500m. The final maturity date of the above arrangements is 16 March 2012. The Group also converted the Acquisition line of the Secured Senior Working Capital Credit Facility into a £100m Working Capital line and agreed an additional £125m of short-term facilities with three of its banks.

In respect of these amendments to the existing facilities and arrangement of the new facilities, the Group incurred costs of £15.3m, £12.1m of which were immediately charged to the income statement.

On 18 November 2008 the Group announced an agreement with its lending banks to defer its 31 December 2008 covenant test to 31 March 2009, pending a review of its capital structure. Fees of £4.9m incurred in relation to this have been expensed in the year to 31 December 2008.

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	Year ended 31 December 2008 £m	Year ended 31 December 2007 (Restated)* £m
Interest payable on bank loans, senior notes and overdrafts **	35.0	19.5
Interest payable on term facility **	96.0	84.5
Interest payable on revolving facility **	29.6	28.0
Unwind of discount on provisions	0.9	0.8
Amortisation of debt issuance costs	7.6	4.2
	<b>169.1</b>	137.0
Exceptional write-off of financing costs	17.0	–
Accelerated amortisation of debt issuance costs	–	8.4
Movement on fair valuation of interest rate swaps	218.9	31.0
<b>Total interest payable and other financial charges</b>	<b>405.0</b>	176.4
Interest receivable on bank deposits **	(41.6)	(26.8)
<b>Total interest receivable and other financial income</b>	<b>(41.6)</b>	(26.8)
<b>Net interest</b>	<b>363.4</b>	149.6

\* Comparatives have been restated to reflect the classification of Martine Spécialités S.A.S., Le Pain Croustillant and Sofrapain S.A.S. as discontinued operations.

\*\* Interest payable and receivable include the interest element of derivatives.

The fair value of interest rate swaps has risen from an £18.5m liability at 31 December 2007 to a £237.4m liability at 31 December 2008 resulting in a negative movement of £218.9m for the year due to a decrease in the LIBOR rates to unprecedented levels combined with the nature of the Group's interest rate swaps (refer to note 22). The liability at 31 December 2008 represents the net present value of the interest cash flows calculated using the contracted fixed rates compared to the interest cash flows that would arise if the interest was calculated on a floating basis.

Since 31 December 2008, the Group has negotiated an amendment to the break clauses in two of its interest rate swaps. Refer to note 34 for further details.

## 9. Tax on loss on ordinary activities

Analysis of the credit for the year:

	Continuing operations £m	Discontinued operations £m	Total £m
<b>2008</b>			
Current tax			
– Current year	–	0.9	0.9
– Prior years	(7.6)	1.4	(6.2)
Overseas current tax (current year)	2.8	–	2.8
Deferred tax			
– Current year	(24.3)	0.2	(24.1)
– Prior years	(1.5)	0.6	(0.9)
<b>Income tax (credit)/charge for the year</b>	<b>(30.6)</b>	<b>3.1</b>	<b>(27.5)</b>
<b>2007 (Restated)*</b>			
Current tax			
– Current year	–	–	–
– Prior years	(10.2)	–	(10.2)
Overseas current tax (current year)	–	2.1	2.1
Deferred tax			
– Current year	(15.3)	–	(15.3)
– Current year restatement of acquired balances	(11.6)	–	(11.6)
– Prior years	1.0	–	1.0
– Prior years restatement of opening balances	(3.7)	–	(3.7)
<b>Income tax (credit)/charge for the year</b>	<b>(39.8)</b>	<b>2.1</b>	<b>(37.7)</b>

\* Comparatives have been restated to reflect the classification of Martine Spécialités S.A.S., Le Pain Croustillant and Sofrapain S.A.S. as discontinued operations.

Tax relating to items recorded in equity for continuing operations was:		
	2008 £m	2007 £m
Deferred tax charge on share options	0.5	1.1
Deferred tax charge on pension movements	19.2	39.5
Current tax credit on pension movements	(0.4)	–
	19.3	40.6

The tax credit from continuing operations for the year differs from the standard rate of corporation tax in the United Kingdom of 28.5% for the year ended 31 December 2008, and 30% for the year ended 31 December 2007. The reasons for this are explained below:

	Year ended 31 December 2008 £m	Year ended 31 December 2007 (Restated)* £m
Loss before taxation for continuing operations	(403.9)	(77.6)
Tax credit at the domestic income tax rate of 28.5% (2007: 30%)	(115.1)	(23.3)
Tax effect of:		
Non deductible exceptional items	63.6	5.9
Other disallowable items	1.2	0.7
Adjustment to reflect the abolition of tax relief for industrial buildings	25.4	–
Adjustments to capital allowances that do not give rise to temporary differences	–	0.1
Adjustment to deferred tax asset for share based pay adjusted from equity	2.2	–
Adjustment due to current year deferred tax being provided at 28%	1.2	1.3
Adjustment to restate acquired deferred tax balance at 28%	–	(11.6)
Adjustments to prior years	(9.1)	(12.9)
<b>Income tax credit</b>	<b>(30.6)</b>	<b>(39.8)</b>

\* Comparatives have been restated to reflect the classification of Martine Spécialités S.A.S., Le Pain Croustillant and Sofrapain S.A.S. as discontinued operations.

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## 10. Discontinued operations

The Group has received firm offers for its speciality bakery businesses, Martine Spécialités S.A.S., Le Pain Croustillant and Sofrapain S.A.S. Subsequent to year end the Group completed the employee consultation process required under French labour law and binding offer agreements were signed in relation to the disposal of the three businesses (refer to note 34).

The assets and liabilities relating to the speciality bakery businesses as at 31 December 2008 have been presented as a held for sale disposal group in the balance sheet (refer to note 17).

Discontinued operations also include items relating to the disposal of MBMG, Erin Foods and RHM Frozen Foods in 2007, and a receipt relating to a property disposed of with our subsidiary Jonker Fris, which was disposed of in 2005.

The results of the discontinued operations for the year are as follows:

	Year ended 31 December 2008			Year ended 31 December 2007 (Restated)*		
	Speciality bakery businesses £m	Other discontinued £m	Total discontinued £m	Speciality bakery businesses £m	Other discontinued £m	Total discontinued £m
Turnover	173.0	–	173.0	122.4	65.1	187.5
Cost of sales	(131.9)	–	(131.9)	(93.0)	(58.5)	(151.5)
<b>Gross profit</b>	<b>41.1</b>	<b>–</b>	<b>41.1</b>	29.4	6.6	36.0
Selling, marketing and distribution costs	(26.1)	–	(26.1)	(18.4)	(5.0)	(23.4)
Administrative costs	(85.4)	(0.2)	(85.6)	(6.9)	(29.5)	(36.4)
Net other operating income	0.9	1.6	2.5	–	–	–
<b>Operating (loss)/profit</b>	<b>(69.5)</b>	<b>1.4</b>	<b>(68.1)</b>	4.1	(27.9)	(23.8)
Before exceptional items	4.7	(0.9)	3.8	4.1	(1.5)	2.6
Exceptional items	(74.2)	2.3	(71.9)	–	(26.4)	(26.4)
Interest payable	(0.2)	(0.1)	(0.3)	–	–	–
Interest receivable	0.4	0.6	1.0	–	0.4	0.4
<b>(Loss)/profit before taxation</b>	<b>(69.3)</b>	<b>1.9</b>	<b>(67.4)</b>	4.1	(27.5)	(23.4)
Taxation	(3.1)	–	(3.1)	(2.1)	–	(2.1)
<b>(Loss)/profit after taxation</b>	<b>(72.4)</b>	<b>1.9</b>	<b>(70.5)</b>	2.0	(27.5)	(25.5)

\* Comparatives have been restated to reflect the classification of Martine Spécialités S.A.S., Le Pain Croustillant and Sofrapain S.A.S. as discontinued operations.

Included within the loss after tax for the year ended 31 December 2008 is an impairment charge of £68.5m, which has been recognised against goodwill to write down the carrying value of the net assets held for sale to their fair values after any attributable foreign exchange reserve movements.

During the year there was an operating cash inflow in relation to discontinued operations of £15.0m (2007: £3.5m outflow), an outflow of £4.0m (2007: £17.8m inflow) in respect of investing activities, and an outflow of £0.3m (2007: £1.2m outflow) in respect of financing activities.

## 11. Earnings per share

Basic loss per share has been calculated by dividing the loss attributable to ordinary shareholders of £443.8m (2007: £63.3m) by the weighted average number of ordinary shares of the Company.

	Year ended 31 December 2008			Year ended 31 December 2007 (Restated)*		
	Basic	Dilutive effect of share options	Diluted	Basic	Dilutive effect of share options	Diluted
<b>Continuing operations</b>						
Loss after tax (£m)	(373.3)	-	(373.3)	(37.8)	-	(37.8)
Weighted average number of shares (m)	844.6	-	844.6	772.6	-	772.6
Loss per share (pence)	(44.2)	-	(44.2)	(4.9)	-	(4.9)
<b>Discontinued operations</b>						
Loss after tax (£m)	(70.5)	-	(70.5)	(25.5)	-	(25.5)
Weighted average number of shares (m)	844.6	-	844.6	772.6	-	772.6
Loss per share (pence)	(8.3)	-	(8.3)	(3.3)	-	(3.3)
<b>Total</b>						
Loss after tax (£m)	(443.8)	-	(443.8)	(63.3)	-	(63.3)
Weighted average number of shares (m)	844.6	-	844.6	772.6	-	772.6
Loss per share (pence)	(52.5)	-	(52.5)	(8.2)	-	(8.2)

\* Comparatives have been restated to reflect the classification of Martine Spécialités S.A.S., Le Pain Croustillant and Sofrapain S.A.S. as discontinued operations.

### Adjusted earnings per share ("Adjusted EPS")

Adjusted earnings per share is defined as trading profit less net regular interest payable, less a notional tax charge at 28.5% (2007: 30%) divided by the weighted average number of ordinary shares of the Company.

Trading profit is defined as operating profit before exceptional items, amortisation of intangible assets, the revaluation of foreign exchange and other derivative contracts under IAS 39 and pension credits or charges in relation to the difference between the expected return on pension assets and interest costs on pension liabilities. The definition of trading profit has changed in comparison to the prior year to exclude the revaluation on other derivative contracts under IAS 39.

Net regular interest payable is defined as net interest after excluding non-cash items, namely exceptional write-off of financing costs, accelerated amortisation of debt issuance costs, fair value adjustments on interest rate swaps and the unwind of the discount on provisions.

Trading profit and Adjusted EPS have been reported as the directors believe these provide an alternative measure with which the shareholders can assess the Group's underlying trading performance.

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	Year ended 31 December 2008				
	Continuing £m	Discontinued Speciality bakery businesses £m	Total Continuing & Speciality bakery businesses £m	Discontinued Other £m	Total £m
<b>Operating (loss)/profit</b>	<b>(40.5)</b>	<b>(69.5)</b>	<b>(110.0)</b>	<b>1.4</b>	<b>(108.6)</b>
Exceptional items	296.5	74.2	370.7	(2.3)	368.4
<b>Operating profit/(loss) before exceptional items</b>	<b>256.0</b>	<b>4.7</b>	<b>260.7</b>	<b>(0.9)</b>	<b>259.8</b>
Pension financing credit	(15.6)	–	(15.6)	–	(15.6)
Foreign exchange and other derivative contracts	(6.9)	–	(6.9)	–	(6.9)
Amortisation of intangibles	76.7	5.3	82.0	–	82.0
<b>Trading profit/(loss)</b>	<b>310.2</b>	<b>10.0</b>	<b>320.2</b>	<b>(0.9)</b>	<b>319.3</b>
Less net regular interest payable	(126.6)	0.2	(126.4)	(0.1)	(126.5)
<b>Adjusted profit/(loss) before tax</b>	<b>183.6</b>	<b>10.2</b>	<b>193.8</b>	<b>(1.0)</b>	<b>192.8</b>
Notional tax at 28.5%	(52.3)	(2.9)	(55.2)	0.3	(54.9)
<b>Adjusted profit/(loss) after tax</b>	<b>131.3</b>	<b>7.3</b>	<b>138.6</b>	<b>(0.7)</b>	<b>137.9</b>
Average shares in issue (m)	844.6	844.6	844.6	844.6	844.6
<b>Adjusted EPS (pence)</b>	<b>15.5</b>	<b>0.9</b>	<b>16.4</b>	<b>(0.1)</b>	<b>16.3</b>
<b>Net regular interest payable</b>					
Net interest payable	363.4	(0.2)	363.2	(0.5)	362.7
Exclude exceptional write-off of financing costs	(17.0)	–	(17.0)	–	(17.0)
Exclude fair value adjustments on interest rate swaps	(218.9)	–	(218.9)	–	(218.9)
Exclude unwind of discount on provisions	(0.9)	–	(0.9)	0.6	(0.3)
Net regular interest payable	126.6	(0.2)	126.4	0.1	126.5

	Year ended 31 December 2007				
	Continuing £m	Discontinued Speciality bakery businesses £m	Total Continuing & Speciality bakery businesses £m	Discontinued Other £m	Total £m
<b>Operating profit/(loss)</b>	<b>72.0</b>	<b>4.1</b>	<b>76.1</b>	<b>(27.9)</b>	<b>48.2</b>
Exceptional items	158.7	–	158.7	26.4	185.1
<b>Operating profit/(loss) before exceptional items</b>	<b>230.7</b>	<b>4.1</b>	<b>234.8</b>	<b>(1.5)</b>	<b>233.3</b>
Pension financing credit	(16.1)	–	(16.1)	–	(16.1)
Foreign exchange and other derivative contracts	(4.7)	–	(4.7)	–	(4.7)
Amortisation of intangibles	62.0	4.2	66.2	0.1	66.3
<b>Trading profit/(loss)</b>	<b>271.9</b>	<b>8.3</b>	<b>280.2</b>	<b>(1.4)</b>	<b>278.8</b>
Less net regular interest payable	(109.4)	–	(109.4)	0.4	(109.0)
<b>Adjusted profit/(loss) before tax</b>	<b>162.5</b>	<b>8.3</b>	<b>170.8</b>	<b>(1.0)</b>	<b>169.8</b>
Notional tax at 30.0%	(48.7)	(2.5)	(51.2)	0.3	(50.9)
<b>Adjusted profit/(loss) after tax</b>	<b>113.8</b>	<b>5.8</b>	<b>119.6</b>	<b>(0.7)</b>	<b>118.9</b>
Average shares in issue (m)	772.6	772.6	772.6	772.6	772.6
<b>Adjusted EPS (pence)</b>	<b>14.7</b>	<b>0.8</b>	<b>15.5</b>	<b>(0.1)</b>	<b>15.4</b>
<b>Net regular interest payable</b>					
Net interest payable	149.6	–	149.6	(0.4)	149.2
Exclude accelerated amortisation of debt issuance costs	(8.4)	–	(8.4)	–	(8.4)
Exclude fair value adjustments on interest rate swaps	(31.0)	–	(31.0)	–	(31.0)
Exclude unwind of discount on provisions	(0.8)	–	(0.8)	–	(0.8)
Net regular interest payable	109.4	–	109.4	(0.4)	109.0
<b>Dilutive effect of share options</b>					
<p>The dilutive effect of share options is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The only dilutive potential ordinary shares of the Company are share options. A calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to the outstanding share options.</p> <p>For the years ended 31 December 2008 and 31 December 2007, there is no dilutive effect as the outstanding share options that could have been acquired at fair value is less than the monetary value of the subscription rights attached to these options.</p> <p>The issue of 4,731 ordinary shares during the year has been included in determining the weighted average for the current year (see note 26).</p> <p>No adjustment is made to the loss in calculating undiluted and diluted loss per share.</p>					
			<b>2008 Number</b>	<b>2007 Number</b>	
Weighted average number of ordinary shares for the purpose of basic loss per share			<b>844,604,404</b>	772,592,139	
Effect of dilutive potential ordinary shares:					
– Share options			–	–	
Weighted average number of ordinary shares for the purpose of diluted loss per share			<b>844,604,404</b>	772,592,139	

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## 12. Dividends

	2008 pence	2007 pence
Interim dividend	–	4.30
Final dividend	–	2.20
<b>Total dividend</b>	<b>–</b>	<b>6.50</b>

The Board has decided that no dividend will be proposed for the year ended 31 December 2008.

As announced on 18 November 2008, the Board considered it appropriate to suspend dividend payments. The Board is committed to resuming dividend payments when possible but the future payment of dividends will be dependent upon the Company's ability to reduce its level of debt, the limitations on payment of future dividends imposed by the Company's debt agreements and the condition of the credit markets at the relevant time, with any dividend being subject to the approval of the Group's Shareholders at a general meeting. The Amended Term and Revolving Credit Facilities Agreement imposes restrictions on the ability to propose dividends which are subject to a leverage test and an interest cover test, with the payment being restricted to no more than 50% of retained earnings.

## 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
<b>Cost</b>					
At 1 January 2007	85.0	2.2	1.3	316.0	404.5
Additions	4.1	–	0.3	111.5	115.9
Acquisition of subsidiaries/businesses	116.6	11.4	32.2	238.0	398.2
Disposal of subsidiaries/businesses	(12.5)	–	(1.0)	(23.3)	(36.8)
Disposals	(10.7)	(0.7)	(0.2)	(113.3)	(124.9)
Transferred to held for sale	(37.3)	(2.2)	(1.1)	(11.7)	(52.3)
<b>At 31 December 2007*</b>	<b>145.2</b>	<b>10.7</b>	<b>31.5</b>	<b>517.2</b>	<b>704.6</b>
Additions	4.8	–	0.4	128.8	134.0
Disposals	(1.6)	–	(0.4)	(46.7)	(48.7)
Reclassifications	–	–	1.3	(1.3)	–
Transferred to held for sale	(10.4)	(3.4)	(1.6)	(32.8)	(48.2)
Foreign exchange	2.6	1.5	–	4.8	8.9
<b>At 31 December 2008</b>	<b>140.6</b>	<b>8.8</b>	<b>31.2</b>	<b>570.0</b>	<b>750.6</b>
<b>Aggregate depreciation and impairment</b>					
At 1 January 2007	11.7	2.2	0.7	135.3	149.9
Depreciation charge for the year	4.1	0.3	1.5	44.1	50.0
Disposal of subsidiaries/businesses	(3.3)	–	(0.4)	(16.6)	(20.3)
Disposals	(3.1)	(0.7)	(0.1)	(72.4)	(76.3)
Impairment	–	–	0.4	15.5	15.9
Transferred to held for sale	(8.0)	(1.2)	(0.9)	(11.6)	(21.7)
<b>At 31 December 2007*</b>	<b>1.4</b>	<b>0.6</b>	<b>1.2</b>	<b>94.3</b>	<b>97.5</b>
Depreciation charge for the year	6.8	0.8	1.0	47.9	56.5
Disposals	(0.9)	–	(0.3)	(43.7)	(44.9)
Impairment	2.3	–	1.6	7.5	11.4
Reclassifications	–	–	1.1	(1.1)	–
Transferred to held for sale	(1.7)	(1.5)	(0.3)	(6.8)	(10.3)
Foreign exchange	0.4	0.7	–	0.4	1.5
<b>At 31 December 2008</b>	<b>8.3</b>	<b>0.6</b>	<b>4.3</b>	<b>98.5</b>	<b>111.7</b>
<b>Net book value</b>					
At 31 December 2007*	143.8	10.1	30.3	422.9	607.1
<b>At 31 December 2008</b>	<b>132.3</b>	<b>8.2</b>	<b>26.9</b>	<b>471.5</b>	<b>638.9</b>

\* The 31 Dec 2007 comparatives have been restated for IFRS 3 fair value adjustments on the acquisition of RHM plc.

The net book value of the Group's vehicles, plant and equipment includes an amount of £0.9m (2007: £1.1m) in respect of assets held under finance leases.

At 31 December 2008 the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £22.8m (2007: £42.6m).

The impairment in 2008 of £11.4m mostly relates to the closure of our mill in Rotherham and an impairment against certain plant and machinery relating to discontinued production lines. The impairment charge reflects the difference between the carrying value of assets and their expected recoverable amounts. Recoverable amounts have been determined on the basis of value in use or fair value less costs to sell. As at 31 December 2008, the rate used to discount the forecasted cash flows was 11.1% (2007: 8.4%).

The impairment in 2007 of £15.9m relates to the integration of the administrative functions of RHM's former head office at Marlow, the Culinary Brands business at Addlestone and Middlewich, the Manor Bakeries business at Windsor, the closures of nine manufacturing sites as a result of the Group's manufacturing review, the announced closures of the bread manufacturing sites in Bradford and Plymouth, and a depot in Telford, the closure of the King's Lynn manufacturing site as a result of the Campbell's integration and the closure of the Coolock and Thurles manufacturing sites as a result of the integration of the Irish operations.

The Group's borrowings are secured on the assets of the Group including property, plant and equipment.

#### 14. Goodwill

	2008 £m	2007 (Restated)* £m
<b>Cost</b>		
At 1 January	1,649.5	480.2
Acquisition of subsidiaries	-	1,171.4
Impairment – continuing	(194.4)	-
Impairment – discontinuing	(68.5)	-
Transferred to held for sale	(15.3)	-
Disposal of subsidiaries/businesses (note 10)	-	(2.1)
<b>At 31 December</b>	<b>1,371.3</b>	<b>1,649.5</b>

\* The 31 Dec 2007 comparatives have been restated for IFRS 3 fair value adjustments on the acquisition of RHM plc.

#### Impairment tests for goodwill

As a result of the integration programme undertaken by the Group, the previously disclosed cash-generating units ("CGU's") have been changed to more closely align them with the new divisional structure, which was effective from 1 January 2008.

This has resulted in six CGU's in which Goodwill acquired in various business combinations has been allocated. Goodwill previously allocated to Ambrosia, Bird's, Nestlé, RHM Culinary Brands and the UK business of Campbell's has been allocated to the Grocery CGU. Goodwill previously allocated to Cauldron and Marlow has been allocated into the Meat-free CGU. Goodwill previously allocated to the Irish business of Campbell's, Chivers Ireland and RHM Ireland (previously within RHM Customer Partnerships CGU) has been allocated into the Ireland CGU. Goodwill previously allocated to the RHM Customer Partnerships CGU has been allocated between the Grocery, Chilled and Ireland CGU's. Goodwill previously allocated to RHM Cakes has been allocated between the Cake and Chilled CGU's. There has been no change to the allocation of goodwill to RHM Bread Bakeries (which subsequently became the Hovis CGU).

The new CGU's are as follows:

	2008 £m	2007 (Restated)* £m
Cake	128.8	128.8
Chilled	170.7	170.7
Grocery	759.9	759.9
Hovis	163.0	441.2
Ireland	59.3	59.3
Meat-free	89.6	89.6
<b>Net carrying value of goodwill</b>	<b>1,371.3</b>	<b>1,649.5</b>

\* The 31 Dec 2007 comparatives have been restated into their new CGU's and also for IFRS 3 fair value adjustments on the acquisition of RHM plc.

Goodwill is tested annually for impairment, or more frequently if there are indications that goodwill may be impaired. The recoverable amount of a CGU is determined based on value in use calculations or fair value less costs to sell, depending on the way in which the value of the CGU is expected to be recovered.

In 2008, an impairment assessment of the carrying value of the goodwill assigned to the speciality bakery businesses, Martine Spécialités S.A.S., Le Pain Croustillant and Sofrapain S.A.S. has been undertaken by assessing their fair value less costs to sell in light of the decision to dispose of these businesses. This goodwill was previously included within the Hovis CGU and was tested for impairment prior to its classification as held for sale. The impairment test in respect of the remaining goodwill within the Hovis CGU and the other CGU's has been undertaken by assessing the CGU's value in use.

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## Key assumptions

Fair value less costs to sell in respect of the speciality bakery businesses has been determined by reference to the value of the firm offers received, less the expected costs of disposing the businesses.

The key assumptions for calculating value in use are those relating to the cash flows, long-term growth rate and discount rate.

## Cash flow assumptions

The cash flows used in the value in use calculation are pre-tax cash flows based on the latest approved management forecasts in respect of the following five years. Assumptions regarding these future cash flows are based upon actual results in prior periods and adjusted for expected developments in the following years with reference to market conditions and reasonable management expectations for the businesses. All income and costs are taken into account and an estimate of capital expenditure required to maintain these cash flows is also made.

## Long-term growth rate assumptions

The five year management forecasts are extrapolated in perpetuity using growth assumptions relevant for the business sector. The growth rate applied is 2.25% (2007: 2.0%) and is not considered to be higher than the average long-term industry growth rate.

## Discount rate

The discount rate applied to the cash flows is calculated using a pre-tax rate based on the weighted average cost of capital ("WACC") which would be anticipated for a market participant investing in the Group. The Directors believe it is appropriate to use a single common discount rate for all impairment testing as each CGU shares similar risk profiles.

The Group has considered the impact of the deterioration in the economic climate in determining the appropriate discount rate to use in impairment testing. Due to the increased cost of borrowing and the higher level of return expected by equity holders (due to the perceived risk in equity markets) the discount rate used has increased significantly when compared with the previous year. At 31 December 2008 the pre-tax rate used to discount the forecasted cash flows has been determined to be 11.1% (2007: 8.4%).

## Impairment

A total impairment charge of £262.9m has been recognised in the year.

Included within this charge is £68.5m recognised against the goodwill allocated to the speciality bakery businesses and has been recorded within discontinued operations. The residual goodwill attributable to these businesses of £15.3m has been transferred to assets held for sale (refer to note 17).

A further charge of £194.4m has been recognised against the goodwill allocated to the Hovis CGU (which is included within the Hovis segment) and thereby reducing the carrying value of this CGU to its recoverable amount. This impairment has arisen as a result of the significant increase in discount rate (as noted above). Any favourable change in assumptions in future periods will result in additional headroom however any adverse change would result in additional impairment.

With regards to the remaining CGU's, the Directors believe no reasonable change in the key assumptions used in the impairment testing would cause the carrying value to exceed its recoverable amount.

<b>15. Other intangible assets</b>				
	Software/ Licences £m	Brands/ Trademarks £m	Customer Relationships £m	Total £m
<b>Cost</b>				
At 1 January 2007	18.3	393.7	–	412.0
Additions	8.7	–	–	8.7
Acquisition of subsidiaries/businesses	31.8	598.0	280.0	909.8
Disposals	(1.5)	(2.0)	–	(3.5)
<b>At 31 December 2007</b>	<b>57.3</b>	<b>989.7</b>	<b>280.0</b>	<b>1,327.0</b>
Additions	31.2	–	–	31.2
Transferred to held for sale	–	–	(37.0)	(37.0)
<b>At 31 December 2008</b>	<b>88.5</b>	<b>989.7</b>	<b>243.0</b>	<b>1,321.2</b>
<b>Amortisation</b>				
At 1 January 2007	3.1	19.3	–	22.4
Charge for the year	4.4	30.2	31.7	66.3
Impairments	0.6	–	–	0.6
Disposal	–	(0.1)	–	(0.1)
<b>At 31 December 2007</b>	<b>8.1</b>	<b>49.4</b>	<b>31.7</b>	<b>89.2</b>
Charge for the year	7.7	34.3	40.0	82.0
Transferred to held for sale	–	–	(9.5)	(9.5)
<b>At 31 December 2008</b>	<b>15.8</b>	<b>83.7</b>	<b>62.2</b>	<b>161.7</b>
Net book value 31 December 2007	49.2	940.3	248.3	1,237.8
<b>Net book value 31 December 2008</b>	<b>72.7</b>	<b>906.0</b>	<b>180.8</b>	<b>1,159.5</b>

Brands and trademarks are considered to have finite useful lives and are amortised on a straight-line basis over their estimated useful lives of 20 to 40 years. Software is amortised on a straight-line basis over its estimated useful life of 3 to 10 years. Customer relationships are amortised on a straight-line basis over their estimated useful lives of 7 years.

Contained within brands and trademarks are values attributed to the fair value adjustment in relation to the acquisition of RHM plc in 2007. The fair values of intangible assets at acquisition for these brands were £598.0m. The remaining periods of amortisation for these assets are between 18 and 38 years for the RHM brands.

The fair value attributed to customer relationships acquired as part of the acquisition of RHM plc in 2007, was £280.0m and represents the value of own label contracts with new and existing customers.

Software and licences reflect the fair value adjustment in relation to the acquisition of RHM plc. The fair value of licences at acquisition was £29.9m, which are amortised over the remaining lives of the licence agreements.

On the acquisition of Chivers Ireland, a fair value adjustment was recognised under IFRS 3 in respect of a beneficial property lease agreement. As a result of the announcement to close the Coolock site, a £0.6m impairment was recognised in 2007.

Included in the software additions for the year above are £6.5m of internal costs (2007: £1.8m).

As at 31 December 2008, the Group's borrowings are secured on the assets of the Group including other intangible fixed assets.

The material brands held on the balance sheet are as follows:

Brand/Trademark	Carrying value at 31 December 2008 £m	Estimated useful life remaining years
Bisto	<b>169.3</b>	28
Hovis	<b>152.8</b>	38
Oxo	<b>103.5</b>	38
Batchelors	<b>89.3</b>	28
Sharwoods	<b>80.0</b>	28
Quorn	<b>70.5</b>	27
Mr Kipling	<b>65.9</b>	28

# Notes to the financial statements

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## 16. Investments

### Principal subsidiaries

Name of Subsidiary	Country of incorporation or registration and principal operations	Principal activity	Effective interest in ordinary share capital at 31 December	
			2008	2007
<b>Operating subsidiaries</b>				
Chivers Hartley Limited	United Kingdom	Spreads and pickles manufacturing	100%	100%
H.L. Foods Limited	United Kingdom	Food canning and processing	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 Limited (Quorn)	United Kingdom	Meat-free manufacturing	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%	100%
Premier Grocery Products Ireland Limited	Republic of Ireland	Manufacture and distribution of soups, meat and other food products	100%	100%
Premier Foods Group Limited	United Kingdom	Manufacture and distribution of cake, bread, own label and other food products	100%	100%
<b>Other subsidiaries</b>				
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	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 Group Services Limited	United Kingdom	Intermediate holding company	100%	100%
RHM Limited	United Kingdom	Intermediate holding company	100%	100%

Premier Foods Investments No. 3 Limited and RHM Limited are direct wholly owned subsidiary undertakings 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. 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.

<b>17. Assets and liabilities held for sale</b>		
	2008 £m	2007 £m
<b>Non-current assets:</b>		
Property, plant and equipment	45.6	30.6
Goodwill	15.3	–
Other intangible assets	27.5	–
Other non-current assets	0.4	–
<b>Current assets:</b>		
Inventories	9.0	–
Trade and other receivables	26.6	–
<b>Total assets held for sale</b>	<b>124.4</b>	<b>30.6</b>
<b>Current liabilities:</b>		
Trade and other payables	(41.0)	–
Financial liabilities – short-term borrowings	(0.4)	–
Current income tax liabilities	(1.0)	–
<b>Non-current liabilities:</b>		
Financial liabilities – long-term borrowings	(1.3)	–
Provisions	(3.0)	–
Other liabilities	(0.6)	–
Deferred tax liabilities	(9.2)	–
<b>Total liabilities held for sale</b>	<b>(56.5)</b>	<b>–</b>
<b>Net assets and liabilities held for sale</b>	<b>67.9</b>	<b>30.6</b>

The Group has received firm offers for its speciality bakery businesses, Martine Spécialités S.A.S., Le Pain Croustillant and Sofrapain S.A.S. Accordingly, the results of the speciality bakery businesses for the year have been classified as discontinued operations (refer note 10).

Assets and liabilities relating to these businesses have been reclassified as held for sale in the balance sheet with effect from 31 December 2008. The value of the assets and liabilities relating to these businesses was reviewed at the date of reclassification according to IFRS principles and as a result, the carrying amounts of non-current assets were written down to their fair values.

Goodwill of £15.3m at 31 December 2008 is shown after the recognition of an impairment charge of £68.5m (refer to note 14).

Of the £30.6m of property, plant and equipment held for sale at 31 December 2007, £7.7m continues to be classified as held for sale at the balance sheet date. The disposal has taken longer than anticipated due to the adverse market conditions, however, management remain confident that they will be completed in the near future.

### 18. Inventories

	2008 £m	2007 (Restated)* £m
Raw materials	88.4	85.4
Work in progress	5.8	4.1
Finished goods and goods for resale	144.6	118.9
<b>Inventories</b>	<b>238.8</b>	<b>208.4</b>

\* The 31 Dec 2007 comparatives have been restated for IFRS 3 fair value adjustments on the acquisition of RHM plc.

The borrowings of the Group are secured against all the assets of the Group including inventory.

### 19. Trade and other receivables

	2008 £m	2007 (Restated)* £m
Trade receivables	287.4	279.1
Trade receivables impaired	(6.0)	(3.8)
Net trade receivables	281.4	275.3
Prepayments	19.6	28.9
Interest receivable	0.6	3.6
Other tax and social security receivable	20.0	13.3
Other receivables	15.4	7.8
<b>Trade and other receivables</b>	<b>337.0</b>	<b>328.9</b>

\* The 31 Dec 2007 comparatives have been restated for IFRS 3 fair value adjustments on the acquisition of RHM plc.

The borrowings of the Group are secured against all the assets of the Group including trade and other receivables.

# Notes to the financial statements

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## 20. Trade and other payables

	2008 £m	2007 £m
Trade payables	431.6	453.6
Other tax and social security payable	11.4	13.2
Other payables	56.6	41.1
Accruals	40.2	30.6
<b>Trade and other payables</b>	<b>539.8</b>	<b>538.5</b>

## 21. Bank and other borrowings

	2008 £m	2007 £m
<b>Due within one year:</b>		
Secured Senior Credit Facility – Term A2 (note a)	150.6	100.0
Debt issuance costs	(0.8)	(0.9)
	149.8	99.1
Bank overdrafts	6.9	0.1
Total bank borrowings due within one year	156.7	99.2
Finance lease obligations (note 22)	0.6	1.0
Other unsecured loans (note c)	17.5	12.5
<b>Total borrowings due within one year</b>	<b>174.8</b>	<b>112.7</b>
<b>Due after more than one year:</b>		
Secured Senior Credit Facility – Working Capital (note b)	10.0	–
Debt issuance costs	–	–
	10.0	–
Secured Senior Credit Facility – Revolving (note a)	450.0	200.5
Debt issuance costs	(3.4)	(4.5)
	446.6	196.0
Secured Senior Credit Facility – Term A1 (note a)	289.9	289.8
Debt issuance costs	(1.5)	(2.1)
	288.4	287.7
Secured Senior Credit Facility – Term A2 (note a)	891.1	1,050.0
Debt issuance costs	(4.7)	(7.3)
	886.4	1,042.7
Finance lease obligations (note 22)	1.1	3.3
Other unsecured loans	0.1	–
Total other	1.2	3.3
<b>Total borrowings due after one year</b>	<b>1,632.6</b>	<b>1,529.7</b>
<b>Total bank and other borrowings</b>	<b>1,807.4</b>	<b>1,642.4</b>

The borrowings are secured by a floating charge over all assets of the Group.

Cash and bank deposits and short-term borrowings have been offset to the extent possible in accordance with the Group's banking agreements and the legal rights to such offset in accordance with IAS 32, "Financial Instruments: Disclosure and Presentation".

(a) Senior Term Credit Facility and Revolving Credit Facility Arrangement – 2007

On 28 February 2008, the Group entered into a supplemental agreement with its banks amending certain terms of its Senior Term Credit Facility and Revolving Credit Facility Arrangement of the 16 March 2007.

This original facility was arranged by Barclays Capital, Bayerische Landesbank, BNP Paribas, Rabobank International, Lloyds TSB Bank plc and The Royal Bank of Scotland plc as lead arrangers and underwriters and Lloyds TSB Bank plc as facility agent and security trustee.

The Senior Term Credit Facility now comprises £1,332m of Term facilities. The Revolving Credit Facility is a multi-currency revolving credit facility of up to £500m (or its equivalent in other currencies). The final maturity date of the above arrangements is 16 March 2012.

#### (b) Secured Senior Working Capital Credit Facility

On 28 February 2008, the Group converted its £100m Acquisition line into a Working Capital line and agreed an additional £125m of short-term facilities with three of its leading banks. All borrowings against the £125m of short-term facilities were fully repaid on 23 December 2008 and the facility terminated.

(c) Other unsecured loans falling due within one year includes amounts owed in respect of cash receipts from debtors previously sold under the debtors securitisation programme.

On 18 November 2008 the Group announced an agreement with its lending banks to defer its 31 December 2008 covenant test to 31 March 2009.

## 22. Financial instruments

The Group is subject to the risks arising from adverse movements in interest rates, commodity prices and foreign currency. The Group uses a variety of derivative financial instruments to manage these risks. The managing of these risks, along with the day-to-day managing of treasury activities is performed by the Group Treasury function. The policy framework governing the managing of these risks is defined by the Treasury Committee. 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.

### (a) Market Risk

#### (i) Foreign exchange risk

The Group's main operating entities functional currencies and the Group's presentational currency is pounds sterling although some transactions are executed in non-sterling currencies, including Euros, US dollars, Canadian dollars, Swiss Francs and Swedish Krona. The transactional amounts realised or settled are therefore subject to the effect of movements in these currencies against the pound. Management of these exposures is centralised and managed by the Group's Treasury Function. It is the Group's policy to manage the exposures arising using forward foreign currency exchange contracts and currency options. Hedge accounting is not sought for these transactions.

The Group generates some of its profits in non-sterling currencies and has assets in non-sterling jurisdictions, principally the Euro. The translation exposure resulting from these Euro denominated profits and overseas net assets is hedged. This matter is reviewed regularly by the Treasury Committee.

The principal foreign currency affecting the translation of subsidiary undertakings within the Group financial statements is the Euro. The rates applicable are as follows:

Principal rate of exchange EUR/£	Year ended 31 December 2008	Year ended 31 December 2007
Year end	<b>1.0310</b>	1.3620
Average	<b>1.2541</b>	1.4600

The carrying amounts of the Group's financial assets are denominated in the following currencies:

Currency	Cash at bank and in hand		Trade and other receivables	
	2008 £m	2007 £m	2008 £m	2007 £m
Sterling	<b>22.4</b>	12.7	<b>267.2</b>	243.7
Euro	<b>13.8</b>	8.9	<b>27.0</b>	43.0
US dollar	<b>3.7</b>	1.6	<b>1.7</b>	–
Other	<b>0.7</b>	0.7	<b>1.5</b>	–
	<b>40.6</b>	23.9	<b>297.4</b>	286.7

# Notes to the financial statements

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The table below shows the Group's currency exposures as at 31 December 2008 and 2007 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 below are after taking into account the effect of forward foreign currency exchange contracts and other derivative instruments entered into to manage these exposures.

	Functional currency of subsidiaries		
	Sterling £m	Euro £m	Total £m
<b>At 31 December 2008</b>			
Net foreign currency monetary assets/(liabilities)			
Sterling	-	2.6	2.6
Euro	7.0	-	7.0
US dollar	5.3	-	5.3
Other currencies	0.5	-	0.5
<b>Total</b>	<b>12.8</b>	<b>2.6</b>	<b>15.4</b>
<b>At 31 December 2007</b>			
Net foreign currency monetary assets/(liabilities)			
Sterling	-	5.7	5.7
Euro	(0.4)	-	(0.4)
US dollar	2.7	-	2.7
Other currencies	0.5	-	0.5
<b>Total</b>	<b>2.8</b>	<b>5.7</b>	<b>8.5</b>

If the Euro were to weaken/strengthen against sterling by 10% with all other variables held constant, post tax profit would decrease by £3.0m (2007: £1.7m) or increase by £2.5m (2007: £1.4m).

If the Dollar were to weaken/strengthen against sterling by 10% with all other variables held constant, post tax profit would decrease by £5.0m (2007: £3.3m) or increase by £4.1m (2007: £2.7m).

## *(ii) Price risk*

The Group purchases a variety of commodities which can experience significant price volatility, which include, inter-alia, wheat, tinplate and energy. The price risk on these commodities is managed by the Group through the Treasury Committee. It is the Group's policy to minimise its exposure to this volatility by adopting an appropriate forward purchase strategy or by the use of derivative instruments where they are available.

## *(iii) Cash flow and interest rate risk*

The Group borrows principally 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 target of fixed/capped debt is defined in the Group Treasury policy and procedures. The Group will generally maintain a proportion of debt that is fixed or capped of no less than 30% and no more than 75%, however, this can be amended subject to agreement by the Treasury Committee. The Group currently has a higher level of its debt economically hedged. Hedge accounting is not sought for these transactions.

In addition the Group has entered into a debt securitisation programme which has the effect of reducing interest cost by a further 120 basis points on the amount advanced when compared to the borrowing costs of the Group's term facility.

Cash and deposits earn interest at floating rates based on banks short-term treasury deposit rates. Short-term trade and other receivables are interest-free.

The interest rate risk profile of the Group's non-derivative financial liabilities (debt before issuance costs) after taking account of the interest rate swaps used to manage the interest profile was:

	Floating rate £m	Other £m	Total £m
<b>At 31 December 2008</b>	<b>141.6</b>	<b>1,650.0</b>	<b>1,791.6</b>
At 31 December 2007	72.8	1,567.5	1,640.3

Included within "Other" are interest rate swaps with varying terms and conditions. Further details on the swaps used by the Group are provided below.

In addition, the Group's provisions of £51.7m as at 31 December 2008 (2007: £75.0m) for restructuring 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

The weighted average interest rates for fixed rate liabilities are the interest rates after the effects of hedging and are as follows:

	Weighted average interest rate %
<b>Currency Sterling</b>	<b>7.1</b>
<b>At 31 December 2008</b>	<b>5.8</b>
At 31 December 2007	

The floating rates applicable to interest rate swaps are reset quarterly based on the prevailing market rate at the reset date.

The following table reflects the earliest likely contractual maturity date of the interest rate derivative contracts taking into account zero cost call features, where market rates at the balance sheet date indicate they will be triggered by the banks, as well as mutual break clauses under which either party can be required to settle the fair value of the contract for cash. Without taking into account these features, a number of these contracts would continue for up to 30 years.

	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
<b>2008</b>							
Fixed rate	340.0	125.0	-	-	-	-	465.0
Cap and Floor Structure	-	-	-	350.0	-	-	350.0
Long dated callable Swaps	-	100.0	50.0	275.0	150.0	25.0	600.0
Other callable Swaps	-	-	-	-	235.0	-	235.0
	<b>340.0</b>	<b>225.0</b>	<b>50.0</b>	<b>625.0</b>	<b>385.0</b>	<b>25.0</b>	<b>1,650.0</b>
<b>2007</b>							
Fixed rate	312.5	230.0	125.0	-	-	-	667.5
Cap and Floor Structure	-	-	-	-	700.0	-	700.0
Long dated callable Swaps	-	-	200.0	-	-	-	200.0
Other callable Swaps	-	-	-	-	-	-	-
	312.5	230.0	325.0	-	700.0	-	1,567.5

The cap and floor structures have a nominal value of £350m (2007: £700m) with caps set at 6.00% to 6.25% and floor rates between 4.31% and 4.55%. In addition, when LIBOR rates are beneath the floor strike price, a digital option is triggered which results in the Group paying interest at 5.75% on all of these instruments.

Long dated swaps of £600m (2007: £200m) have callable options whereby the counterparty bank can cancel the swap at nil cost at certain specified dates. Of these contracts £400m (2007: £200m) have a stated maturity date of 2037 and the remainder have maturity dates of 2023 (£150m, 2007: Nil) and 2013 (£50m, 2007: Nil). These swaps have an average fixed rate of 4.84% (ranging between 4.52% and 4.99%) with two contracts (nominal value of £200m) having an initial discounted interest rate of circa 1.54% until 31 December 2009. Of the contracts in place, £150m are currently callable with a further £100m becoming callable from 31 December 2009, and the remainder being callable from September 2010 onwards.

The other callable swaps contain features whereby a fall in LIBOR below 3.5% and 3.25% causes the rate of interest paid by the Group to increase. Above these rates the Group pay a fixed rate of interest of an average 4.54%. These contracts are also callable at nil cost. Callable features are currently active on contracts with a nominal value of £60m with the remainder active from 31 December 2009. These instruments give rise to the increase in interest payable shown in the sensitivity analysis below.

At 31 December 2008, for every 50 basis points reduction in rates below the last floating reset rate of 2.77% (based on 3 month LIBOR), with all other variables held constant, annualised net cash interest would increase by £3.6m.

At 31 December 2008, if interest rates were 200 basis points higher than the last floating reset rate of 2.77% (based on 3 month LIBOR), with all other variables held constant, annualised net interest would decrease by £5.1m. This analysis assumes that currently applicable callable features in two contracts with nominals of £110m are not exercised.

At 31 December 2007, if interest rates were 10 basis points higher/lower, with all other variables held constant, post tax profit, excluding derivative fair value movements, would have decreased/increased by £0.6m.

At 31 December 2007, if interest rates were 50 basis points higher/lower, with all other variables held constant, post tax profit, excluding derivative fair value movements, would have decreased by £2.8m or increased by £1.5m.

Since 31 December 2008, the Group has negotiated an amendment to the break clauses in two of its interest rate swaps. Refer to note 34 for further details.

### (b) 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).

# Notes to the financial statements

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At 31 December 2008, trade and other receivables of £42.3m (2007: £32.9m) were past due but not impaired. These relate to customers with whom there is no history of default.

The ageing of trade and other receivables was as follows:

	Fully performing £m	Past due					Total £m
		1-30 days £m	31-60 days £m	61-90 days £m	91-120 days £m	120+ days £m	
<b>Trade and other receivables</b>							
<b>2008</b>	<b>255.1</b>	<b>32.8</b>	<b>4.1</b>	<b>4.3</b>	<b>1.0</b>	<b>0.1</b>	<b>297.4</b>
2007	253.8	11.3	7.3	3.7	10.4	0.2	286.7

At 31 December 2008, trade and other receivables of £6.0m (2007: £3.8m) were determined to be specifically impaired and provided for. The amount of the provision reflects receivables from customers which are considered to be experiencing difficult economic situations.

The Group does not hold any collateral as security against its financial assets.

Movements in the provision for impairment of trade receivables are as follows:

	2008 £m	2007 (Restated)* £m
At 1 January	3.8	1.3
Provision for receivables – on acquisition	–	5.5
Unused provision reversed	–	(0.3)
Receivables written off during the year as uncollectable	(5.7)	(3.3)
Provision for receivables impairment disposed	–	(0.4)
Provision for receivables impairment raised	7.9	1.0
<b>At 31 December</b>	<b>6.0</b>	<b>3.8</b>

\* The 31 Dec 2007 comparatives have been restated for IFRS 3 fair value adjustments on the acquisition of RHM plc.

The Group has benefitted from a £100m securitisation programme to allow it to transfer trade receivable balances to one of the Group's primary banks. This programme also allows the Group to de-link its own credit rating from that of the underlying assets and achieve a lower cost of funding.

## (c) Liquidity risk

The Group manages liquidity risk through both the treasury and finance functions. Cash flow forecasts are prepared and reviewed on a weekly basis, normally covering a period of three months.

In addition, cash flow forecasts are prepared as part of the Group's overall budgeting and forecasting processes and performance is monitored against this each month. This is intended to give the Board sufficient forward visibility of debt levels.

The Group's net debt level can vary significantly from month to month and there is some volatility within months. This reflects trading patterns, timing of receipts from customers and payments to suppliers, patterns of inventory holdings and the timing of the spend on major capital and restructuring projects. For these reasons the debt levels at the year end date may not be indicative of debt levels at other points throughout the year.

The following table analyses the Group's financial liabilities into relevant maturity groupings based on the expected undiscounted cash flows.

	Within 1 year £m	1 and 2 years £m	2 and 3 years £m	3 and 4 years £m	4 and 5 years £m	Over 5 years £m	Total £m
<b>At 31 December 2008</b>							
Bank Term Loan	150.6	178.3	–	1,002.7	–	–	1,331.6
Bank Revolver Facility (Drawn down)	–	–	–	450.0	–	–	450.0
Working capital facility	–	10.0	–	–	–	–	10.0
Bank overdraft	6.9	–	–	–	–	–	6.9
Finance leases	0.6	0.4	0.2	0.2	0.1	0.5	2.0
<b>At 31 December 2007</b>							
Bank Term Loan	100.0	150.0	180.0	–	1,009.8	–	1,439.8
Bank Revolver Facility (Drawn down)	–	–	–	–	200.5	–	200.5
Bank overdraft	0.1	–	–	–	–	–	0.1
Finance leases	1.0	1.1	0.9	0.6	0.6	0.9	5.1

The Bank Term Loan and Bank Revolver Facility are re-priced quarterly, loan notes every six months and other liabilities are not re-priced before the maturity date.

The Group has £90.0m (2007: £100.0m) of facilities available and not drawn as at 31 December 2008 expiring between 1 and 2 years, and £50.4m (2007: £400.0m), expiring between 3 and 4 years.

The un-drawn facilities form part of the Group's overall working capital lines, the drawn down amounts of which bear interest at floating rates, subject to any hedge overlay, and are committed for £90m until March 2010, and the remaining £50.4m until March 2012.

The borrowings are secured by a floating charge over all the assets of the Group.

Subsequent to the year end, the Group has put in place a £60m short-term liquidity facility with three of its lead banks. This facility will mature on 31 March 2009. The Group has also agreed amendments to its Term and Revolving Credit Facilities with its lending banks. Refer to note 34 for further detail.

The following table analyses the expected undiscounted cash flows of interest on the floating rate debt to maturity (based on the last fixed rate refix of 2.77% [2007: 5.99%]).

	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
<b>Interest</b>							
<b>2008</b>	<b>49.6</b>	<b>45.5</b>	<b>40.5</b>	<b>8.4</b>	<b>-</b>	<b>-</b>	<b>144.0</b>
2007	98.3	92.3	83.3	72.5	15.1	-	361.5

The following table analyses the Group's derivative financial instruments into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed are the undiscounted cash flows. Where it relates to options the mark to market value is used.

	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
<b>At 31 December 2008</b>							
Forward foreign exchange contracts:							
Outflow	<b>(78.9)</b>	<b>(16.7)</b>	-	-	-	-	<b>(95.6)</b>
Inflow	<b>64.3</b>	<b>13.7</b>	-	-	-	-	<b>78.0</b>
Commodities:							
Outflow	<b>(24.2)</b>	<b>(0.4)</b>	-	-	-	-	<b>(24.6)</b>
Outflow on options	<b>(0.6)</b>	-	-	-	-	-	<b>(0.6)</b>
Inflow	<b>14.9</b>	<b>0.2</b>	-	-	-	-	<b>15.1</b>
Interest rate swaps:							
Outflow	<b>(56.4)</b>	<b>(174.4)</b>	<b>(41.0)</b>	<b>(353.5)</b>	<b>(88.2)</b>	<b>(27.0)</b>	<b>(740.5)</b>
Outflow on options	-	-	-	<b>(32.8)</b>	-	-	<b>(32.8)</b>
Inflow	<b>34.4</b>	<b>96.6</b>	<b>20.4</b>	<b>204.1</b>	<b>45.8</b>	<b>16.5</b>	<b>417.8</b>
	<b>(46.5)</b>	<b>(81.0)</b>	<b>(20.6)</b>	<b>(182.2)</b>	<b>(42.4)</b>	<b>(10.5)</b>	<b>(383.2)</b>
<b>At 31 December 2007</b>							
Forward foreign exchange contracts:							
Outflow	(68.9)	(8.8)	-	-	-	-	(77.7)
Inflow	68.1	8.8	-	-	-	-	76.9
Interest rate swaps:							
Outflow	(26.3)	(23.3)	(11.5)	(6.8)	-	-	(67.9)
Outflow on options	-	-	-	-	(13.3)	-	(13.3)
Inflow	33.9	30.4	15.0	9.0	-	-	88.3
	6.8	7.1	3.5	2.2	(13.3)	-	6.3

The above table incorporates the contractual cash flows of the interest rate derivatives with floating rates of interest calculated based on LIBOR of 2.77% (2007: 5.99%) at the balance sheet date. This table includes the effect of mutual break clauses, whereby either party can require the other to settle the fair value of the contract at that date for cash. To date, the Group has not been required to settle for cash under such a clause and does not anticipate a future requirement to do so.

Furthermore, for the purposes of this table, callable features have been reflected where the yield curve indicates that a counterparty is likely to call or cancel a contract at nil cost to themselves. We note that no contracts (2007: 3 contracts) are expected to be called at nil prior to their contractual maturity based on the current yield curve.

#### (d) 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 third parties.

# Notes to the financial statements

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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.

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

	2008 £m	2007 Restated)* £m
<b>Loans and receivables:</b>		
Cash and cash equivalents	40.6	23.9
Trade and other receivables	297.4	286.7
<b>Financial assets at fair value through profit or loss:</b>		
Derivative financial instruments		
– Forward foreign currency exchange contracts/currency options	21.2	2.1
– Interest rate swaps	–	6.4
<b>Financial liabilities at fair value through profit or loss:</b>		
Derivative financial instruments		
– Forward foreign currency exchange contracts/currency options	(1.0)	(0.7)
– Commodity derivatives	(11.9)	–
– Interest rate swaps	(237.4)	(24.9)
<b>Financial liabilities at amortised cost:</b>		
Trade and other payables	(528.4)	(525.3)
Bank Term Loan	(1,334.6)	(1,429.5)
Bank Revolver Facility (Drawn down)	(446.6)	(196.0)
Bank overdraft	(6.9)	(0.1)
Finance leases	(1.7)	(4.3)
Other	(17.6)	(12.5)
Interest payable	(22.8)	(12.9)

\* The 31 Dec 2007 comparatives have been restated for IFRS 3 fair value adjustments on the acquisition of RHM plc.

## Fair value estimation

### Derivatives

Forward exchange contracts are marked to market using prevailing market prices. Hedge accounting has not been applied to forward contracts and as a result the movement in the fair value of £18.8m has been debited to the income statement in the year (2007: £4.7m credit). Commodity derivatives are marked to market using prevailing prices and are also not designated for hedge accounting. As a result the fair value movement of £11.9m (2007: nil) has been credited to the income statement. Interest rate swaps are marked to market using prevailing market prices. Interest rate swaps are also not designated for hedge accounting. As a result the movement in the fair value of £218.9m has been charged to the income statement in the year (2007: £31.0m charge).

### Short and Long-term Borrowings, Loan Notes and Interest Payable

Fair value is calculated based on discounted expected future principal and interest rate cash flows. The fair value of the floating rate debt in current market conditions does not approximate the carrying value above. The fair value of the debt is likely to be lower than the carrying amount however since 31 December 2008 the Group has restructured its debt (refer to note 34 for further details).

Certain Euro denominated short and long-term borrowings are designated as hedges against Euro denominated assets within the Group. In total £72.4m of Euro borrowings (2007: £70.2m) are designated as hedges against Euro assets.

### 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 values of non-current receivables/payables are also considered to be the same as the carrying value due to the size and nature of the balances involved.

### (e) Obligations under finance leases

	Minimum lease payments		Present value of minimum lease payments	
	2008 £m	2007 £m	2008 £m	2007 £m
Not later than one year	0.6	1.0	0.6	1.0
Later than one year but not later than five years	0.9	3.2	0.7	2.7
Later than five years	0.5	0.9	0.4	0.6
	<b>2.0</b>	5.1	<b>1.7</b>	4.3
Less: future finance charges	<b>(0.3)</b>	(0.8)	<b>N/a</b>	N/a
Present value of lease obligations	<b>1.7</b>	4.3	<b>1.7</b>	4.3
Less: amount due for settlement within 12 months			<b>(0.6)</b>	(1.0)
Amounts due for settlement after 12 months			<b>1.1</b>	3.3

It is the Group's policy to lease certain items of plant and equipment under finance leases. The average lease term is 2 years, the longest being 9 years.

For the year ended 31 December 2008, the average effective borrowing rate was 7.6% (2007: 8.3%).

Interest rates are fixed at the contract date, and thus expose the Group to fair value interest rate risk. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

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

### (f) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may vary the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as equity plus net debt.

On 18 November 2008 the Group announced an agreement with its lending banks to defer its 31 December 2008 covenant test to 31 March 2009, pending a review of its capital structure.

The gearing ratios at 31 December 2008 and 31 December 2007 were as follows:

	2008 £m	2007 £m
Total borrowings	<b>1,807.4</b>	1,642.4
Less cash and cash equivalents	<b>(40.6)</b>	(23.9)
Net debt	<b>1,766.8</b>	1,618.5
Total equity	<b>991.8</b>	1,460.3
Total capital	<b>2,758.6</b>	3,078.8
Gearing ratio	<b>64%</b>	53%

# Notes to the financial statements

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## 23. Deferred Tax

Deferred tax is calculated in full on temporary differences using the tax rate appropriate to the jurisdiction in which the (asset)/ liability arises and the tax rates that are expected to apply in the periods in which the asset or liability is settled. In all cases this is 28% except for an asset of £1.9m (2007: £0.2m) relating to Irish retirement benefit obligations where the local rate of 12.5% has been used.

	2008 £m	2007 £m
At 1 January	207.6	32.1
Acquisition of subsidiaries/businesses (note 28)	-	165.6
Credited to the income statement	(25.0)	(29.6)
Debited to equity	19.7	40.6
Transferred to held for sale	(9.2)	-
Disposal of subsidiaries/businesses	-	(1.1)
<b>At 31 December</b>	<b>193.1</b>	<b>207.6</b>

Due to the unpredictability of future profit streams the Group has not recognised deferred tax assets of £48.1m (2007: £48.1m) relating to capital losses, £7.1m (2007: £10.1m) relating to UK corporation tax losses, £1.3m (2007: £1.3m) Irish corporate tax losses and £34.8m (2007: £34.8m) relating to ACT. These losses can generally be carried forward indefinitely under current legislation.

### Deferred tax liabilities

	Accelerated tax depreciation £m	Intangibles £m	Total £m
At 1 January 2007	29.5	32.3	61.8
Prior years restatement of opening balances	(2.0)	(2.2)	(4.2)
Acquisition of subsidiaries/businesses	9.1	271.6	280.7
Current year restatement of acquired balances	(0.8)	(18.0)	(18.8)
Current year charge/(credit)	10.6	(12.7)	(2.1)
Prior years (credit)/charge	(0.5)	2.0	1.5
Disposal of subsidiaries/businesses	(1.1)	-	(1.1)
<b>At 31 December 2007</b>	<b>44.8</b>	<b>273.0</b>	<b>317.8</b>
Current year charge/(credit)	36.8	(11.4)	25.4
Prior years credit	(6.8)	-	(6.8)
Transferred to held for sale	(2.0)	(7.2)	(9.2)
<b>At 31 December 2008</b>	<b>72.8</b>	<b>254.4</b>	<b>327.2</b>

### Deferred tax assets

	Retirement benefit obligation £m	Share based payments £m	Financial Instruments £m	Losses £m	Other £m	Total £m
At 1 January 2007	(25.3)	(2.5)	-	-	(1.9)	(29.7)
Prior years restatement of opening balances	0.3	0.2	-	-	-	0.5
Acquisition of subsidiaries/businesses	(72.3)	-	1.6	(28.6)	(15.8)	(115.1)
Current year restatement of acquired balances	4.6	-	(0.1)	1.9	0.8	7.2
Current year charge/(credit)	17.9	(1.1)	(5.7)	(25.4)	1.1	(13.2)
Prior year credit	-	-	-	-	(0.5)	(0.5)
Debited to equity	39.5	1.1	-	-	-	40.6
<b>At 31 December 2007</b>	<b>(35.3)</b>	<b>(2.3)</b>	<b>(4.2)</b>	<b>(52.1)</b>	<b>(16.3)</b>	<b>(110.2)</b>
Current year charge/(credit)	14.9	1.7	(59.1)	(17.2)	10.2	(49.5)
Prior year charge/(credit)	-	-	-	6.8	(0.9)	5.9
Debited to equity	19.2	0.5	-	-	-	19.7
<b>At 31 December 2008</b>	<b>(1.2)</b>	<b>(0.1)</b>	<b>(63.3)</b>	<b>(62.5)</b>	<b>(7.0)</b>	<b>(134.1)</b>

### Net deferred tax liability

	£m
<b>At 31 December 2008</b>	<b>193.1</b>
At 31 December 2007	207.6

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 the defined benefit pension obligation, are greater than one year in nature.

Deferred tax assets in respect of losses are only recognised to the extent that it is anticipated they will be utilised in the foreseeable future.

Included within the current year charge is an adjustment to deferred tax relating to accelerated tax depreciation is affected by an adjustment of £25.4m as a result of the phasing out of Industrial Buildings Allowances between 2008 and 2011, enacted in the 2008 Finance Act.

## 24. Provisions for liabilities and charges

	Restructuring £m	Other £m	Total £m
At 1 January 2007	6.7	1.5	8.2
Acquired in the year	17.7	16.5	34.2
Utilised during the year	(16.4)	(2.9)	(19.3)
Additional charge in year	50.2	0.9	51.1
Unwind of provision	0.4	0.4	0.8
<b>At 31 December 2007 (Restated)*</b>	<b>58.6</b>	<b>16.4</b>	<b>75.0</b>
Utilised during the year	(54.8)	(3.1)	(57.9)
Additional charge in the year	33.8	6.4	40.2
Transferred to held for sale	–	(3.0)	(3.0)
Unwind of provision	0.6	0.3	0.9
Released during the year	–	(3.5)	(3.5)
<b>At 31 December 2008</b>	<b>38.2</b>	<b>13.5</b>	<b>51.7</b>
			<b>2008 £m</b>
Analysis of total provisions:			
Current	<b>18.4</b>	<b>5.2</b>	<b>23.6</b>
Non-current	<b>19.8</b>	<b>8.3</b>	<b>28.1</b>
	<b>38.2</b>	<b>13.5</b>	<b>51.7</b>
			<b>2007 (Restated)* £m</b>
Analysis of total provisions:			
Current	50.5	6.1	56.6
Non-current	8.1	10.3	18.4
	58.6	16.4	75.0

\* The 31 Dec 2007 comparatives have been restated for IFRS 3 fair value adjustments on the acquisition of RHM plc.

### 31 December 2008

At 31 December 2008, restructuring, redundancy and onerous lease provisions have been raised in respect of the integration and restructuring of RHM's manufacturing facilities into the Group's existing Premier operations, the move of existing administrative functions to a group-wide shared service centre and closure of our mill in Rotherham. Other than onerous leases which range from 4 to 24 years, it is anticipated that the majority of these provisions will be utilised during 2009.

Other provisions primarily relate to dilapidations against leasehold properties. The costs relating to these provisions will be incurred over a number of years in accordance with the length of the leases. These provisions have been discounted at rates between 4.1% and 5.6%. The unwinding of the discount is charged to the income statement under interest payable.

Other provisions primarily related to dilapidations against leasehold properties.

### 31 December 2007

At 31 December 2007, restructuring provisions were raised in respect of the integration and restructuring of RHM's administrative functions and manufacturing facilities, integration of the Irish operations and the integration of Campbell's UK into the Group's existing Grocery operations.

Other provisions primarily related to dilapidations against leasehold properties.

# Notes to the financial statements

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## 25. Retirement benefit schemes

### Defined Benefit Schemes

The Group operates a number of defined benefit schemes under which employees are entitled to retirement benefits which are based on final salary on retirement. These are as follows:

#### (a) Premier schemes

The Premier Foods Pension Scheme ("PFPS") was the principal funded defined benefit scheme within the old Premier Group which also operated a smaller funded defined benefit scheme, the Premier Ambient Products Pension Scheme ("PAPPS") for employees acquired with the Ambrosia business in 2001. As a result of the acquisition of Campbell's in 2006, the Group inherited the Premier Grocery Products Pension Scheme ("PGPPS") covering the employees of Campbell's UK business, and the Premier Grocery Products Ireland Pension Scheme ("PGPIPS") covering the employees of Campbell's Ireland. The Group also acquired two further schemes with the acquisition of Chivers Ireland in January 2007, the Chivers 1987 Pension Scheme, and the Chivers 1987 Supplementary Pension Scheme. These schemes are presented together below as the Premier schemes.

#### (b) RHM schemes

As a result of the acquisition of RHM plc, the Group also acquired the RHM Pension Scheme, the Premier Foods Ireland Pension Scheme (1994), the Premier Foods Ireland Van Sales Scheme and the French Termination Indemnity Arrangements. These schemes are presented together below as the RHM schemes, with the exception of the French Termination Indemnity Arrangements which have been included in the speciality bakery businesses disposal group following their classification as discontinued operations.

The exchange rates used to translate the overseas Euro based schemes are £1.00 = 1.2541 Euros for the average rate during the year, and £1.00 = 1.0310 Euros for the closing position at 31 December 2008.

Under all the schemes detailed above, the employees are entitled to retirement benefits which vary as a percentage of final salary on retirement.

The assets of all schemes are held by the trustees of the respective schemes and are independent of the Group's finances. The schemes invest through investment managers appointed by the trustees in UK and European equities and in investment products made up of a broader range of assets. The plan assets do not include any of the Group's own financial instruments, nor any property occupied by, or other assets used by, the Group.

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

	Premier schemes 2008	RHM schemes 2008
Discount rate	6.3%	6.3%
Inflation	2.8%	2.8%
Expected salary increases	3.8%	2.8%
Future pension increases	2.0%	2.0%

	2007	2007
Discount rate	5.9%	5.9%
Inflation	3.3%	3.3%
Expected salary increases	4.3%	3.3%
Future pension increases	2.4%	2.4%

For the smaller overseas schemes the discount rate ranges from 4.0% to 5.6%, expected salary increases from 0.0% to 4.5%, and future pension increases from 0.0% to 3.0%. The Group has adopted more conservative mortality rates, the "Medium Cohort" assumption, for all schemes this year. The mortality assumptions are based on standard mortality tables which allow for future mortality improvements. The assumptions are as follows:

	Premier schemes	RHM schemes	Total
<b>Life expectancy</b>			
Male pensioner, currently aged 65	85.3	84.8	<b>84.9</b>
Female pensioner, currently aged 65	87.9	87.1	<b>87.3</b>
Male non-pensioner, currently aged 45	86.6	86.1	<b>86.2</b>
Female non-pensioner, currently aged 45	89.0	88.3	<b>88.4</b>

The fair values of plan assets split by type of asset are as follows:

	Premier schemes £m	RHM schemes £m	Total £m
<b>Pension scheme assets</b>			
<b>Assets at 31 December 2008</b>			
Equities	148.5	387.5	<b>536.0</b>
Government Bonds	12.6	1.4	<b>14.0</b>
Corporate Bonds	9.4	277.9	<b>287.3</b>
Property	1.3	191.1	<b>192.4</b>
Absolute/Target Return Products	180.4	222.9	<b>403.3</b>
Interest rate and inflation Swaps	26.5	250.0	<b>276.5</b>
Cash/Other	36.7	782.1	<b>818.8</b>
<b>Fair value of scheme assets</b>	<b>415.4</b>	<b>2,112.9</b>	<b>2,528.3</b>

<b>Assets at 31 December 2007</b>			
Equities	222.8	605.7	<b>828.5</b>
Government Bonds	30.5	85.1	<b>115.6</b>
Corporate Bonds	8.7	289.3	<b>298.0</b>
Property	1.6	96.6	<b>98.2</b>
Absolute/Target Return Products	232.6	176.1	<b>408.7</b>
Interest rate and inflation Swaps	–	9.6	<b>9.6</b>
Cash/Other	10.0	816.8	<b>826.8</b>
<b>Fair value of scheme assets</b>	<b>506.2</b>	<b>2,079.2</b>	<b>2,585.4</b>

The schemes invest in interest rate and inflation swaps to protect from fluctuations in interest and inflation.

The expected rates of return on assets were:

	Premier schemes	RHM schemes	Total
<b>2008 (for 2009 return)</b>			
Expected rate (%)	7.4	6.3	<b>6.5</b>
Market value (£m)	415.4	2,112.9	<b>2,528.3</b>
<b>2007 (for 2008 return)</b>			
Expected rate (%)	8.0	6.9	<b>7.2</b>
Market value (£m)	506.2	2,079.2	<b>2,585.4</b>
<b>2006 (for 2007 return)</b>			
Expected rate (%)	7.5	–	<b>7.5</b>
Market value (£m)	465.7	–	<b>465.7</b>

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.

# Notes to the financial statements

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The actual rate of return on plan assets was a loss of 18.2% (2007: 4.6% gain) for Premier schemes, and a 4.3% gain for RHM schemes (2007: 5.8% gain).

The pension schemes hold a charge over the assets of 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:

	Premier schemes £m	RHM schemes £m	Total £m
<b>2008</b>			
Present value of funded obligations	(587.7)	(1,952.1)	<b>(2,539.8)</b>
Fair value of plan assets	415.4	2,112.9	<b>2,528.3</b>
<b>(Deficit)/surplus in scheme</b>	<b>(172.3)</b>	<b>160.8</b>	<b>(11.5)</b>
<b>2007</b>			
Present value of funded obligations	(581.7)	(2,126.9)	<b>(2,708.6)</b>
Fair value of plan assets	506.2	2,079.2	<b>2,585.4</b>
<b>Deficit in scheme</b>	<b>(75.5)</b>	<b>(47.7)</b>	<b>(123.2)</b>
<b>2006</b>			
Present value of funded obligations	(550.4)	–	<b>(550.4)</b>
Fair value of plan assets	465.7	–	<b>465.7</b>
<b>Deficit in scheme</b>	<b>(84.7)</b>	<b>–</b>	<b>(84.7)</b>
<b>2005</b>			
Present value of funded obligations	(418.9)	–	<b>(418.9)</b>
Fair value of plan assets	334.5	–	<b>334.5</b>
<b>Deficit in scheme</b>	<b>(84.4)</b>	<b>–</b>	<b>(84.4)</b>
<b>2004</b>			
Present value of funded obligations	(368.3)	–	<b>(368.3)</b>
Fair value of plan assets	303.2	–	<b>303.2</b>
<b>Deficit in scheme</b>	<b>(65.1)</b>	<b>–</b>	<b>(65.1)</b>

All of the schemes recognise a deficit with the exception of the RHM scheme which is in surplus under IAS 19. This surplus of £163.7m has been shown separately on the face of the balance sheet within Non-current assets.

The increase in the discount rate during the year has been the main driver in the reduction in the fair value of funded obligations.

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

	Premier schemes £m	RHM schemes £m	Total £m
<b>2008</b>			
Opening defined benefit obligation	(581.7)	(2,126.9)	<b>(2,708.6)</b>
Current service cost	(9.0)	(8.1)	<b>(17.1)</b>
Past service cost	–	(2.8)	<b>(2.8)</b>
Interest cost	(33.9)	(122.9)	<b>(156.8)</b>
Actuarial gain	23.3	214.8	<b>238.1</b>
Other costs/exchange differences	(10.2)	(4.1)	<b>(14.3)</b>
Curtailments	–	(0.2)	<b>(0.2)</b>
Contributions by plan participants	(4.3)	(13.1)	<b>(17.4)</b>
Benefits paid	28.1	111.2	<b>139.3</b>
<b>Closing defined benefit obligation</b>	<b>(587.7)</b>	<b>(1,952.1)</b>	<b>(2,539.8)</b>
<b>2007</b>			
Opening defined benefit obligation	(550.4)	–	<b>(550.4)</b>
Acquisition of subsidiary undertaking	(15.9)	(2,231.8)	<b>(2,247.7)</b>
Current service cost	(10.2)	(7.0)	<b>(17.2)</b>
Past service cost	–	(2.1)	<b>(2.1)</b>
Interest cost	(29.1)	(89.6)	<b>(118.7)</b>
Actuarial gain	2.6	135.8	<b>138.4</b>
Other costs/exchange differences	(3.1)	(1.0)	<b>(4.1)</b>
Curtailments	0.6	(4.6)	<b>(4.0)</b>
Contributions by plan participants	(3.7)	(10.8)	<b>(14.5)</b>
Benefits paid	27.5	84.2	<b>111.7</b>
<b>Closing defined benefit obligation</b>	<b>(581.7)</b>	<b>(2,126.9)</b>	<b>(2,708.6)</b>

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

	Premier schemes £m	RHM schemes £m	Total £m
<b>2008</b>			
Opening fair value of plan assets	506.2	2,079.2	<b>2,585.4</b>
Expected return	39.7	140.4	<b>180.1</b>
Administrative and life insurance costs	(2.2)	(5.5)	<b>(7.7)</b>
Actuarial losses	(131.6)	(50.3)	<b>(181.9)</b>
Contributions by employer	18.0	43.1	<b>61.1</b>
Contributions by plan participants	4.3	13.1	<b>17.4</b>
Other income/exchange differences	9.1	4.1	<b>13.2</b>
Benefits paid	(28.1)	(111.2)	<b>(139.3)</b>
<b>Closing fair value of plan assets</b>	<b>415.4</b>	<b>2,112.9</b>	<b>2,528.3</b>
<b>2007</b>			
Opening fair value of plan assets	465.7	–	<b>465.7</b>
Acquisition of subsidiary undertaking	13.2	1,993.3	<b>2,006.5</b>
Expected return	36.3	104.6	<b>140.9</b>
Administrative and life insurance costs	(1.9)	(4.2)	<b>(6.1)</b>
Actuarial (loss)/gains	(14.8)	11.7	<b>(3.1)</b>
Contributions by employer	28.8	46.3	<b>75.1</b>
Contributions by plan participants	3.7	10.8	<b>14.5</b>
Other income/exchange differences	2.7	0.9	<b>3.6</b>
Benefits paid	(27.5)	(84.2)	<b>(111.7)</b>
<b>Closing fair value of plan assets</b>	<b>506.2</b>	<b>2,079.2</b>	<b>2,585.4</b>

# Notes to the financial statements

Continued

The history of the plans for the current and prior years is as follows:

	Premier schemes £m	RHM schemes £m	Total £m
<b>2008</b>			
Experience adjustments on plan liabilities	23.3	214.8	<b>238.1</b>
Experience adjustments on plan assets	(131.6)	(50.3)	<b>(181.9)</b>
Net actuarial (loss)/gain for the year	(108.3)	164.5	<b>56.2</b>
<b>Cumulative actuarial (loss)/gain</b>	<b>(186.3)</b>	<b>312.0</b>	<b>125.7</b>
<b>2007</b>			
Experience adjustments on plan liabilities	2.6	135.8	<b>138.4</b>
Experience adjustments on plan assets	(14.8)	11.7	<b>(3.1)</b>
Net actuarial (loss)/gain for the period	(12.2)	147.5	<b>135.3</b>
<b>Cumulative actuarial (loss)/gain</b>	<b>(78.0)</b>	<b>147.5</b>	<b>69.5</b>
<b>2006</b>			
Experience adjustments on plan liabilities	4.4	–	<b>4.4</b>
Experience adjustments on plan assets	11.7	–	<b>11.7</b>
Net actuarial gain for the year	16.1	–	<b>16.1</b>
<b>Cumulative actuarial loss</b>	<b>(65.8)</b>	<b>–</b>	<b>(65.8)</b>
<b>2005</b>			
Experience adjustments on plan liabilities	(43.7)	–	<b>(43.7)</b>
Experience adjustments on plan assets	17.8	–	<b>17.8</b>
Net actuarial loss for the year	(25.9)	–	<b>(25.9)</b>
<b>Cumulative actuarial loss</b>	<b>(81.9)</b>	<b>–</b>	<b>(81.9)</b>
<b>2004</b>			
Experience adjustments on plan liabilities	(65.8)	–	<b>(65.8)</b>
Experience adjustments on plan assets	9.8	–	<b>9.8</b>
Net actuarial loss for the year	(56.0)	–	<b>(56.0)</b>
<b>Cumulative actuarial loss</b>	<b>–</b>	<b>–</b>	<b>–</b>

The actual return on plan assets was a £1.8m loss (2007: £137.8m gain), which is £181.9m less (2007: £3.1m less) than the expected return on plan assets of £180.1m (2007: £140.9m) at the start of the relevant periods.

The actuarial gain on liabilities of £238.1m (2007: £138.4m gain) comprises a loss on member experience of £8.6m (2007: £30.6m gain) and an actuarial gain due to changes in assumptions of £246.7m (2007: £107.8m gain).

The net actuarial gains taken to the statement of recognised income and expense were £56.2m (2007: £135.3m gain). These were £37.4m (2007: £95.8m gain) net of taxation (with tax at 28% for UK schemes, and 12.5% for Irish schemes).

The Group expects to contribute approximately £56.2m (2008: £73.0m) to its defined benefit plans in 2009, £23.9m (2008: £22.0m) of regular contributions and £32.3m (2008: £51.0m) of additional contributions to fund the scheme deficits.

The amounts recognised in the income statement are as follows:

	Premier schemes £m	RHM schemes £m	Total £m
<b>2008</b>			
Current service cost	(9.0)	(8.1)	<b>(17.1)</b>
Past service cost	–	(2.8)	<b>(2.8)</b>
Administrative and life insurance costs	(2.2)	(5.5)	<b>(7.7)</b>
Interest cost	(33.9)	(122.9)	<b>(156.8)</b>
Expected return on plan assets	39.7	140.4	<b>180.1</b>
Losses on curtailment	–	(0.2)	<b>(0.2)</b>
<b>Total expense</b>	<b>(5.4)</b>	<b>0.9</b>	<b>(4.5)</b>
<b>2007</b>			
Current service cost	(10.2)	(7.0)	<b>(17.2)</b>
Past service cost	–	(2.1)	<b>(2.1)</b>
Administrative and life insurance costs	(1.9)	(4.2)	<b>(6.1)</b>
Interest cost	(29.1)	(89.6)	<b>(118.7)</b>
Expected return on plan assets	36.3	104.6	<b>140.9</b>
Gains/(losses) on curtailment	0.6	(4.6)	<b>(4.0)</b>
<b>Total expense</b>	<b>(4.3)</b>	<b>(2.9)</b>	<b>(7.2)</b>

#### 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 (2007: £1.2m) represents contributions payable to the plans by the Group at rates specified in the rules of the plans.

#### Other post retirement benefits

The Group does not provide any other post retirement benefits.

## 26. Share capital

	2008 £m	2007 £m
<b>Authorised</b>		
1,500,000,000 (2007: 1,500,000,000) ordinary shares of 1 pence each	<b>15.0</b>	15.0
<b>Issued and fully paid</b>		
844,604,805 (2007: 844,600,074) ordinary shares of 1 pence each	<b>8.5</b>	8.5

#### 2008

During the year, 4,731 1 pence ordinary shares were issued to certain employees at a price of between 171 and 186 pence per ordinary share upon the exercise of share options and were fully paid up.

#### 2007

On 15 February 2007, a special resolution was passed to increase the authorised share capital of the Company to £15.0m by the creation of 500m ordinary shares at 1 pence each.

On 16 March 2007, the Group completed the acquisition of 100% of RHM plc for a total consideration of £1,338.0m. The consideration for the acquisition was one new ordinary Premier Foods' share and 83.2 pence in cash for each RHM share held. Premier Foods issued 348,324,199 shares at 296.25 pence for each ordinary share in RHM plc.

During 2007, 577,148 1 pence ordinary shares were issued to certain employees at a price of between 171 and 230 pence per ordinary share upon the exercise of share options and were fully paid up.

# Notes to the financial statements

Continued

## 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 32.9m ordinary shares of 1 pence each between 2009 and 2014, granted at prices ranging between 1 pence per ordinary share and 196 pence per ordinary share. The number of shares subject to options, the periods in which they were granted and the periods in which they may be exercised are given below. For 2008, a summary of the Company's schemes is as follows:

1. The Company adopted an Executive Share Option Scheme ("ESOS") at the time of admission for executive directors. A portion of the options granted under the ESOS have now vested and are exercisable between 3 and 10 years after grant as certain performance criteria have been met. These options are equity settled and the number of shares subject to options, the periods in which they were granted and the periods in which they may be exercised are given below.
2. A Savings Related Share Option Scheme for employees. The employees involved in the scheme have the right to subscribe for up to 20.8m ordinary shares. The number of shares subject to options, the periods in which they were granted and the periods in which they may be exercised are given below. These options are equity-settled, have a maximum term of 3.5 years and generally vest only if employees remain in employment to the vesting date.
3. A Long-Term Incentive Plan for senior managers. The individuals involved in the scheme have the right to subscribe for up to 5.0m ordinary shares at 1 pence per ordinary share. The number of shares subject to awards, the periods in which they were granted and the periods in which they may be awarded are given below. These awards are equity-settled and have a maximum term of 3 years.  
The vesting conditions attached to the Company's Long-Term Incentive Plan arrangements are explained in detail in the directors' remuneration report on pages 43 to 53.
4. A Co-Investment Plan for directors and senior managers. The scheme is structured as a share matching plan and the individuals involved in the scheme are required to commit and retain a significant amount of capital in the form of Premier Foods' shares. The number of shares subject to awards, the periods in which they were granted and the periods in which they may be awarded are given below. These awards are equity-settled and have a maximum term of 3 years.
5. A small number of shadow awards have been made to senior management of the Group. These awards are cash-settled, have a maximum term of 3 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 1.6 years.

Details of the share options of the Premier Foods Executive Share Option Scheme are as follows:

	Year of expiry	2008		2007	
		Options	Weighted average exercise price (p)	Options	Weighted average exercise price (p)
Outstanding at beginning of year		2,598,043	170	3,036,978	170
Forfeited during the year		(38,683)	170	(438,935)	170
Outstanding at the end of the year	2014	2,559,360	170	2,598,043	170
Exercisable at the end of the year		1,096,869	170	1,113,447	170

The options outstanding at 31 December 2008 had a weighted average exercise price of 170 pence (2007: 170 pence), and a weighted average remaining contractual life of 5.6 years (2007: 6.6 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 2.6m of the ordinary shares under this scheme are subject to vesting conditions as set out in the directors' remuneration report on pages 43 to 53.

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

	2008		2007	
	Options	Weighted average exercise price (p)	Options	Weighted average exercise price (p)
Outstanding at beginning of year	11,373,922	184	2,713,315	184
Scheme rolled over from RHM acquisition	-	-	3,992,613	171
Exercised during the year	(4,731)	172	(100,832)	173
Granted during the year	16,876,711	72	5,655,364	196
Forfeited during the year	(7,462,154)	184	(886,538)	179
Outstanding at the end of the year	20,783,748	93	11,373,922	184
Exercisable at the end of the year	17,495	182	-	-

During the year, 16.9m (2007: 5.7m) options were granted under the Savings Related Share Option Schemes, with a weighted average exercise price at the date of exercise of 72 pence per ordinary share.

The options outstanding at 31 December 2008 had a weighted average exercise price of 93 pence (2007: 184 pence), and a weighted average remaining contractual life of 2.6 years (2007: 2.0 years).

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

	Options	2008 Weighted average exercise price (p)	Options	2007 Weighted average exercise price (p)
Outstanding at beginning of year	4,417,661	1	2,253,829	1
Scheme rolled over from RHM acquisition	-	-	2,128,490	1
Granted during the year	2,394,634	1	994,198	1
Forfeited during the year	(1,777,018)	1	(958,856)	1
Outstanding at the end of the year	5,035,277	1	4,417,661	1
Exercisable at the end of the year	-	-	-	-

During the year, 2.4m (2007: 1.0m) of awards were granted under the Long-Term Incentive Plan, with a weighted average share price at the date of exercise of 1 pence. The awards outstanding at 31 December 2008 had a weighted average remaining contractual life of 1.7 years (2007: 1.7 years). Details of executive director participation in the above schemes can be found in the directors' remuneration report on pages 43 to 53.

The weighted average fair value of awards granted during the year was 70 pence per award (2007: 206 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:

	2008	2007
Weighted average share price (pence)	126	272
Annual risk-free interest rate (%)	4.0	5.5
Expected dividend at grant date (%)	4.5	5.3
Expected option life (years)	3	3
Expected volatility (%)	33	21

The expected dividend is based on the annual average dividend yield for the Group up to the date of the grant (15 April 2008) and matched to the expected life of the awards.

The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices over the last three years.

Details of the share awards of the Premier Foods Co-Investment Plan are as follows:

	2008 Awards	2007 Awards
Outstanding at beginning of year	1,272,454	-
Granted during the year	3,530,765	1,272,454
Forfeited during the year	(375,801)	-
Outstanding at the end of the year	4,427,418	1,272,454
Exercisable at the end of the year	-	-

The awards outstanding at 31 December 2008 had a weighted average remaining contractual life of 2.1 years (2007: 2.4 years). The weighted average fair value of awards granted during the year was 66 pence per award (2007: 238 pence). This was determined using a closed-form approach as a proxy for a stochastic Monte Carlo valuation model. The significant inputs into the model were:

	2008	2007
Weighted average share price (pence)	118	314
Annual risk-free interest rate (%)	4.0	5.5
Expected dividend (%)	4.5	5.3
Expected option life (years)	3	3
Expected volatility (%)	33	21

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 2008, the Group recognised an expense of £1.4m net of a £0.8m credit in relation to lower social security obligations on the share awards (2007: £3.9m), related to all equity-settled share based payment transactions.

# Notes to the financial statements

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## 27. Reserves

	Share premium reserve £m	Merger reserves £m	Other reserves £m	Profit and loss reserve £m	Minority interest reserve £m	Total £m
At 1 January 2007	760.6	(136.8)	-	(167.8)	0.1	456.1
Loss for the year	-	-	-	(63.3)	-	(63.3)
Dividends paid	-	-	-	(61.1)	-	(61.1)
Shares issued (a)	-	1,029.7	-	-	-	1,029.7
Cost of shares issued (a)	-	(2.2)	-	-	-	(2.2)
Actuarial gain (net of taxation) (b)	-	-	-	95.8	-	95.8
Share based payments (c)	-	-	-	3.9	-	3.9
Purchase of own shares (d)	-	-	-	(3.0)	-	(3.0)
Tax on share options (e)	-	-	-	(1.1)	-	(1.1)
Movement on net investment hedge	-	-	(3.1)	-	-	(3.1)
Exchange differences on translation	-	-	-	0.1	-	0.1
<b>At 31 December 2007</b>	<b>760.6</b>	<b>890.7</b>	<b>(3.1)</b>	<b>(196.5)</b>	<b>0.1</b>	<b>1,451.8</b>
Loss for the year	-	-	-	(443.8)	-	(443.8)
Dividends paid	-	-	-	(54.7)	-	(54.7)
Actuarial gain (net of taxation) (b)	-	-	-	37.4	-	37.4
Share based payments (c)	-	-	-	2.2	-	2.2
Tax on share options (e)	-	-	-	(0.5)	-	(0.5)
Movement on net investment hedge	-	-	(19.9)	-	-	(19.9)
Exchange differences on translation	-	-	-	10.8	-	10.8
<b>At 31 December 2008</b>	<b>760.6</b>	<b>890.7</b>	<b>(23.0)</b>	<b>(645.1)</b>	<b>0.1</b>	<b>983.3</b>

### Share premium reserve

The share premium reserve comprises the premium paid over the nominal value of shares for shares issued.

### Merger reserve

The merger reserve comprises the non-statutory premium arising on shares issued as consideration for acquisition of subsidiaries where merger relief under section 131 of the Companies Act 1985 applies.

### Other reserves

Other reserves comprise the hedging reserve which represents the effective portion of the gains or losses on derivative financial instruments that have been designated as hedges.

### Profit and loss reserve

The profit and loss reserve represents the cumulative surplus or deficit and the own shares reserve which represents the cost of shares in the Premier Foods plc purchased in the market and held by the Company on behalf of the Employee Benefit Trust ("EBT") in order to satisfy options and awards under the Company's incentive schemes.

### Minority interest reserve

The minority interest reserve represents the reserves attributable to minority interests.

### Notes to the reserves table

- On 16 March 2007, Premier Foods plc issued 348,324,199 new 1 pence ordinary shares for a premium of 295.25 pence for the acquisition of RHM. Under s.131 of the Companies Act 1985, share premium arising as a result of acquiring more than 90% of the issued share capital of a company is recorded in the merger reserve.
- Actuarial gains relating to the Group's retirement benefit schemes are recognised directly within the profit and loss reserve (note 25).
- Amounts are in respect of outstanding share option schemes in accordance with IFRS 2: "Share-based payment".
- On acquisition of RHM plc the Group inherited two employment benefit trusts. The purpose of these trusts was to distribute ordinary shares in the Company of RHM plc for the benefit of employees from the previous RHM business. On acquisition the shares held by the EBT converted to the shares of the Company of Premier Foods plc.  
As at 31 December 2008, the UK Trustee of the EBT held 86,274 ordinary shares in the Company and the overseas Trustee of the EBT held 850,000 ordinary shares in the Company. The value of the Company's shares held by the Trustees of the EBTs at 31 December 2008 was £0.3m based on market value at the year end.  
As at 31 December 2008, the Trustee of the Premier Foods plc EBT held 57,509 ordinary shares in the Company.
- Amounts are in respect of deferred tax on the intrinsic value of outstanding options above.

## 28. Acquisitions

Subsequent to the year ended 31 December 2007, the Group has completed the exercise of attributing fair value adjustments to the assets and liabilities acquired with the RHM business. As a result, final fair value adjustments have been made to the previously presented provisional fair values at 31 December 2007 in relation to a decrease in trade receivables of £0.4m, a decrease in property, plant and equipment of £0.5m, an increase in engineering spares inventory of £0.5m, an increase in dilapidation provisions of £0.7m and the associated decrease in deferred tax liabilities of £0.5m. The impact of these final fair value adjustments is an increase in goodwill by £0.6m which was disclosed in our Interim Report 2008. These have been incorporated with effect from the date of acquisition and the comparative balance sheet has been restated to reflect these fair value adjustments.

## 29. Notes to the cash flow statement

### Reconciliation of operating (loss)/profit to cash flows from operating activities

	Year ended 31 December 2008 £m	Year ended 31 December 2007 (Restated)* £m
<b>Continuing operations</b>		
Operating (loss)/profit	(40.5)	72.0
Depreciation of property, plant and equipment	50.7	44.9
Amortisation of intangible assets	76.7	62.0
Impairment/loss on disposal of property, plant and equipment	10.6	15.9
Impairment/loss on disposal of intangible assets	-	0.6
Impairment of goodwill	194.4	-
Revaluation gains on financial instruments	(6.9)	(4.7)
Share based payments	1.4	3.9
Net cash inflow from operating activities before interest and tax and movements in working capital	286.4	194.6
Increase in inventories	(38.8)	(5.6)
(Increase)/decrease in trade and other receivables	(42.5)	103.4
Increase in trade and other payables and provisions	23.6	138.4
Exchange gain/(loss) on working capital	1.1	(3.1)
Movement in net retirement benefit obligations	(56.6)	(63.9)
<b>Cash generated from continuing operations</b>	<b>173.2</b>	<b>363.8</b>
Discontinued operations	16.2	(3.6)
<b>Cash generated from operating activities</b>	<b>189.4</b>	<b>360.2</b>
Exceptional items cash flow	(121.8)	(105.5)
Cash generated from operations before exceptional items	311.2	465.7

\* Comparatives have been restated to reflect the classification of Martine Spécialités S.A.S., Le Pain Croustillant and Sofrapain S.A.S. as discontinued operations.

### Additional analysis of cash flows

	Year ended 31 December 2008 £m	Year ended 31 December 2007 £m
Interest paid	(150.4)	(122.8)
Interest received	45.0	24.8
Financing costs	(20.2)	(18.8)
<b>Return on financing</b>	<b>(125.6)</b>	<b>(116.8)</b>

### Sale of subsidiaries/businesses

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## Reconciliation of cash and cash equivalents to net borrowings

	Year ended 31 December 2008 £m	Year ended 31 December 2007 £m
Net inflow of cash and cash equivalents	9.9	21.3
Debt acquired with RHM	–	(0.5)
Unamortised debt issuance acquired with RHM	–	4.8
Decrease/(increase) in finance leases	2.6	(2.7)
Increase in borrowings	(133.2)	(987.4)
Other non-cash changes	(27.6)	(12.6)
<b>Increase in borrowings net of cash</b>	<b>(148.3)</b>	<b>(977.1)</b>
Total borrowings net of cash at beginning of year	(1,618.5)	(641.4)
<b>Total net borrowings at end of year</b>	<b>(1,766.8)</b>	<b>(1,618.5)</b>

## Analysis of movement in borrowings

	As at 1 January 2008 £m	Cash flow £m	Other non-cash changes £m	As at 31 December 2008 £m
Bank overdrafts	(0.1)	(6.8)	–	(6.9)
Cash and bank deposits	23.9	16.7	–	40.6
Net cash and cash equivalents	23.8	9.9	–	33.7
Borrowings – term facilities	(1,439.8)	118.2	(20.0)	(1,341.6)
Borrowings – revolving credit facilities	(200.5)	(249.5)	–	(450.0)
Finance leases	(4.3)	1.1	1.5	(1.7)
Other	(12.5)	(5.1)	–	(17.6)
Gross borrowings net of cash	(1,633.3)	(125.4)	(18.5)	(1,777.2)
Debt issuance costs	14.8	3.2	(7.6)	10.4
<b>Total net borrowings</b>	<b>(1,618.5)</b>	<b>(122.2)</b>	<b>(26.1)</b>	<b>(1,766.8)</b>

## 30. Operating lease commitments

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

	2008		2007	
	Property £m	Plant and Equipment £m	Property £m	Plant and equipment £m
Within one year	16.4	13.9	12.2	12.0
Between 2 and 5 years	56.0	33.0	71.8	34.2
After 5 years	115.3	1.5	84.8	–
	<b>187.7</b>	<b>48.4</b>	168.8	46.2

Included in property above are £33.5m (2007: £48.4m) of operating lease commitments for discontinued operations.

The Group sub-lets various properties under non-cancellable lease arrangements.

## 31. Capital commitments

	2008 £m	2007 £m
Contracts placed for future capital expenditure not provided in the financial statements	22.8	42.6

## 32. Contingencies

In April 2008 the UK Office of Fair Trading notified the Group of an inquiry into potential co-ordination of retail prices in sectors of the Grocery market. The Group is co-operating with the inquiry which is currently at the information gathering stage.

There were no other material contingent liabilities at 31 December 2008. Other contingencies and guarantees in respect of the Parent Company are described in note 8 of the Parent Company financial statements.

### 33. Related party transactions

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

Details of their remuneration are set out below in aggregate for each of the categories specified in IAS 24 "Related Party Disclosures". Further information about the remuneration of individual directors is provided in the audited part of the directors' remuneration report on pages 43 to 53.

	Year ended 31 December 2008 £m	Year ended 31 December 2007 £m
Salaries and other short-term benefits	4.3	4.4
Post employment benefits	0.4	0.4
Termination benefits	0.7	0.6
Share based payments	0.1	0.8
	<b>5.5</b>	<b>6.2</b>

Apart from the information above and the related party transaction disclosed in the directors' report on page 32, there were no other related party transactions.

### 34. Post balance sheet events

#### Financing Arrangements

On 12 January 2009, the Group arranged a £60m working capital facility to provide additional working capital headroom to 31 March 2009. As a consequence the total available debt facility during this period is £1,990m.

On 5 March 2009, the Group announced revised financing arrangements including a proposed share issuance and proposed changes to lending agreements to provide greater covenant and liquidity headroom and to extend the maturity of the facility. These revised financing arrangements require the approval of ordinary shareholders at an extraordinary general meeting scheduled for 23 March 2009.

With regards the lending agreements, the Group announced amendments to its Term and Revolving Credit Facilities. These amendments included a rephrasing of the facilities to provide additional liquidity and covenant headroom to an extended maturity date in December 2013. The total facility as at 31 March 2009 will be £1,930m and will be amortised by £100m in April 2009. The facility will then be amortised by £50m in December 2009 and then in June and December of each year until December 2013 when the facility matures.

As part of the amendment process the covenant schedule for the Group has been reset. The two covenants which the Group is required to meet are calculated and tested on a 12 month rolling basis at the half year and full year each year. For the next 12 months, those tests are as follows:

	June 2009	December 2009
Net Debt/EBITDA	5.00:1	4.75:1
EBITDA/Cash Interest	2.00:1	2.00:1

For the purposes of the covenant calculation net debt is defined as net borrowings and amounts guaranteed under standby letters of credit but excluding any financial indebtedness in relation to arrangements under its debtor securitisation programme and any items relating to its subsidiary Citadel Insurance Company Limited. EBITDA is defined as profit before tax excluding exceptional items, movement on the fair valuation of financial instruments, pension financing credit/charge, expenses relating to employee share incentive schemes and cash interest, which is defined to be net interest excluding the amortisation of debt issuance costs, exceptional write-off of financing costs, unwind of discount on provisions, securitisation interest and fair value adjustments for interest hedging instruments.

With regards to the proposed share issue, the Group proposes to raise approximately £404m, before expenses, through the issue of 1,553,416,776 new ordinary shares. This will be structured as a placing and open offer of 1,055,756,006 new ordinary shares at a price of 26 pence per share, and a firm placing of 497,660,770 new ordinary shares at a price of 26 pence per share. Subject to the approval of shareholders at the extraordinary general meeting, the Company expects to receive the proceeds on approximately 27 March 2009.

#### Pensions

The Group has agreed new arrangements with its four main Pension Schemes (RHM Pension Scheme, Premier Foods Pension Scheme, Premier Ambient Products Pension Scheme and Premier Grocery Products Pension Scheme) regarding deficit payments. The key terms of this agreement relate to providing greater certainty on deficit payments by fixing the deficit payments from 2009 to 2013 and agreeing that any incremental deficits arising from the 2010 and 2013 valuations will be recovered over a 12 year period. The new arrangements are conditional on the share placing and new financing arrangements.

# Notes to the financial statements

Continued

## Disposal of the speciality bakery businesses

The Group received firm offers for its speciality bakery businesses, Martine Spécialités S.A.S., Le Pain Croustillant and Sofrapain S.A.S. Subsequent to year end the Group completed the employee consultation process required under French labour law and binding offer agreements were signed in relation to the disposal of the three businesses.

The sales of Le Pain Croustillant and Martine Spécialités S.A.S. completed on 2 March 2009 and we expect the sale of Sofrapain S.A.S. to complete in April 2009.

## Receivables Purchasing Agreement

In March 2009, the Group extended the maturity date of its Receivables Purchasing Agreement provided by DLLI (a wholly owned subsidiary of Rabobank Group) from December 2010 to March 2012. The underlying commercial terms have also been renegotiated, the principal changes being an increase in the margin and a reduction in the advance rate.

## Interest rate swaps

Since 31 December 2008, the Group has negotiated an amendment to the break clauses in two of its interest rate swaps. This has the effect of extending the first break date under these interest rate swaps to August 2012 from March 2009 and December 2009 and makes the break dates consistent with other long dated swaps in its portfolio. It also has the effect of fixing the net payments on one long dated swap and amending its terms such that it will now settle on termination for a mark to market payment to the counterparty bank.

# Premier Foods plc – Company Financial Statements

The following statements reflect the financial position of the Company, Premier Foods plc as at 31 December 2008 and 2007. These financial statements have been prepared in accordance with Generally Accepted Accounting Standards in the United Kingdom ("UK GAAP"). The directors have taken advantage of the exemption available under section 230 of the Companies Act 1985 and not presented a profit and loss account for the Company alone.

## Balance sheet

	Note	As at 31 December	
		2008 £m	2007 £m
<b>Non-current assets</b>			
Investments	3	1,740.6	1,739.3
Deferred tax assets		1.0	1.0
<b>Current assets</b>			
Debtors	4	232.8	360.4
Cash at bank		0.3	0.3
<b>Total assets</b>		<b>1,974.7</b>	<b>2,101.0</b>
<b>Current liabilities</b>			
Creditors	5	(43.9)	(127.0)
<b>Total liabilities</b>		<b>(43.9)</b>	<b>(127.0)</b>
<b>Net assets</b>		<b>1,930.6</b>	<b>1,974.0</b>
<b>Capital and reserves</b>			
Share capital	6	8.5	8.5
Share premium	6	760.6	760.6
Merger reserve	6	1,027.5	1,027.5
Profit and loss reserve	6	134.0	177.4
<b>Total shareholders' funds</b>		<b>1,930.6</b>	<b>1,974.0</b>

The notes on pages 108 to 110 are an integral part of these financial statements.

Signed on behalf of the Board of Directors, who approved the financial statements on 5 March 2009.



Robert Schofield  
Director and Chief Executive



Paul Thomas  
Finance Director

Overview of the year

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# Notes to the Company Financial Statements

## 1. Accounting policies

### Basis of preparation

The financial statements have been prepared in accordance with the Companies Act 1985 and applicable accounting standards in the United Kingdom ("UK GAAP"), under the historical cost convention, with the exception of share based payments which are incorporated using fair value. The profit for the year of £9.1m (2007: £216m) is recorded in the accounts of Premier Foods plc. The directors have taken advantage of the exemption available under section 230 of the Companies Act 1985 and not presented a profit and loss account for the Company.

The basis of preparation for the Company financial statements has been prepared on the same going concern basis as the Group financial statements, referred to on page 60, therefore the material uncertainty which casts significant doubt on the Group's ability to continue as a going concern also applies to the Company.

The Company has taken exemption under Financial Reporting Standard 1 "Cash Flow Statements" ("FRS 1") to not prepare a cash flow statement. The Company is also exempt under the terms of Financial Reporting Standard 8 "Related Party Transactions" ("FRS 8") from disclosing related party transactions with entities that are 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 discount its deferred tax liability as appropriate.

### Cash and liquid resources

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

### Share-based payments

The fair value of employee share option plans is calculated using an option-pricing model. In accordance with Financial Reporting Standard 20, "Share Based Payment" ("FRS 20"), the resulting cost is charged to the profit and loss account over the vesting period of the options for employees employed by the Parent Company, or treated as an investment in subsidiaries in respect of employees employed by the subsidiaries where the cost is recharged. The value of the charge is adjusted to reflect expected and actual levels of options vesting.

### Dividends

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

## 2. Operating profit

Audit fees in respect of the Company are Nil (2007: Nil).

The Company has 3 employees (2007: 2), and their remuneration totalled £1.3m (2007: £1.2m). This excludes the Company's 6 (2007: 6) non-executive directors whose remuneration totalled £0.6m (2007: £0.5m).

## 3. Investments

	2008 £m	2007 £m
<b>Shares in subsidiary undertakings</b>		
At 1 January	1,739.3	397.9
Additions	1.3	1,341.4
<b>At 31 December</b>	<b>1,740.6</b>	1,739.3

During 2008 a capital contribution of £1.3m (2007: £3.4m) was given in the form of share incentive awards to employees of subsidiary companies which was reflected as an increase in investments. See note 16 on page 82 in the Group financial statements for a list of the principal subsidiary undertakings. A full list of subsidiary undertakings is available from the Company Secretary.

The additions in the prior year relate to the purchase of RHM plc of £1,338.0m, and a capital contribution of £3.4m given in the form of share incentive awards to employees of subsidiary companies.

**4. Debtors**

	2008 £m	2007 £m
<b>Amounts falling due within one year:</b>		
Amounts owed by subsidiaries	232.3	357.4
Prepayments	0.3	0.2
Corporation tax	-	2.8
<b>Total debtors falling due within one year</b>	<b>232.6</b>	<b>360.4</b>

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

**5. Creditors**

	2008 £m	2007 £m
<b>Amounts payable within one year:</b>		
Amounts due to subsidiaries	39.5	125.4
Accruals	0.9	1.6
Corporation tax	3.7	-
<b>Total creditors falling due within one year</b>	<b>43.9</b>	<b>127.0</b>

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	Merger reserve £m	Profit and loss reserve £m	Total £m
At 1 January 2007	5.0	760.6	-	18.6	784.2
Shares issued (a)	3.5	-	1,029.7	-	1,033.2
Share issue costs (a)	-	-	(2.2)	-	(2.2)
Profit for the year	-	-	-	216.0	216.0
Dividends paid	-	-	-	(61.1)	(61.1)
Share based payments	-	-	-	3.9	3.9
<b>At 31 December 2007</b>	<b>8.5</b>	<b>760.6</b>	<b>1,027.5</b>	<b>177.4</b>	<b>1,974.0</b>
Shares issued (a)	-	-	-	-	-
Profit for the year	-	-	-	9.1	9.1
Dividends paid	-	-	-	(54.7)	(54.7)
Share based payments (b)	-	-	-	2.2	2.2
<b>At 31 December 2008</b>	<b>8.5</b>	<b>760.6</b>	<b>1,027.5</b>	<b>134.0</b>	<b>1,930.6</b>

For details on authorised share capital, and the Company share option schemes see note 26 on page 99 in the Group's financial statements.

**(a) 2008**

During the year, 4,731 1 pence ordinary shares were issued to certain employees at a price of between 171 and 186 pence per ordinary share upon the exercise of share options and were fully paid up.

**2007**

On 15 February 2007, a special resolution was passed to increase the authorised share capital of the Company to £15.0m by the creation of 500m ordinary shares at 1 pence each.

On 16 March 2007, the Group completed the acquisition of 100% of RHM plc for a total consideration of £1,338.0m. The consideration for the acquisition was one new ordinary Premier Foods' share and 83.2 pence in cash for each RHM share held. Premier Foods issued 348,324,199 shares at 296.25 pence for each ordinary share in RHM plc.

During 2007, 577,148 1 pence ordinary shares were issued to certain employees at a price of between 171 and 230 pence per ordinary share upon the exercise of share options and were fully paid up.

**(b)** These costs reflect the cost of share option schemes in operation.

# Notes to the Company Financial Statements

Continued

## 7. Operating lease commitments

At 31 December 2008, the Company had annual commitments under non-cancellable operating leases in respect of land and buildings as follows:

	2008 £m	2007 £m
Within one year	-	-
Between 2 and 5 years	-	-
After 5 years	0.3	0.3
	<b>0.3</b>	<b>0.3</b>

The lease expense has been borne by a subsidiary company.

## 8. Contingencies and guarantees

Premier Foods plc has provided guarantees to third parties in respect of borrowings of certain subsidiary undertakings. The maximum amount guaranteed at 31 December 2008 is £1.9 billion (2007: £2.1 billion).

In April 2008 the UK Office of Fair Trading notified the Group of an inquiry into potential co-ordination of retail prices in sectors of the Grocery market. The Group are co-operating with the inquiry which is currently at the information gathering stage.

# Shareholder Information

## Electronic communications with shareholders

At the 2008 AGM shareholders agreed to change the Company's Articles of Association to allow the Company to use its website as its main method of communication with shareholders. Election forms were sent to shareholders in January 2009 and shareholders who did not request to receive shareholder information in paper form will receive a notification when shareholder documents are available on the Company's website.

If you would prefer to receive an email notifying you of the publication, please register at [www.shareview.co.uk](http://www.shareview.co.uk) or contact the registrar at the address below. The Shareview website also enables shareholders to view details of their own shareholding.

The Company no longer publishes interim results in hard copy.

Further information including; results and presentations, financial information, share price information and RNS announcements are available online at <http://www.premierfoods.co.uk/investors/>

## Corporate Responsibility

The Premier Foods Corporate Responsibility report is included on pages 38 to 42 of this annual report. It is also available on the website at <http://www.premierfoods.co.uk/our-responsibilities/csr-reports/>

## Annual General Meeting

22 May 2009 at 11.00am  
Insurance Hall, 20 Aldermanbury, London EC2V 7HY

## Company Secretary and Registered Office

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## Investor Relations contact

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## Lawyers

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London EC2M 2WG

## Principal Bankers

Barclays Bank plc  
Bayerische Landesbank  
BNP Paribas  
Lloyds TSB Bank plc  
Rabobank, London  
The Royal Bank of Scotland plc

## Corporate Brokers

Citigroup Global Markets Limited  
Citigroup Centre  
25 Canada Square  
Canary Wharf  
London E14 5LB  
RBS Hoare Govett Limited  
250 Bishopsgate  
London EC2M 4AA

# Glossary

<p><b>Adjusted earnings per share</b> Adjusted earnings per share is defined as trading profit, less net regular interest payable, less a notional tax charge, divided by the weighted average number of ordinary shares in issue in the year.</p> <p><b>AGM</b> Annual General Meeting.</p> <p><b>Amortisation</b> An annual charge made in a company's profit and loss account to reduce the value of an intangible asset to zero over its useful economic life.</p> <p><b>Bps</b> Basis point – a unit that is equal to 1/100th of 1%.</p> <p><b>BRC</b> The British Retail Consortium.</p> <p><b>Called-up share capital</b> Ordinary shares, issued and fully paid.</p> <p><b>CIP</b> Premier Foods plc Co-Investment Plan.</p> <p><b>Combined Code</b> The Combined Code on Corporate Governance published by the Financial Reporting Council.</p> <p><b>EBITDA</b> Earnings before interest, tax, depreciation and amortisation.</p> <p><b>EBT</b> Employee Benefit Trust.</p> <p><b>EPS</b> Earnings Per Share – calculated as total earnings divided by the number of shares outstanding.</p> <p><b>ESOS</b> Premier Foods plc Executive Share Option Scheme.</p> <p><b>FDF</b> The Food and Drink Federation.</p> <p><b>Finance lease</b> A lease that transfers substantially all the risks and rewards incidental to ownership of an asset.</p> <p><b>Free cash flow</b> The amount of money that a business has at its disposal at any given time after paying out operating costs, interest payments on bank loans and bonds, salaries, research and development and other fixed costs.</p> <p><b>FSA</b> Depending on the context either the Food Standards Agency or the Financial Services Authority.</p>	<p><b>GDAs</b> Guidance Daily Amounts.</p> <p><b>HACCP</b> Hazard Analysis Critical Control Point.</p> <p><b>Hampel committee</b> UK committee on corporate governance established in November 1995 to review the implementation of the findings of the Cadbury and Greenbury Committees.</p> <p><b>Higgs report</b> Report in the UK by Derek Higgs on the role and effectiveness of non-executive directors.</p> <p><b>HMRC</b> Her Majesty's Revenue and Customs.</p> <p><b>IAS</b> International Accounting Standards.</p> <p><b>IFRIC</b> International Financial Reporting Interpretations Committee.</p> <p><b>IFRS</b> International Financial Reporting Standards.</p> <p><b>Intangible assets</b> An identifiable non-monetary asset without physical substance e.g. patents, goodwill, trademarks and copyrights.</p> <p><b>Interest rate hedging</b> Entering into a financial derivative to protect against unfavourable changes in interest rates.</p> <p><b>Interest rate swaps</b> An agreement between 2 parties that allows either party to modify the interest cost without changing the characteristics of the underlying debt.</p> <p><b>KPI</b> Key Performance Indicator.</p> <p><b>LIBOR</b> The London inter-bank offered rate.</p> <p><b>LTIP</b> Premier Foods plc Long-Term Incentive Plan.</p> <p><b>Mark to market</b> The recording of a value of securities, portfolio or accounts to reflect its current market value rather than its book value.</p> <p><b>Net regular interest</b> Net regular interest payable is defined as net interest after excluding non-cash items, namely exceptional write-off of financing costs, accelerated amortisation of debt issuance costs, fair value adjustments on interest rate swaps and the unwind of the discount on provisions.</p>	<p><b>Non-recourse securitisation</b> The sale of selected accounts receivable on a non-recourse basis where legal title and non-payment risk is transferred to a third party.</p> <p><b>Operating lease</b> A lease that is not a finance lease.</p> <p><b>Operating profit</b> A company's profit after deducting its operating costs from gross profit.</p> <p><b>Orders to cash</b> The Fusion programme encompasses a number of key business streams. Orders to cash is one such stream and represents the processes and systems involved in the receipt of an order, through distribution to receipt of payment from the customer.</p> <p><b>Pro forma</b> Pro forma comparisons are calculated as follows: current year actual results (which include acquisitions and/or disposals from the relevant date of completion) are compared with prior year actual results, adjusted to include the results of acquisitions and/or disposals for the commensurate period in the prior year.</p> <p><b>Project Fusion</b> Launched in June 2005, Programme Fusion is a major undertaking essential to the development of the business. It encompasses a series of projects under its banner, including the introduction of "Best Practice Business Processes" and a fully integrated software package in the form of SAP.</p> <p><b>Proposed dividend</b> Dividend declared by directors but not yet approved by shareholders.</p> <p><b>PSP</b> Premier Group Performance Share Plan.</p> <p><b>RIDDOR</b> Reporting of Injuries, Diseases and Dangerous Occurrences Regulations.</p> <p><b>SAP</b> SAP is the market leader in the supply of enterprise resources planning (ERP). SAP is also the name of the software and is an acronym for Systems, Applications and Products. This software is being deployed as part of the Fusion programme.</p> <p><b>SAYE</b> Save-as-you-earn Employee Sharesave Scheme.</p> <p><b>Share capital</b> Ordinary shares issued and fully paid.</p> <p><b>Share premium account</b> Additional paid-in capital or paid-in surplus (not distributable).</p>	<p><b>Smith report</b> Report in the UK by Sir Robert Smith on the role of audit committees.</p> <p><b>SKU (Stock Keeping Unit)</b> Each specific product item which is identifiable as separate from any other due to brand, size, flavour etc.</p> <p><b>Term and revolving credit facility</b> The amounts of money borrowed or available for borrowing where the repayment of the debt is predetermined by a contract.</p> <p><b>The Company</b> Premier Foods plc.</p> <p><b>The Group</b> The Company and its subsidiaries.</p> <p><b>Trading profit</b> Operating profit before exceptional items, amortisation of intangible assets, the revaluation of foreign exchange and other derivative contracts under IAS39 and pension credits or charges in relation to the difference between the expected return on pension assets and interest costs on pension liabilities.</p> <p><b>TSR</b> Total Shareholder Return – the growth in value of a shareholding over a specified period assuming that dividends are reinvested to purchase additional shares.</p> <p><b>Turnbull report</b> Guidance issued by the Institute of Chartered Accountants in England &amp; Wales on the implementation of the internal control requirements of the Combined Code on Corporate Governance at the request of the London Stock Exchange.</p> <p><b>UK GAAP</b> UK Generally Accepted Accounting Principles.</p> <p><b>WACC</b> Weighted average cost of capital.</p>
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# Premier Foods' brands



Cadbury is a trade mark of Cadbury Ltd, Erin is a trade mark of Erin Foods Limited, Ormo is a trade mark of A H Foods Limited and Rose's is a trade mark of L. Rose & Company Limited, all of which are used under licence. The Group has an exclusive worldwide licence to use the Loyd Grossman name on certain products and holds an exclusive, indefinite, royalty-free licence for Lyons in respect of cakes from J. Lyons & Company Ltd.

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