Premier Foods plc Annual report and accounts 2009

THE BEST IN BRITISH FOOD WITH BRANDS YOU REALLY LOVE

ALL THE NATION'S FAVOURITES

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

Did you know that **99.4%** of British households bought one of our brands last year and **47.2 million** people eat a Premier Foods' branded product in an average two week period . . .

. . . the best in British food with brands you really love.

Highlights for 2009

Branded Sales	Total Sales	Trading Profit*	Profit before Tax
6.5%	2.2%	4.5%	£47m
to £1,678m	to £2,661m	to £323m	
(2008: £1,576m)	(2008: £2,604m)	(2008: £309m)	(2008: loss of £405m)

Operational Highlights

— Underlying cash generation of £60m

— Net debt at 31 December 2009 £1,365m

— Financial position now secure with banking facilities arranged until 2013

— Implementing strategy of growing branded sales, delivering efficiencies and generating cash

— Confident of making progress in 2010 despite difficult consumer and competitive environment

** 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, administration costs and interest costs on pension liabilities.*

David J Kappler, Chairman

BUILDING
A STRONG BRANDED FOOD COMPANY

"We have built a stable platform from which to drive branded growth and deliver shareholder value"

Performance
2009 was dominated by concerns over the economy with the impact of the financial crisis and the continuing recession in the UK.

There was also uncertainty over how this would impact the food industry — would consumers switch to discounters and would they trade down from branded products to own label? The growth of discounters, whilst certainly a feature of the year, has not been as significant as some had anticipated. More important has been the resilience of food brands despite the spending pressure on consumers.

In the face of these challenges, I am pleased to report a solid performance from the business. We have seen sales of £2,661m up 2.2% on 2008. Trading profit for the year was £323m, an increase of 4.5% year on year and broadly in line with expectations. Branded sales in particular have performed strongly in the year, up 6.5% with market share gains in many of our key categories. I believe that this is a creditable achievement in the current economic climate and a testimony both to the success of our strategy of focusing on branded sales and also the work and commitment of management and employees.

Refinancing
A very important event during the year was the refinancing of the business which raised approximately £380m under a placing and open offer announced in March. The refinancing has been successful both in removing the uncertainty over the Company's debt position and also in providing Premier with a stable position from which to drive performance.

As shareholders will be aware, prior to the refinancing the Board considered it appropriate to suspend dividend payments. Future payments will be dependent on the limitations imposed by our current debt arrangements.

Board
There have been a number of changes to the Board over the last year. Following the refinancing, Warburg Pincus became a major shareholder of the Company and under the terms of the placing and open offer have the right to nominate the appointment of a director to the Board. As a result, in June we welcomed Charles Miller Smith as an additional non-executive director. Charles has a wealth of experience in both the consumer goods and financial markets, which has enabled him to make a valuable contribution to the Board and support the achievement of the Company's strategic goals.

After seven years with the Group, Paul Thomas stepped down as Finance Director in August 2009. Paul was instrumental in the Company's flotation in 2004 and contributed significantly to the development of the Group. The Board would like to thank him for his dedication to Premier and wish him well for the future.

In October Jim Smart was appointed to the Board as Chief Financial Officer. Jim, who previously held the role of CFO at both Friends Provident plc and Boots Group plc, is a well-known and respected CFO and has made an immediate and positive impact on the Group.

Christine Cross who was appointed as a non-executive director in January 2008 retired from the Board at the end of January 2010 in order to take up a new role as Chief Retail Adviser to PricewaterhouseCoopers. The Board would like to thank Christine for her valuable contribution to the Company.

During the year a new Finance Committee was established to provide additional focus and review in respect of the Group's ongoing financial strategy. David Beever was appointed Chairman of the Committee which meets quarterly.

Employees

The last few years have been a period of major change for employees at Premier as a result of the rationalisation of the business following the acquisitions of Campbell's and RHM. Staff across the business have consistently shown great tenacity and determination to deal with this change.

Developing our people and delivering our plans and objectives is critical to the success of the Company and to help embed a common approach across the business we have developed the "Premier Way" which sets out what we believe are the most important attributes for our leaders, and this is now being embedded in the business.

In 2008 we launched our first Employee Recognition Awards to recognise and reward the significant achievements of employees across the Group. It is pleasing to note that over 100 entries were received and details of the winners, which were announced in June 2009, are set out in the employee section of this report. The second Employee Recognition Awards were launched earlier this year.

In February we opened the new Group-wide shared service centre in Manchester. This is the next step in integrating the many systems and processes inherited over the years as the Company has expanded. Significant progress is being made by the team there.

CSR

We have made important strides in the area of corporate social responsibility and for the first time have a produced a stand-alone CSR report which is available on our website www.premierfoods.co.uk. Key achievements in the year have been a 5.2% reduction in energy consumption and a 37.7% reduction in waste sent to landfill. Further information on our achievements can also be found in the CSR section of this report.

Looking Forward

There are indications that the UK economic outlook may now be improving slightly. Food inflation which has been a significant factor over the last couple years, whilst still above traditional levels, fell back in the final quarter of 2009. However, the outlook for consumers remains uncertain and the pressure on spending continues.

We believe that with the integration of the business now largely completed we can focus on our business model of growing branded sales, using our scale to deliver value to customers and gaining efficiency benefits from our supply chain.

In addition we have a full programme of product development for the coming year designed to help drive sales growth. I am confident that 2010 will be a year of significant progress for Premier Foods.

Finally, on a personal note, this will be my last report as Chairman of Premier Foods as I will be stepping down as Chairman following the appointment of a successor during the year. After six hugely enjoyable years with the Company, I have decided that this is an appropriate time for me to stand down.

In spite of the upheavals in the markets for the last three years, I am pleased to say we have adhered to our strategy of building a strong branded food company, capable of competing in a difficult marketplace. Following a series of acquisitions, integration is complete, finances are secure and a strong management team is in place. From this stable platform, I am confident the Group will deliver and I wish them well.

David J Kappler
Chairman

PREMIER FOODS

ALL YOU NEED TO KNOW

- UK's largest branded ambient grocery manufacturer
- UK's largest bread baker and flour miller
- A leading supplier of chilled food products
- A strategic focus on the UK and on growing our brands

. . . in this respect we are unique in the UK food industry

Category	Category Position 1	Category Position 2
Wrapped bread		*Hovis*
Ambient cake	*Mr Kipling*	*Cadbury*
Meat-free	*Quorn*	*Cauldron*
Ambient desserts	*Ambrosia*	
Ambient gravy	*Bisto*	
Asian meal solutions	*Sharwood's*	
Dried soup	*Batchelors*	
Dried noodles	*Batchelors*	
Pickles and relishes	*Branston*	
Baked beans		*Branston*
Preserves	*Hartley's*	
Jelly	*Hartley's*	
Ambient wet cooking sauces		*Loyd Grossman*
Stock		*Oxo*

Group at a glance

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

We supply a broad range of customers including the major multiple retailers, wholesalers, foodservice providers and other food manufacturers. Premier owns iconic British brands such as *Hovis*, *Batchelors*, *Mr Kipling*, *Quorn*, *Bisto*, *Ambrosia*, *Branston*, *Sharwood's*, *Hartley's*, *Loyd Grossman*, *Oxo* and many more. The business employs around 16,000 people and operates from over 60 sites across the UK and Ireland.

Three focused divisions

The Group is organised into three divisions:

Grocery
Comprising the shelf stable or "ambient" grocery products;

Hovis
Comprising wrapped bread, morning goods and bulk and bagged flour; and

Chilled
Comprising chilled and frozen Meat-free products and our retailer branded chilled ready meal and cake businesses.

Non branded products comprise retailer brand and business to business sales.

Grocery

59.1%
of total Group turnover

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

Key brands

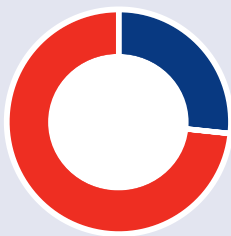
Batchelors, Mr Kipling, Bisto, Ambrosia, Branston, Sharwood's, Hartley's, Loyd Grossman and *Oxo*

Turnover	£1,574m
YoY sales growth	Total +4.8% Branded +5.4%
Trading profit	£256m
Employees	6,838

Branded mix

Branded
£1,153m
73.3%

Non branded
£421m
26.7%



Manufacturing sites

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

Distribution/Logistics centres

1 Long Sutton
2 Rugby

Ireland

1 Dublin

Hovis

27.9%
of total Group turnover

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

Key brands

Hovis, Granary and *Mother's Pride*

Turnover	£742m
YoY sales growth	Total -3.6% Branded +11.6%
Trading profit	£42m
Employees	6,179

Branded mix

- **Branded** £394m 53.1%
- **Non branded** £348m 46.9%

Bakeries

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

Mills

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

Depots/RDC

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

Chilled

13.0%
of total Group turnover

The Chilled division comprises Brookes Avana, our retailer branded chilled ready meal, cake and desserts businesses and our chilled and frozen Meat-free business.

Key brands

Quorn and *Cauldron*

Turnover	£345m
YoY sales growth	Total +3.9% Branded +1.6%
Trading profit	£25m
Employees	3,082

Branded mix

- **Branded** £131m 38.0%
- **Non branded** £214m 62.0%

Manufacturing Sites

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

Robert Schofield, Chief Executive

DELIVERING

OUR BUSINESS MODEL

"The Group's strategy remains unchanged. The Group has acquired a wide portfolio of well-known brands, many of which have leading positions in their markets, widespread distribution through a large number of customers and a scale advantaged supply chain throughout the UK. This forms the platform for growing our brands and generating future earnings growth."

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

Business Model

Now that the integration of the RHM and Campbell's businesses is behind us, we are focused on demonstrating our business model and on delivering organic growth over the next three years. Our business model to deliver this growth is:

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

Successfully delivering this model will drive sales growth, will improve gross margin, will increase operating profit and will enable us to reduce debt over the next few years.

Branded Sales

To drive branded sales growth, we will concentrate our investment into the areas with the greatest growth potential. We judge this potential by a combination of size and growth prospects of the category and the competitive strength of our brands.

Drive categories	We have identified five Drive categories which are large and in which we believe we can grow ahead of the market.
Core categories	We have identified four Core categories which have more moderate growth potential but in which we have strong market shares. We aim to grow in line with these markets.
Defend categories	The remaining Defend categories have lower growth prospects and our aim is to maintain our market position.

Our brand investment will be prioritised in relation to the competitive strength and growth prospects of the brands. The brands which we aim to invest behind in Drive categories are referred to as Drive brands. Other brands which will receive a more moderate level of investment are referred to as Core brands. Brands which will receive minimal investment are referred to as Defend brands.

Some brands in the Drive categories will play a supporting role, will receive less investment than other Drive brands and will be treated as Core brands. In addition, we have a number of smaller brands which, although they compete in the higher growth categories, are included within the Defend classification as, due to their size, they are less likely to receive significant investment.

The categories and brands are as follows:

We believe that we can grow volumes of Drive brands in total by at least 1 to 2 percentage points ahead of the overall category growth rates. We aim to grow Core and Defend brands in line with their markets.

Brand categories

Drive Brands
£840m
Core Brands
£400m
Defend Brands
£438m

63.1% of total sales

DRIVE CATEGORIES

Category	Size £m	3 year category growth rate		Premier brand	Premier's value share	Why this is a Drive category
		Value	Volume			
Bread	1,826	9%	0%	*Hovis*	26.6%	A very large category and we have the No. 2 brand.
Cooking sauces	1,041	7%	3%	*Sharwood's Lloyd Grossman*	18.1%	A fast growing, large category where we are the No. 2 manufacturer.
Cake	1,018	1%	-2%	*Mr Kipling*	26.9%	A large category where we have the largest brand. Growth opportunity in snacking and lunch box.
Ambient desserts	301	6%	1%	*Ambrosia Hartley's*	51.1%	Strong branded position with growth opportunity behind individual desserts/snacking and lunch box.
Meat-free	209	2%	0%	*Quorn*	66.8%	Strong branded position. Growth opportunity through increased consumption by vegetarians, meat reducers, healthy eaters and international expansion.
Total	4,394	6%	1%		28.2%	

CORE CATEGORIES

Category	Size £m	3 year category growth rate		Premier brand	Premier's value share	Why this is a Core category
		Value	Volume			
Convenience meals	298	6%	2%	*Batchelors*	44.8%	We have a strong share position.
Pickles and Relish	131	6%	0%	*Branston*	36.8%	We have a strong share position.
Gravy	126	3%	0%	*Bisto*	74.1%	We have a strong share position.
Stock	97	14%	12%	*Oxo*	38.8%	We have a strong, though contested, share position and the category is in strong growth.
Total	652	6%	2%		47.9%	

If the categories continued to perform in line with the last three years, we would in total expect to be able to grow our Drive brands by between 2% and 4% p.a. in volume, our Core brands in line with the market, i.e. at 2% p.a., and keep our Defend volumes flat.

We will use this categorisation of brands dynamically as market opportunities develop and hence brands may play different roles at different times. Using this brand architecture, we believe that in total we can grow our branded sales faster than the market.

Competitive advantage through scale

Premier Foods is the UK's largest supplier of ambient grocery goods. Our business model is to utilise this scale for competitive advantage. We believe we can use our scale to reduce costs and working capital by procuring more effectively. Our focus on the UK and our presence in a broad range of categories gives us a deep insight into consumer trends in British food. This insight enables us to work closely with customers as their chosen category development partners across our priority markets. We are currently lead category partner across Drive and Core categories in several major customers working with them on recommendations regarding range, space, merchandising and promotional strategies.

The Group also has scale in retailer branded and business to business products. These businesses are an important element of the strategy as they utilise capacity, contribute expertise in product innovation, help to build relationships with customers, enhance buying scale and contribute towards overheads.

Over the last three years, the retailer brand categories in which we compete have declined by 1% in volume. The objective is to generate sales in line with total retailer brand performance in the relevant categories over the medium term. Nevertheless, sales in any one period are likely to be more volatile given periodic contract gains and losses as we seek to manage the best balance between profit and retailer brand sales volumes.

Improve efficiency

We have integrated the RHM and Campbell's supply chains into our Grocery business and have delivered synergies as a result. The next stage of the strategy is to extract organic efficiency savings from the restructured footprint. We believe there are substantial opportunities to achieve benefits not only from raw material procurement but also from supply chain operations. Manufacturing controllable costs in Grocery were £273m in 2009. This includes direct labour, overheads, wastage and logistics. Our aim is to deliver efficiency savings of around 4% p.a. from these controllable costs. We believe that this will exceed not only overhead inflation in a normal year but also the variable costs of incremental volume. We will also continue to improve our customer service, technical and health and safety standards which will add further to competitive advantage.

Our support functions are already relatively low cost with the integration programme having focused on removing duplication. The acquired business processes and systems have, however, largely been retained. The implementation and roll-out of SAP is beginning to enable more efficient and effective business processes, and will give us greater scope to improve the agility of the business and reduce administrative costs over the next three years.

01 *Hovis* is the second largest bread brand and the sixth largest food brand in the UK.

02 2009 saw a new TV ad campaign for *Loyd Grossman* putting his Bolognese sauce to the test in Bologna, the city where the original sauce was created.

03 *Oxo* launched a new X-shaped cube in 2009, the brainwave of a project engineer from the Worksop factory.

These are the two areas in which there is the greatest potential for efficiencies but we will strive for efficiencies throughout all our businesses.

Cash generation

In recent years, the operating business cash flows have been absorbed by acquisitions and by costs of integration and restructuring. The major projects are largely complete. Our priority now is to execute the business model outlined above enabling us to deliver not only sustained earnings growth but also increased cash generation. This will enable us to reduce our financial obligations.

Divisional Strategy

Grocery

Within the Grocery division, we have a large portfolio of brands with a strong presence in a range of ambient food categories.

In our Drive categories, we believe the biggest immediate opportunities lie in cooking sauces & accompaniments, desserts and cake.

With cooking habits increasingly moving towards the convenience of cooking with pre-prepared sauces combined with fresh ingredients, we believe there is ample room for further growth of the market. *Loyd Grossman* provides a high quality product in Italian, Indian and Thai cuisine. *Sharwood's* is the voice of authoritative discovery in Asian meals, cooking sauces and accompaniments.

Although the cake category has been in decline over the last three years, we believe that within both cake and dessert categories there are rapidly growing sub-categories comprising individual ready-to-eat formats such as sweet snacks or treats for one or as components of a lunch box. *Ambrosia*, *Hartley's* and *Mr Kipling* are ideally placed to accelerate the growth in these sectors.

In Core categories we include dry convenience and express meals, in which we lead with the *Batchelors* brand, pickles, chutneys and relishes where *Branston* is the market leader, and gravy and stock in which we compete with *Bisto* and *Oxo* respectively.

The remainder of the Grocery business is non branded including retailer brand and business to business sales. These businesses utilise capacity, help to build relationships with customers, enhance buying scale and contribute towards overheads.

Hovis

Our vision is to make *Hovis* the biggest and most loved brand in bakery. The strategy is focused around *Hovis*, as a Drive brand, being the best quality bread available and developing advertising which connects emotionally with the UK consumer.

This strategy has succeeded in increasing market share to 26.6% of the branded bread market in 2009. The strategy from here is to continue to innovate in the bakery category. Working in conjunction with farmers we have now sourced high quality red wheat from the UK to enable us to replace wheat which would have otherwise had to be imported. As a result, in 2010, our branded range will be made from 100% British wheat. These and other product launches should continue to improve the brand image and drive growth. Growth is also available from expanding in segments of the market in which *Hovis* is underrepresented such as white bread.

Retailer brand bread and bakery goods utilise capacity, enhance relationships with customers, add buying scale and contribute towards overheads.

Our Milling business contributes to innovation in Hovis bakery and provides expertise in the supply of specialist flour. A profitable business, its sales revenue is, by nature, volatile as pricing directly reflects input costs.

The bread market continues to be competitive with a high cost distribution model. We believe the industry business model needs to change in the medium term. In the meantime, we believe that the appropriate strategy is to encourage customers and consumers to value the *Hovis* brand above others and to continue to grow the brand. In this way we should be able to maximise volume through the existing supply chain. In recent years, we have invested in modernising our supply chain to support the improvement in product quality and volume of sales. In future, we will focus on improving supply chain efficiency to mitigate cost inflation. Further investment in the infrastructure will be made from within the Group's normal capital budget.

Chilled

The Chilled division comprises the branded Meat-free business and the largely retailer brand Brookes Avana chilled ready meals and cakes business.

In Meat-free, *Quorn* and *Cauldron* are two major brands within the meat alternative market providing a range of products using mycoprotein and tofu respectively. *Quorn* is a Drive brand as we believe that it has significant potential in the medium term. The core consumer who does not eat meat has many occasions on which *Quorn* can fulfil his or her needs. We intend to focus on this market in the first half of this year. The most significant opportunity is to tap into those consumers who want to eat less meat for reasons of health concern or lifestyle choice. *Quorn* is a healthy alternative to meat and we are working on plans to communicate this later in 2010. We are still committed to expanding the brand in overseas markets. *Cauldron* will be repackaged in the spring and improvements made to the product which we believe will realise the growth potential for this brand.

Brookes Avana has three excellent facilities manufacturing retailer brand and branded ready meals and cakes. The industry is very competitive due to spare capacity. However, Brookes Avana has a well-developed set of innovation and new product development processes and, in tandem with its strong customer relationships, is well placed to use its breadth of expertise to deliver further progress in the future.

Robert Schofield
Chief Executive

01 *Bisto* granules coming off the production line in Worksop. *Bisto* is used in 1.6 bn meals each year.

02 A new TV ad campaign began in September to support the launch of *Ambrosia* "feel good puds".

MARKETPLACE

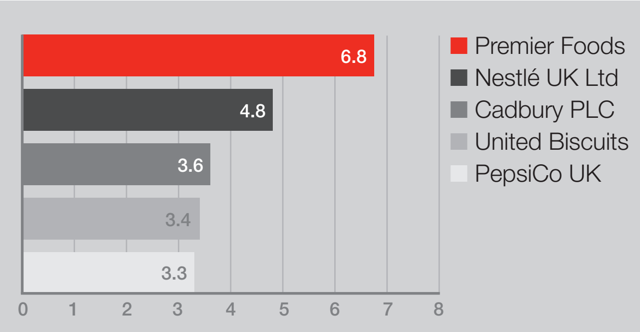
Markets

The UK Grocery Market proved resilient despite the recessionary environment in 2009 and pressure on consumer spending. The total UK Grocery Market is worth £65.8bn and grew 4.8% in 2009. Branded sales outpaced retailer brands with value growth of 7.0% compared to 3.3%.

Premier operates in the Ambient Grocery sector and is the UK's largest manufacturer in this segment with a 6.8% share of the £25.0bn market.

major UK retailers. Our Foodservice business sells to local authorities (schools and hospitals), staff canteens, restaurant and pub chains largely through intermediate wholesalers. Our mills produced over 1 million tonnes of flour in 2009, 52% used by the business and the remainder sold to other food manufacturers. In addition, we supply retailer branded chilled ready meals, cakes and pizza bases to a number of leading food service retailers.

Our share of the £25.0bn UK Ambient Grocery Market%



Sales split by customer

Our principal market is the UK, accounting for 93.9% of sales in 2009.

Customers

We sell both branded and non branded products to a wide range of customers. Our most significant customers are the

03 In December the *Hovis* "Go on Lad" TV advert was voted ITV "ad of the decade".

Competitors

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

Hovis' principal competitors in the wrapped bread and morning goods markets are Warburtons Ltd and Associated British Foods plc (Kingsmill). The principal competitor in the bulk flour market is ADM Milling Ltd. Within the chilled market our principal competitors are Northern Foods plc, Bakkavor Group h.f. and Greencore Group plc.

CONSUMERS

CONSUMERS AND SHOPPERS ARE AT THE HEART OF EVERYTHING WE DO

99.4% of British households bought our brands last year

With our brands spanning many categories and our focus on the UK, we have the opportunity to make consumer and shopper insight a competitive advantage.

Our consumer and shopper manifesto

We have developed a Consumer and Shopper Manifesto designed to help all of our people — from new product development through to sales — to put consumers and shoppers at the heart of everything we do. The manifesto has eight simple principles . . .

1 Focus on the nation's favourite foods

Concentrate on the meals that most people eat, most of the time.

Our research shows that UK households have on average a repertoire of just six or seven meals that are cooked on a regular basis. The most popular meals tend to be traditional favourites such as roast dinners, pasta, pizza, fish and curry and don't change much over time. We will not single-handedly change how Britain eats so we will focus innovation within the most popular dishes to help consumers and shoppers have the best experience they can from the food they already eat every day.

2 Look and taste delicious

Look great in advertising, in the store and on the plate and really deliver on taste.

Above anything else, people want their food to taste great and if it does they will come back for more! We will regularly test our products with consumers so that we know they are the best in market. Our brands need to look good too, including the packaging, the way they are displayed in store, how they look in our communications and ultimately when they are on the plate or in the bowl.

3 Be natural and wholesome

Striving for natural food, free of artificial ingredients, as part of a healthy balanced diet.

People are more aware than ever of what is in their food and where it comes from — they are re-connecting with food. As Britain's largest food manufacturer we understand our responsibility to make our products as natural and wholesome as possible. We will look to minimise artificial ingredients or preservatives and we will review our levels of salt, sugar and fats. We want ingredients lists to be as simple as possible using ingredients that people understand.

4 Make food easy

The right size, the right shape and easy as 1, 2, 3.

Many consumers find life busier and busier so they value products that save them time and energy. We will provide food products that require little or no preparation such as *Ambrosia* Crumble Puds and others that will help people create good meals with little effort such as our cooking sauces range. Our products will be easy and intuitive to use, we will provide the right size packs for all households and the right shape packs to easily fit in the fridge or the cupboard.

5 Shine in store

On shelf, easy to find and attention grabbing.

A typical UK supermarket has 30,000 different products on display. Many shoppers shop on "autopilot" so we need to make sure that our products stand out on the shelves whether through eye-catching colour, unique shape or via Point of Sale materials. To help us "shine in store" we must ensure our products are always on the shelves when the shopper is choosing. We will work with our customers to make it easy to find our categories within the store and to offer shoppers helpful ideas for food at a relevant moment in their shopper journey.

6 Offer genuine value for money*

Good food that goes a long way; something that everyone can afford.

There are few shoppers who are not concerned about looking after their finances in the current economic climate and they want to get great value for the money they spend. This is of course about quality, but also the right price and the promotional context. Many of our products are ambient, reducing waste and further improving value.

* Premier Foods can only recommend to the retailer a price to be paid by the shopper. The actual price paid is always independently set by the retailer.

7 Do the right thing

Treating people and the environment responsibly.

Environmental and ethical issues are increasingly important to consumers and shoppers but for many deciding what is the right thing to do can be confusing and complex. Research has shown that consumers and shoppers will look to governments and manufacturers to help them and as the UK's largest food producer, we recognise our responsibility. We need to ensure that consumers and shoppers can make the right choices by communicating the good things we are doing through our brands, such as moving to sourcing 100% sustainable Palm Oil through the GreenPalm Certification Scheme.

8 A brand you love

Forming an emotional bond between our brands and consumers.

Many of the Consumer and Shopper Manifesto 'principles' are rational and practical but a final critical element is that consumers maintain an emotional bond with our brands. We understand what it is about our brands that people love and we will continue to engage our consumers in modern and relevant ways.

Putting the manifesto into practice

By combining these attributes we can have a real impact with consumers and shoppers as seen by the *Loyd Grossman* Bolognaise launch in April 2009.

- Firstly we focused attention on Spaghetti Bolognaise, this is the seventh most popular meal eaten by British households — eaten on 165 million separate occasions. So we focused on the "nation's favourite foods".
- Secondly the *Loyd Grossman* Bolognaise sauce recipe was reviewed, tested and improved. So we "tasted even more delicious".
- Thirdly a new family size jar was launched, "making food easy" for families.
- Finally the product was supported by a new TV ad campaign ("a brand you love") and a very well-executed in store programme of promotions, displays and point of sale helped us "shine in store".

This has helped the *Loyd Grossman* brand to the most successful year in its history. *Loyd Grossman* sales grew by 20% in 2009 and our sauces were enjoyed in over 2 million more households than in the previous year.

GROWING
OUR BRANDED SALES

Brand stretch

Branston brings a tasty twist to Mayo

March saw the latest innovation launch from *Branston* as *Branston Mayo with a Twist* hit the supermarket shelves.

The biggest launch from *Branston* since the introduction of the successful Relish range, *Mayo with a Twist* sees *Branston* diversifying once again into a completely new market.

Flavoured mayonnaise is still in its infancy, currently accounting for just 6% of the category. However, it is growing at a massive +96% year on year, and *Branston* plans to invigorate the sector by becoming a key player in the market.

Kelly Pym, marketing manager for *Branston*, said: “Foods that have been neglected, such as baked beans and relish, have now been rejuvenated by adding some *Branston* ‘oomph’. We are confident that this new activity in the mayonnaise sector will deliver the excitement the category needs and add incremental growth by providing what consumers want — an innovative new angle on a much-loved product.”

Expanding existing markets

Loyd Grossman Al Forno Bakes

The launch of *Loyd Grossman* Al Forno bakes is a great example of how we can expand an existing market by making our products more relevant to consumers.

Al Forno bakes fill the gap in the market for two person oven bake meals that appeal to food connoisseurs and deliver “real meal solutions to foodies”.

The Italian bakes market is worth £23m and is growing 21% year on year.

Matt Brown, head of marketing for sauces, said: “Consumers are always looking for simple ways to cook creatively; the quality of *Loyd Grossman* sauces make it the perfect brand to cater for this consumer, and we are also broadening the market offering through the introduction of roast potato and vegetable bakes.”

This helped *Loyd Grossman* to achieve its highest ever sales of £42m in 2009, up 20% year on year.

January	February	March	April	May	June

One of the key elements of our business model is to grow sales of our Drive and Core brands faster than their respective markets.

To do this we will focus on:

- Using product **innovation and quality** to take market share from competitors
- **Stretching our brands** by expanding into new categories
- **Expanding existing markets** by increasing the frequency of purchase
- Leveraging our brand equity through **brand rejuvenation**

Brand innovation

Ambrosia "feel good puds"

Ambrosia is another example of where we are expanding the market by making products more relevant to more eating occasions.

There are an estimated 4 billion lunch box occasions a year worth a total of £5.39bn and this category is growing by 5.1% year on year.

New *Ambrosia Puds* were launched in August 2009 to reinvigorate ambient desserts with a new range of everyday complete desserts. Designed to meet consumers' needs for lunch box, after dinner and pick-me-up occasions.

Two delicious combinations *Crumble Puds: Ambrosia* Devon creamy custard and apple, peach or rhubarb fruit compote with crumble on the side and *Jelly Puds* which combine jelly with *Ambrosia* Devon custard on the side.

With less than 5% fat they can be enjoyed hot or cold and like the rest of *Ambrosia*, contain no artificial colours, flavours or preservatives.

This has helped *Ambrosia* reach sales of £83m in 2009, up 9.2% year on year.

Brand rejuvenation

Hovis "renaissance"

2009 saw continued success in the rejuvenation of the *Hovis* brand.

Acquired in 2007, *Hovis* was in market share decline having suffered from underinvestment and poor quality.

We made a significant investment in recipe improvements which have improved quality and taste. The range was also boosted by an increased product range and new packaging. Following the highly successful TV advertising campaign launched at the end of 2008 we have now returned *Hovis* to market share growth.

During 2009 *Hovis* achieved a total branded market volume share of 25.8%, an increase of 3.7pp over the year.

As part of the continuing innovation taking place within the bakery category *Hovis* announced in December 2009 the intention to move to sourcing flour milled from 100% British wheat across its entire range — the first major British bread brand to do so.

July | August | September | October | November | December

Robert Schofield, Chief Executive

FOCUSING

ON BRANDED SALES GROWTH

"Premier Foods achieved a tremendous amount in 2009. We strengthened our balance sheet, cut debt, increased Trading profit and returned to positive earnings. Most importantly, we improved the performance of all our key brands in a highly competitive marketplace."

Set out below are our plans and ambitions for the next chapter in the successful growth of the business. We are laying out a series of key metrics for the next three years and providing an even greater degree of transparency as befits a business of our scale.

We are confident that our business model is capable of continuing to capture share in our key market segments and delivering sustained earnings growth and cash generation over the medium term. We look forward to the next stage of the Group's development with determination and enthusiasm.

Summary

	2009	2008	09 v 08 %
Branded sales (£m)	**1,678**	1,576	6.5
Total sales (£m)	**2,661**	2,604	2.2
Branded market share — volume (%)	**22.2**	20.5	1.7pp
Branded market share — value (%)	**24.7**	24.2	0.5pp
Trading profit (£m)	**323**	309	4.5
Profit before tax (£m)	**47**	(405)	
Adjusted EPS — continuing (pence)	**5.8**	14.4	(59.7)
Pro forma adjusted EPS (pence)	**4.7**		
EPS — continuing (pence)	**1.9**	(41.3)	
Cash flow before non-recurring items (£m)	**60**	104	(42.3)
Net debt (£m)	**1,365**	1,767	22.8
Net debt/EBITDA (times)	**3.6**	4.9	1.3

Sales

	2009	2008	09 v 08 %
Branded (£m)	**1,678**	1,576	6.5
Non branded (£m)	**983**	1,028	(4.4)
Total sales	**2,661**	2,604	2.2
Total branded sales (%)	**63.1**	60.5	2.6pp
Branded market share in grocery			
Volume (%)	**19.2**	18.8	0.4pp
Value (%)	**22.4**	22.7	(0.3)pp
Hovis branded market share in bread			
Volume (%)	**25.8**	22.1	3.7pp
Value (%)	**26.6**	23.7	2.9pp

Adjusted EPS is defined as: Trading profit less net regular interest payable, less a notional tax charge at 28.0% (2008: 28.5%), divided by weighted average number of ordinary shares of the Company. Net regular interest payable is defined as net interest after excluding non-cash items, namely exceptional write-off of financing costs, accelerated amortisation of debt issuance costs, fair value adjustments on interest rate swaps and the unwind of the discount on provisions.

Pro forma EPS shows what the Adjusted EPS would have been if the issue of shares and associated refinancing had been in place for the whole of 2009.

Total sales increased by 2.2%. Volume contributed 1.8% to sales growth with price and mix contributing 0.4%.

Branded sales increased by 6.5% to £1,678m and now account for 63.1% of total sales, an increase of 2.6pp on 2008. Branded sales growth was recorded in Grocery, Hovis and Meat-free. Market share for the Grocery division increased by 0.4pp to 19.2% by volume as a result of innovation and promotional activity. Market share fell by 0.3pp to 22.4% by value as the higher volumes were offset by the effect of increased promotional activity on net prices. Premier's value share across Drive and Core grocery categories, however, grew by 0.1pp to 30.8%.

Market share for the Hovis division increased by 3.7pp to 25.8% by volume and by 2.9pp to 26.6% by value as a result of increased volumes and additional distribution.

Branded Sales

	2009 £m	2008 £m	09 v 08 %
Hovis	349	303	15.2
Mr Kipling	132	128	3.1
Quorn	118	113	4.4
Ambrosia	83	76	9.2
Sharwood's	62	59	5.1
Hartley's	54	46	17.4
Loyd Grossman	42	35	20.0
Subtotal — Drive brands	840	760	10.5
Batchelors	132	122	8.2
Bisto	96	94	2.1
Branston — pickles and relishes	40	31	29.0
Branston – beans	34	22	54.5
Cadbury cakes	60	59	1.7
Oxo	38	37	2.7
Subtotal — Core brands	400	365	9.6
Defend brands	438	451	(2.9)
Total branded	1,678	1,576	6.5

Drive brands grew by 10.5% to £840m. In cooking sauces, *Sharwood's* and *Loyd Grossman* both recorded growth ahead of their markets through co-ordinated programmes of innovation, advertising and promotional activity. In desserts, *Ambrosia* and *Hartley's* benefited from new product development in individual desserts. In cake, *Mr Kipling* grew despite a decline in the market. *Hovis* grew 15.2% as it took market share in the bread market. Core brands grew by 9.6% to £400m. Defend brands declined by 2.9% to £438m.

Non branded Sales

	2009 £m	2008 £m	09 v 08 %
Grocery	421	408	3.2
Hovis	348	417	(16.5)
Chilled	214	203	5.4
Total	983	1,028	(4.4)

Non branded sales, which comprise retailer brand, business to business products and Milling, were down by 4.4%. In the Grocery division, non branded sales increased by 3.2%. In retailer brand, the increase reflected volume gains of pickles & condiments and spreads. In canning, volumes were down 4.1% which reflects the depressed volumes in the market and the loss of a material retailer brand contract in Q3 of 2009. The volume

Case Study

Trading scale and position

Our scale delivers competitive advantage with retailers

The UK Grocery Market is worth £65.8bn and grew by 4.8% in 2009. We operate in the Ambient Grocery sector which is worth £25.0bn. This makes it a very important sector to retailers.

Premier Foods is in a unique position as the UK's No. 1 Ambient Grocery supplier covering more categories than the majority of our competitors. This means we can bring a broad perspective and a breadth of knowledge across the Ambient Grocery sector that our competitors can't match, helping both Premier Foods and retailers maximise their return. We have conducted extensive research to develop individual category strategies and therefore understand how they fit into the Grocery market as a whole.

We are now working with major retailers to define an overall Ambient Grocery strategy. This strategy aims to improve the shopping experience, through enhanced layout, range, and availability of products, the use of signage and shopper marketing.

01 Premier employs chefs across the business to develop new and exciting products and improve existing recipes.

02 *Oxo* cubes on the production line at our Worksop factory.

loss was partially offset by a favourable mix of other contracts and pricing. Sales to catering customers had a quieter year with lower demand as consumers ate out less frequently.

The main area of non branded decline was in Hovis where sales of retailer brand bakery products were down 15.6% reflecting a retailer brand bread market down 11% and the exit from certain contracts. The volume lost by this decline was more than offset by increased volume of branded bread.

In Milling, sales revenue was down 17.6%. In volume terms, however, sales were down only 2.4% with price deflation accounting for the remaining 15.2%. This has little effect on profitability as the cost of raw materials is similarly reduced.

In the Chilled division, non branded sales increased by 5.4% driven by new contracts and product lines.

Outlook

The Group has made progress during 2009 in developing its strategy of growing branded sales and in expanding gross margin through the benefits of consumer insight and scale. We shall continue this development in 2010 and we expect to deliver efficiency savings over and above the synergies already delivered. Furthermore, these efficiencies should be deliverable without material access costs.

In 2009, much of the benefit of the strategy was absorbed by inflation in input costs and by a tougher consumer and trading environment which drove higher promotional costs. We are confident that 2010 will be a successful first step of a three year journey of demonstrating the strategic direction of the business and of generating cash. We will therefore prioritise actions which are consistent with that three year journey.

We remain cautious about the consumer and trading environment for 2010. But, assuming no further adverse change in that environment, we expect the benefits of the strategy to result in further progress in 2010.

Robert Schofield
Chief Executive
9 March 2010

Hovis gives it 100%

In December 2009 *Hovis* announced it will be backing British farmers and moving to flour milled from 100% British Wheat across its entire range — the first major British bread brand to do so.

Launched in early 2010, the move, which represents a multi-million pound investment, comes as part of the brand's continuing "renaissance", which began with its award-winning "Go on Lad" advertising campaign and packaging re-brand in September 2008.

Hovis has been growing a strain of Canadian Red wheat here in Britain for the past five years in trials and now has over 600 farmers across Great Britain growing wheat for *Hovis* loaves. This is the equivalent to one in eight British wheat fields being grown for *Hovis*.

NFU President Peter Kendall said: "It is fantastic news that *Hovis* will be committing to source 100% of its wheat from Britain from next year. This shows real commitment to UK farming and its skill, professionalism and reliability, by a well-known and respected UK company."

Jon Goldstone, Marketing Director at *Hovis* said: "We used to import £18m worth of Canadian wheat, £18m which will now go to British farmers. This is a significant amount of cash. *Hovis*' move to 100% British will not only be a good deal for farmers. The new strain of wheat means a tastier, better quality, all-British *Hovis* loaf — without any price rise for consumers."

Grocery

IN 2009 GROCERY SUCCEEDED IN GROWING BRANDED SALES THROUGH INNOVATION AND ADDED TO GROSS PROFIT BY BETTER PROCUREMENT EFFICIENCY

- ***Branston* sales up 40% — Mayo with a Twist launched**
- ***Loyd Grossman* sales up 20% — Al Forno range launched**
- ***Ambrosia* sales up 9% — Crumble Puds and Fruit Pots launched**
- ***Mr Kipling* sales up 3% — new Halloween, Summer, Easter and Valentine variants launched**
- ***Sharwood's* sales up 5% — Biryani Spice & Sauce launched**

Grocery

	2009 £m	2008 £m	09 v 08 %
Branded sales	1,153	1,094	5.4
Non branded sales	421	408	3.2
Total sales	1,574	1,502	4.8
Trading profit	256	251	2.0
Volume market share %	19.2	18.8	0.4pp
Value market share %	22.4	22.7	(0.3)pp

Sales for the Grocery division increased by 4.8%. We saw good branded sales growth of 5.4% with branded sales rising to £1,153m. Non branded sales were up by 3.2% to £421m.

Will Carter
Managing Director
Grocery Division

Branded sales volumes increased by 3.5% with price and mix contributing 1.9%. Individual desserts grew strongly contributing to a 7.7% increase by volume and 9% increase by value in our desserts business. Sales also grew in our spreads and cake businesses but declined in our homebaking business. Sales grew 11.6% in cooking sauces and 21.5% in pickles helped by the successful launch of *Branston* Mayo and new Relish products.

Retailer brand sales were up 3.2% in the year with volume decline reducing sales revenue by 5.3% but this was more than offset by price and mix which contributed 8.5%. The loss of volume was largely in the canning business in the second half of the year. Firstly, a material retailer brand contract was lost in Q3. Secondly, the market for retailer brand goods was down as promotions on branded goods and increases in retailer brand market pricing caused consumers to switch away from retailer brand products. This effect was particularly marked in canned soup where total retailer brand sales in the category were down 10%. These two effects are likely to mean that Grocery non branded sales revenue will be lower in the first half of 2010 than in the first half of 2009.

We have seen an improved performance in Ireland during the second half of 2009. The decline in sales seen earlier in the year has been significantly reduced and our brands are gaining market share. The Irish grocery retail sector has continued to adapt to the difficult economic environment with a substantial increase in sourcing directly from the UK coupled with a move to more centralised distribution. We commenced restructuring our business in Ireland to reflect these changes in 2009 and anticipate that further restructuring may be required as the retail sector continues to adapt.

Trading profit increased by 2% to £256m.

Higher sales volumes and a superior product mix, with branded sales growth outstripping non branded growth, added £8m to profit. Our strategy of improving procurement efficiency added a further £28m to profit.

In the year, input costs increased reflecting commodity markets and weaker sterling. A combination of pricing partly offset by higher promotional cost was not able to recover all the additional costs and the business incurred a net cost of £30m.

The increase in promotional costs was driven by two factors. Firstly, there was an increase in the level of deal activity across all grocery markets, with retailers competing to offer value during the recession. Grocery ranges saw 30% of volumes sold on deal in 2009 versus a more normal rate of 28% seen in 2008 and prior years. In total, this market level of promotions is a cost that the business has to absorb and does not, in aggregate, drive volume given that it has been a market-wide increase. Secondly, we increased promotional spend on particular Drive and Core brands to drive household penetration and market share and to support new product launches. This succeeded in driving market share gains in categories such as cooking sauces, desserts and gravy and helped achieve good sales for new products. We judge these investments over a number of years and we are confident that they will continue to generate increased sales in future periods.

24 million Sharwood's curries eaten each year in Britain

01 Our *Sharwood's* chefs went on location in March 2009 to Sri Lanka, China and Malaysia for a TV ad campaign launching the new range of *Sharwood's* sauces.

There was a £6m net cost as a result of increased manufacturing costs. Savings were realised from closing factories. These savings were offset by inflation, notably in utilities and by initially high running costs as the new processes were commissioned in the factories receiving the products previously made in the factories which were closed. In the second half of the year, we saw increasing efficiencies of the new lines and processes, which we expect will lead to ongoing savings.

There was a £5m improvement in operating expenses comprising lower administration costs offset by additional investment in marketing. The additional marketing costs of £6m were incurred to support driving market share and the new product launches. We expect this cost to continue to increase in the future as we refresh our brand ranges. Administration costs benefited from synergies and lower pension service and bonus costs.

In conclusion, in 2009, Grocery succeeded in growing its branded sales, added to sales through innovation and added to gross profit by better procurement efficiency. With delivery of further efficiencies now enabled, we are confident of making further progress in 2010.

Hovis

WE HAD A VERY SUCCESSFUL YEAR IN 2009 WITH STRONG BRANDED GROWTH AND INCREASED TRADING PROFIT UP 75% TO £42m

- *Hovis* branded volume market share increased by 3.7pp year on year to 25.8%
- *Hovis* branded bread sales up 15.2% on 2008
- *Hovis* "Go on Lad" TV advert voted ITV "Ad of the decade"
- *Hovis* won *The Grocer* magazine's Top Product of 2009 with the strongest sales growth of any grocery brand

£m	2009 £m	2008 £m	09 v 08 %
Branded bakery	370	326	13.5
Retailer brand bakery	179	212	(15.6)
Total bakery sales	**549**	538	2.0
Milling	193	232	(16.8)
Total sales	**742**	770	(3.6)
Trading profit	**42**	24	75.0
***Hovis* branded volume market share %**	**25.8**	22.1	3.7pp
***Hovis* branded value market share %**	**26.6**	23.7	2.9pp

Tim Kelly
Chief Operating Officer, Hovis and Chilled

Branded bakery sales grew 13.5% to £370m. Sales benefited from growth in white loaves where *Hovis* has traditionally had a lower market share. Growth also came from increasing distribution of existing products. During the year we continued to improve quality and as a result consumer perception of the brand is more favourable. The quality improvements and the innovations are significantly aided by our Milling operation.

Hovis branded volume increased by 15.9% contributing to a 3.7pp increase in volume market share. This volume was partially offset by pricing and mix as the proportion of bread sold on deal was higher in 2009 than in the previous year. As a consequence, market share in value terms increased by 2.9pp to 26.6%.

In retailer brand bakery, the majority of the fall in sales reflected an 11% fall in the market for retailer brand bread as consumers switched to branded bread as increased promotional activity improved value. The remainder of the 15.6% fall in sales was due to the expiry of certain contracts. In total the volume of bread grew by 4.9%.

In Milling, pricing is closely related to raw material costs. The decline in wheat cost in 2009 was thus largely mirrored in flour sales value. Volumes were down 2.4% owing to the withdrawal from certain contracts.

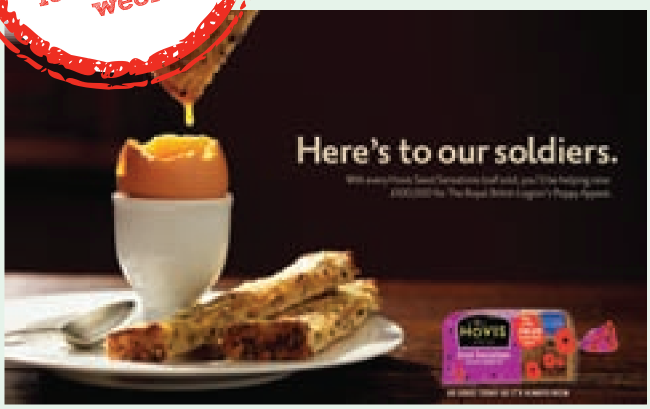
The combined effect of the additional volume in bread and of the improved mix of product in Bakery and Milling was a £14m increase in profit.

The combination of pricing, promotion and inflation in manufacturing costs was offset by lower input costs and efficiencies in manufacturing and this added £13m to profit.

Of this additional profit, £9m was invested to bring on stream additional capacity to cope with the higher bread volumes and to improve quality. These additional costs are ongoing

and are important in modernising the infrastructure to support the strategy. Further updating of the infrastructure will be required in the next few years. This will be funded from within the normal capital expenditure budget.

In conclusion, Hovis had a very successful year growing Trading profit by 75% to £42m. Branded growth was very strong and considerable investment was made in additional capacity and product and manufacturing quality. We remain confident of making further strategic progress with the brand in 2010. However, we expect competition to be fierce in 2010 as our competitors respond to our successes in 2009.



01 *Hovis Seed Sensations* raised over £130,000 for the The Royal British Legion, including £12,500 raised by Premier employees.

Case Study

Best in class common processes and systems

Hovis Track and Trace

Premier Foods has invested significantly in a new Track and Trace application within the Hovis division. The system utilises bar-code scanning technology, managed by the SAP application, to track products from production, through the distribution chain, using a set of complex but simple to operate rules.

Hovis produce approximately 18 million baked products each week. In some instances a complex cross docking operation will result in bread being moved via a number of sites. All this has to be done within a 24 hour window to ensure that product is delivered fresh to stores nationwide.

With 22 distribution sites, 13 of which are also bakeries, and just under 1,000 product types, this is a complicated logistics picture, involving around 2,000 employees.

Prior to Track and Trace this was a largely manual operation, requiring individual decisions about where to send product, with limited management visibility. Through the introduction of Track and Trace we have been able to increase accuracy and consequently improve service to our customers. Track and Trace also considerably enhances the traceability of product, which is an increasingly important priority.

Chilled

- Brookes Avana sales growth from contract wins in Italian meals and Christmas puddings
- *Loyd Grossman* chilled pizzas launched
- *Quorn* sales up 4.4%
- Restructuring of Meat-free business under way to improve efficiency

	2009 £m	2008 £m	09 v 08 %
Brookes Avana	**214**	203	5.4
Meat-free	**131**	129	1.6
Total sales	**345**	332	3.9
Trading profit	**25**	34	(26.5)

The Chilled division comprises the retailer branded chilled ready meals and cake businesses and the Meat-free business incorporating the *Quorn* and *Cauldron* brands. The businesses are aggregated and reported as the 'Other' reporting segment in the notes to the financial statements.

In the year, sales for the Chilled division increased 3.9% helped by new contracts and new product development in Brookes Avana.

Meat-free sales increased 1.6%. *Cauldron* sales fell 20.3% as the market for premium and organic products fell. *Quorn* sales increased 4.4%, a good result for a premium priced product in a recessionary environment, but sales uplifts from upweighted promotional activity were lower than expected. Consequently, we took the decision to prioritise profit and hence pulled back on promotions in quarter four. As a result, gross profit was lower in 2009. In 2010, we plan to refresh both the *Quorn* and *Cauldron* range of products.

There was an increase in costs as a result of problems in the Meat-free manufacturing and packing operations. In the first half of 2010 we intend to address the supply chain issues by contracting-out more of the operations. This will result in a further charge for restructuring the supply chain in the first half of 2010.

An increase in gross profit as a result of the higher sales was offset by the higher operating expenses leaving Trading profit down 26.5%.

01 *Quorn* expanded its range of lunch and snacking options in 2009 with the launch of a new range of products including *Quorn* Mini Sausage Rolls and *Quorn* Sliced Tikka fillets.

02 *Quorn* burgers on the production line at our site in Stokesley.

Competitive advantage through industry leading procurement

Our central Procurement team controls over £1.5bn of spend with specialists covering every category area including machinery, facilities, engineering, energy, packaging, ingredients, marketing and all corporate spend to name but a few. They cover over 26,000 ingredient and packaging items and approaching £500m of indirect spend, through over 7,000 suppliers.

A key achievement this year has been to reduce the active number of suppliers by over 16% and grow our total spend through our top 250 Strategic and Preferred suppliers to over 78% of our total. The team have industry leading tools at their disposal, including an e-sourcing and contract suite and have this year e-sourced over 23% of their spend.

Comprehensive risk management processes are in place to safeguard business continuity in respect of ongoing supply and there is also renewed focus on leveraging the innovation resources of our supply base.

Jim Smart, Chief Financial Officer

REPORTING
ON OUR PROGRESS

"In order to demonstrate the delivery of the business model, we will give more disclosure of the way the business operates and of the key metrics which we are using to monitor the progress of the strategy."

Introduction

We intend to use the same format for reporting each period in the future so that progress can be judged.

The key changes are:

- Within our segments we will show separately branded and non branded sales. We will describe the drivers of growth and show sales growth against the respective markets.
- We will illustrate the effect of the growth in branded sales and of the benefits of scale by describing the development of gross margin percentage.
- We will show the efficiency of the operations by analysing the progression of controllable costs.
- Up to 2009, the Group was incurring a large amount of spend for restructuring and investment in the business. These, along with costs of integration, were treated as Exceptional items and excluded from Trading profit. Integration is now complete and the level of restructuring is now likely to run at a normal level of £10m to £15m a year. From 2010, we will include the costs of restructuring and investment within Trading profit.
- Finally, we will also increase our disclosure of debt and related financing matters.

01 One of the canning lines at our factory in Long Sutton.

02 We sell over 110 million *Mr Kipling* French Fancies every year.

Trading profit

	2009 £m	2008 £m	09 v 08 %
Sales	2,661	2,604	2.2
Cost of sales	(1,852)	(1,806)	(2.5)
Gross profit	809	798	1.4
Gross margin %	30.4	30.6	(0.2pp)
Operating expenses	(486)	(489)	0.6
Trading profit	323	309	4.5

Trading profit increased 4.5% to £323m.

Trading gross profit

	2009 £m	2008 £m	09 v 08 %
Trading gross profit	809	798	1.4
Trading gross margin %	30.4	30.6	(0.2pp)
Trading gross margin movement (bp):			
Branded growth, product mix, manufacturing efficiency and procurement	140		
Commodity costs, pricing and promotions	(160)		
Total change (bp)	(20)		

Trading gross profit is defined as gross profit before exceptional items.

Trading gross profit increased by 1.4% to £809m. Input costs in some of our largest spend areas were

Case Study

Tight control and allocation of scarce resources

In February 2009 we opened Premier Business Services (PBS), our new Group-wide shared service centre in Manchester. This is the next step in the integration of the many systems and processes we have inherited following recent acquisitions.

We have now centralised 70% of the Group's total payroll and have improved efficiencies by 35% whilst delivering increased accuracy. The PBS payroll team were also winners of "The Payroll Team of The Year" award, at the recognised industry annual awards run by *Pay Magazine*.

Within Credit Management, the Grocery division has been fully integrated into SAP and the team have improved collection efficiency by 9%.

The centralisation of financial operations, reporting and analysis and accounts payable has been achieved against a challenging time frame. The centralisation of a number of outstanding legacy systems has been achieved and this is helping to drive efficiencies whilst also shaping the integration of the SAP common platform.

An agenda of Group-wide process improvements and cost reductions has been created for implementation in 2010/11.

01 We buy 3,000 tonnes of UK Bramley apples each year for our *Mr Kipling* apple pies.

02 Sales of *Hartley's* increased 17% in the year helped by low calorie jelly pots and new *Frujies* — real fruit pieces in jelly.

significantly higher in 2009 reflecting the weakness of sterling and rises in various commodity markets which were particularly severe in 2008. Commodities particularly affected included beans, tomato paste, meat, glass and tinplate for cans. Some commodity costs began to level out in 2009 but the Group is still facing upward pressures in some commodity categories and from weaker sterling.

The Group generally expects the effects of input cost changes and resulting pricing changes to even out over the long term. However, there can be a delay, or stagger, between input costs changing and pricing in the market changing to reflect them. This can lead to volatility in results within any financial year. In 2009, pricing was increased to reflect the input costs but the effect of the negative stagger together with the general increase in promotional activity in the grocery market reduced Group gross margin.

In Hovis, the largest commodity cost is wheat. Wheat prices rose in 2007 and 2008 and then fell in 2009. A similar stagger effect happens in Hovis as there is a delay in customer prices and promotions absorbing the change in commodity costs. As a consequence, 2008 suffered a negative effect and 2009 benefited. Although the benefit has been fully reflected in pricing, the stagger effect helped Group gross margin for the year.

In total, the combination of input cost changes, promotional activity and pricing reduced Group trading gross margin by 160bp.

In 2009, the Group's strategy of improving mix by growing branded sales, of better procurement and of manufacturing efficiency combined to add 140bp to Group trading gross margin.

The net effect of all these changes was a reduction of 20bp in Group trading gross margin.

Trading operating expenses

	2009 £m	2008 £m	09 v 08 %
Consumer and in-store marketing	(91)	(82)	(11.0)
Distribution	(229)	(227)	(0.9)
Support functions and corporate costs	(166)	(180)	7.8
Trading operating expenses	(486)	(489)	0.6

Trading operating expenses are defined as operating expenses 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, administration costs and interest costs on pension liabilities.

The strategy is to grow our branded sales without growing operating expenses. In the year, trading operating expenses fell by 0.6% to £486m.

Consumer and in-store marketing increased by 11.0% to £91m to support the growth in branded sales. We expect marketing costs to continue to increase as we refresh the branded range.

Distribution costs were up 0.9% to £229m. Synergies and efficiencies were offset by inflation and the investment in new facilities to cater for greater volumes in Hovis.

Support functions and corporate costs decreased by 7.8% to £166m. Pension current service costs reduced from £17m in 2008 to £12m in 2009 as a result of changes in bond yields and inflation assumptions. We expect the charge to be around £22m in 2010. Other costs decreased by £7m helped by lower bonus costs.

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

Exceptional items

	2009 £m	2008 £m
Restructuring & investment	(14)	(27)
Integration	(29)	(73)
Impairment of goodwill	—	(194)
Refinancing fees	(17)	(3)
Exceptional items	(60)	(297)

In 2009, £60m was categorised as Exceptional items. £14m was spent on restructuring and investment. £11m of this relates to Hovis for improving quality and modernising facilities. The remainder was incurred in Meat-free on supply chain restructuring initiatives to address production inefficiencies at our chilled facility in Methwold.

Integration costs of £29m were incurred and this now completes the projects to integrate the businesses of RHM and Campbell's.

A further £17m of adviser costs were incurred in connection with the refinancing in March 2009.

Up to 2009, the Group was incurring material expense in restructuring and investing in the business. These items were shown as Exceptional items and excluded from Trading profit. The bulk of the catch-up expense is now complete and the amount of restructuring and investment is from 2010 likely to be at a normal ongoing level which we would expect to be around £10m to £15m per annum. This will be included in Trading profit from 2010 onwards.

For 2010 comparative purposes, Trading profit for 2009 using the new definition was £309m being Trading profit of £323m less £14m of restructuring and investment costs previously categorised as Exceptional items.

Other Financial Information

This section gives details of the Group's cash flow and its main financial obligations. In summary, the Group's financial position is stable and there is adequate cash flow to service the cost of its financial obligations and to reduce net debt.

Cash Flow

When the Group was acquiring businesses, cash generated by the business was absorbed by the costs of their acquisition and investing in their integration and modernisation. As these costs draw to a close, the focus is to improve cash generation. The cash flow in 2009 still reflects the previous phase of integrations.

	2009 £m	2008 £m	09 v 08 %
Trading profit	323	309	4.5
Depreciation	52	51	2.0
Interest	(152)	(105)	(44.8)
Tax	1	—	
Pension	(52)	(41)	(26.8)
Regular capital expenditure	(83)	(83)	
Working capital	(29)	(27)	(7.4)
Cash flow before non-recurring items	60	104	(42.3)

In the year, cash flow before non-recurring items was £60m. Within this, working capital grew £29m. It is our intention to reduce working capital in 2010.

The combination of lower working capital outflows and lower costs of servicing financial obligations will leave sufficient cash flow to ensure that headroom is maintained as the banking facility reduces by £100m in 2010.

	2009 £m	2008 £m	09 v 08 %
Cash flow before non-recurring items	60	104	(42.3)
Exceptional items (excluding financing fees)	(52)	(122)	57.4
Integration capital expenditure	(2)	(78)	97.4
Operating cash flow	6	(96)	
Disposal proceeds	54	26	107.7
Dividends	—	(55)	
Net equity proceeds	380	—	
Financing fees,discontinued operations and other non-cash items	(38)	(23)	(65.2)
Movement in net debt	402	(148)	

The combination of exceptional items, disposals and refinancing resulted in a net inflow of £342m leading to a reduction in net debt of £402m. In 2010, there will be a further cash outflow of around £9m relating to creditors and provisions for exceptional items which were provided in 2009.

Financing

	2009 £m	2008 £m	09 v 08 %
Gross debt	**1,383**	1,777	22.2
Deferred refinancing fees	**(18)**	(10)	(80.0)
Net debt — year end	**1,365**	1,767	22.8
Gross debt — average	**1,617**	1,877	13.9
EBITDA	**375**	360	4.2
Net debt/EBITDA	**3.6x**	4.9x	1.3x

In March 2009, the Group raised a gross £404m of additional equity and renegotiated its banking facility. This facility is in place until 2013 and is secured by fixed and floating charges over all Group assets. Total fees for the refinancing were £70m and comprised three elements. Firstly, the equity raising incurred adviser and underwriting fees of £24m which were deducted from share premium. Secondly, there were fees of £26m payable to banks for the renegotiation of the banking facilities, of which £3m was written off in the year and the remaining £23m is being amortised over the life of the facility. Thirdly, there was a further £20m of adviser fees related to the refinancing which have been charged to profit and treated as an exceptional item. Of these adviser fees, £3m were incurred in 2008 and £17m in 2009.

The refinancing, together with a cash inflow from operations, has reduced the Group's net borrowings to £1,365m at the end of 2009.

The key indicator of success in managing the Group's finances is the average gross borrowings as this is the driver of the interest charge. Working capital and borrowings are seasonal so are better judged by averages. Average gross borrowings for 2009 adjusting for the period before the equity was raised were £1,561m. It is our intention not only to generate sufficient free cash each year to repay at least £100m but also to reduce the average net debt.

Financial instruments

	2009 £m	2008 £m	09 v 08 %
Nominal value of derivative interest rate related financial instruments	**1,350**	1,650	18.2
Mark to market on interest rate derivative financial instruments	**(199)**	(237)	16.0

The Group has a number of derivative contracts which have the effect of swapping floating interest payments on the bank debt, which costs LIBOR plus 3%, into fixed rate obligations. The nominal value of these contracts at the end of 2009 was £1,350m versus gross borrowings of £1,383m. The profile of the derivative portfolio is, however, different from the profile of the bank debt and is not an exact hedge and hedge accounting is not applied.

The mark to market is volatile depending on interest rate expectations. In the year, the negative mark to market value of the financial instruments fell by £38m as payments made of £62m were partially offset by the effect of a decrease in the short end of the interest rate yield curve.

01 *Batchelors* Super Noodles produced at our factory in Worksop.

02 *Ambrosia* creamy rice pudding produced at our facility in Lifton, Devon.

03 Sales of *Bisto* increased 2.1% to £96m in 2009.

Interest

	2009 £m	2008 £m	09 v 08 %
Net debt interest	(78)	(137)	
Securitisation interest	(2)	(6)	
Swap contract interest	(62)	25	
Amortisation and deferred fees	(13)	(8)	
Net regular interest cost	(155)	(126)	(23.0)
EBITDA	375	360	4.2
EBITDA/Interest	2.4×	2.9×	(0.5×)

Net regular interest cost increased to £155m. On a pro forma basis, assuming the refinancing had been in place at 1 January 2009, the interest cost would have been £153m. The debt level and interest cost is manageable with interest costs covered 2.4 times by EBITDA.

Earnings per share

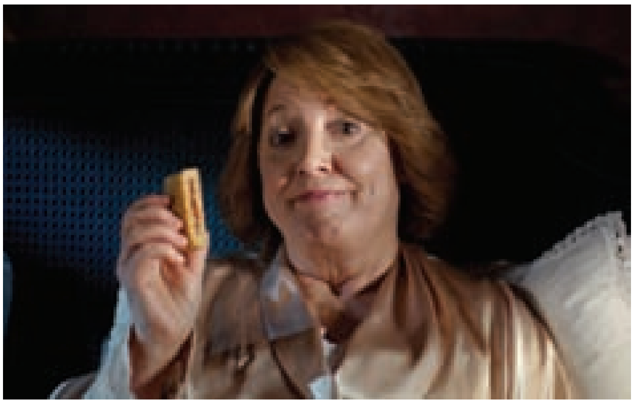
	2009 pence	2008 pence	09 v 08 %
Basic — continuing operations	1.9	(41.3)	
Adjusted — continuing operations	5.8	14.4	(59.7)
Adjusted — pro forma	4.7		

Basic earnings per share on a continuing basis were 1.9 pence versus a loss of 41.3 pence in 2008. Adjusted earnings per share were 5.8 pence compared with 14.4 pence in 2008. The earnings per share on a pro forma basis for 2009 were 4.7 pence. This uses the 2010 definition of Trading profit and assumes that the refinancing and issue of shares were completed on 31 December 2008. The pro forma figure is provided to form the base for comparison in 2010.

Pensions

As part of its refinancing programme announced in March 2009, the Group has agreed with the pension fund trustees a schedule of payments to reduce the deficit. The schedule of payments is agreed until 2014. Over this period the Group will make a total contribution of around £200m towards reducing the deficit. Total cash paid to the pension funds including deficit funding was £65m in 2009 and £61m in 2008. At the end of 2009, the deficit was calculated to be £429m on an IAS 19 basis which is equivalent to £310m net of deferred tax.

The Group's investment and liability management strategy is to reduce risk and hence volatility and the Group is in discussion with the trustees about the appropriate balance of risk and return and hence the appropriate future investment strategy for the funds.



01 In March 2010 we launched a major TV ad campaign featuring Mrs Kipling and a new range of individually wrapped cakes — *Oatibakes*.

02 We employ more than 16,000 people and operate from over 60 sites across the UK and Ireland.

Pensions

	31 Dec 2009 £m	31 Dec 2008 £m
Liabilities	**(2,959)**	(2,540)
Discount rate	**5.8%**	6.3%
Inflation rate	**3.5%**	2.8%
Assets		
Equities	**599**	536
Bonds	**395**	301
Property	**166**	192
Absolute return and swaps	**509**	680
Cash & other	**861**	819
Total assets	**2,530**	2,528
Gross deficit (IAS 19)	**(429)**	(12)
Deferred tax	**119**	1
Net deficit (IAS 19)	**(310)**	(11)

The Group's pension schemes have aggregate liabilities of £2,959m and assets of £2,530m leaving a gross deficit of £429m on an IAS 19 basis. The deficit has increased from £12m in 2008 as a result of a fall in the discount rate used, which is based on the AA bond yield, from 6.3% to 5.8% and an increase in the inflation rate assumption from 2.8% to 3.5%. As a consequence, the real interest rate assumed fell from 3.5% to 2.3%.

The size of the reported deficit will continue to be volatile based on movements in bond yields and retail price inflation. Each 0.1% decrease or increase in bond yields would increase or decrease the deficit by £52m. Each 0.1% increase or decrease in the assumed inflation rate would increase or decrease the deficit by £25m. If the Group's assumption on the mortality of its members was amended to assume a change of one year, total liabilities would change by approximately 3.6%.

The above combination of movements in bond yield discount rate and inflation rates also caused the current service cost charged to profit to fall from £17m in 2008 to £12m in 2009. The rates as at 31 December 2009 mean that it will increase to around £22m in 2010.

Jim Smart
Chief Financial Officer
9 March 2010

Lowest cost supply chain

Ashford dry food manufacturing facility

2009 saw the first year of full production at Ashford following a major increase in manufacturing scale at the site as part of the Group's Grocery supply chain restructuring following the acquisitions of Campbell's and RHM.

The restructuring at Ashford has created a major dry food manufacturing facility. The project involved the complete refurbishment of a 12,500 m^2 building over three floors and the transfer of *Paxo* stuffing from Wythenshaw, *Bisto* powder from Middlewich, soups and curry from Thurles in Ireland and *McDougalls* flour based mixes and foodservice products from Bristol and Reading sites.

In terms of scale, the project involved the recruitment of 284 permanent and agency staff, the transfer of 14 production lines and five process mixers and the purchase of one new production line and process mixer. This led to an increase in dry food production at Ashford of over 240% — from 14,000 tonnes per year from 125 products to 48,000 tonnes from 450 products.

RISK MANAGEMENT

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

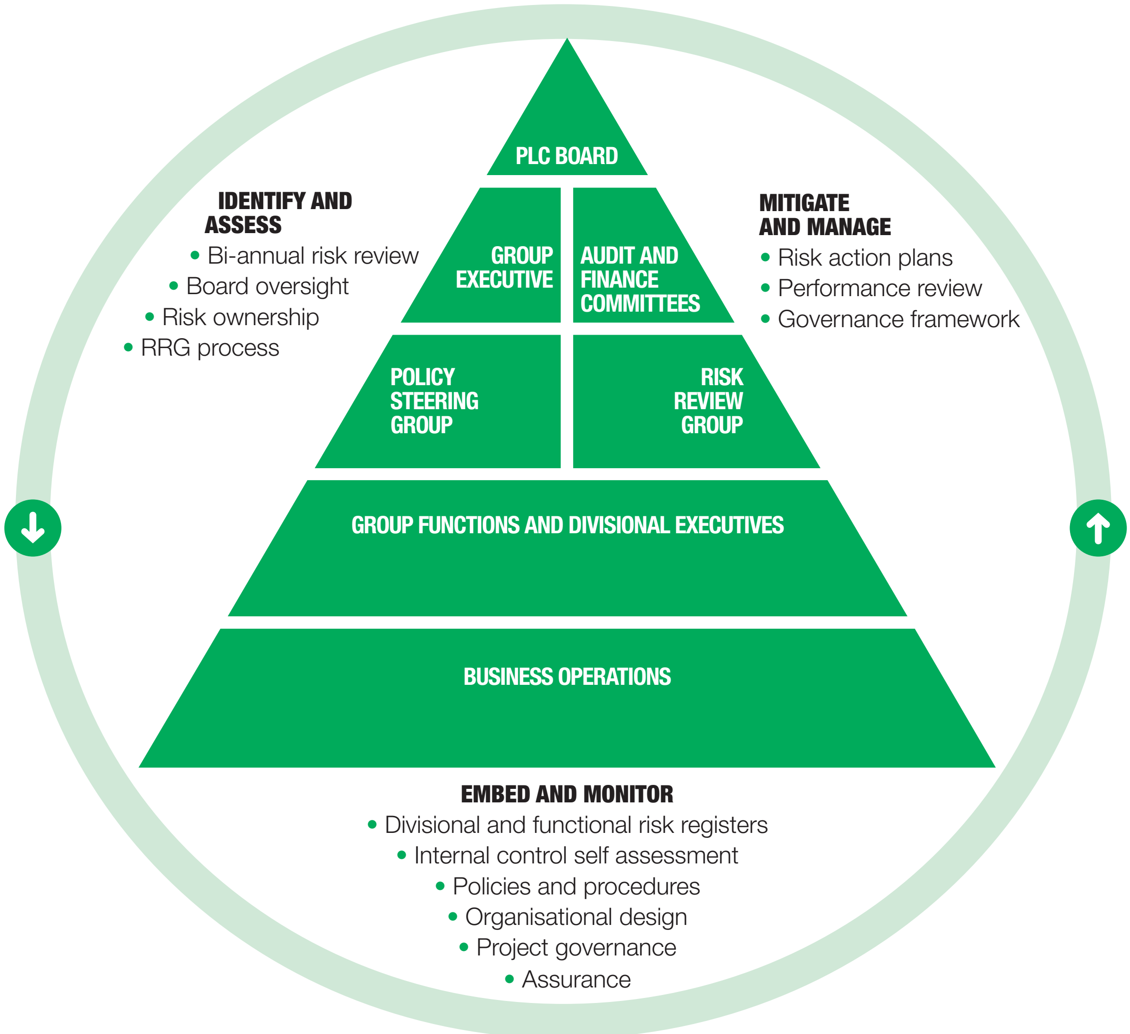
Risk management at Premier Foods

We recognise at Premier Foods that effective risk management is an integral part of the overall achievement of the Company's strategic objectives. We have established a governance structure that is intended to support the early identification and mitigation of key business risks and this has been strengthened over the course of 2009 as set out below.

Our risk management process comprises three main elements:

- A formal risk structure underpinned by effective policies
- Bottom up risk reviews
- Top down risk reviews

An overview of the risk management process is provided as follows:



The Board has ultimate responsibility for ensuring that business risks are effectively managed. The Board has considered and approved the risk management policy and risk appetite of the Company and has delegated the regular review of the risk management process to the Audit Committee to ensure compliance with the requirements of the 2005 Turnbull Guidance on internal control and risk management. The Audit Committee also receives regular reports from the internal and external auditors and monitors progress against agreed action plans arising from control reviews. It also reviews the results of the Internal Control Self Assessment process which is conducted annually across the business. Details of this process are included in the section on corporate governance.

During 2009 a new Finance Committee was established, under the chairmanship of David Beever, non-executive director. The Committee includes as members the Company Chairman and two further non-executive directors, Ian McHoul and Charles Miller Smith, and, in addition, the Chief Executive, Chief Financial Officer and Group Treasurer and has as part of its terms of reference the consideration of financial and financing risks. Further details of the Board and its Committees are included in the section on corporate governance.

A Policy Steering Group has been established under the chairmanship of Suzanne Wise, General Counsel & Company Secretary. The Group, which meets quarterly and includes as members the Group Procurement Director, Director of Technical and Head of Risk and Corporate Responsibility, considers the effective implementation of corporate policies taking account of changes in regulation and other business risks. Day-to-day risk management is the responsibility of business management as part of their everyday business processes and is encompassed within the Company's policies and procedures to ensure that it is fully embedded. There is a structured business review process that operates across all divisions and this, along with the corporate governance framework as defined by the Board and Committee structure, underpins the ongoing management of risk.

Each division and Group function is also required to maintain a risk register which includes the key risks that have been identified, their potential impact and probability of occurrence, the risk owner, action and action owner along with timescales for effective mitigation. Every six months the risk register is submitted to the Risk Review Group for review.
The Risk Review Group, is chaired by Suzanne Wise and meets quarterly. The Group, which includes the Chief Financial Officer, Group Operations Director, Group Procurement Director, Chief Operating Officer Hovis and Chilled, Managing Director Grocery Division, Group Treasurer, Group Head of Operational Excellence and Head of Risk and Corporate Responsibility, performs the following activities:

- Reviewing the effectiveness of the risk management process and making recommendations to the Audit Committee, as appropriate
- Discussing emerging risks and their potential impact on the Company, for onward review with the Group Executive
- Receiving presentations from management and providing challenge in relation to risk management actions and their effective implementation

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

The results of each Group Executive risk review are presented to the Board for consideration. Additionally during 2009, a separate risk session was held with the non-executive directors without the presence of management. The purpose of this session was to provide additional challenge to the internal risk process by considering risk in its widest context, in particular taking account of the following:

- The world in which we operate
- Our marketplace
- Premier specific risks

The results of the discussion were presented, by the Chairman, to the Group Executive and formed part of the overall process for reviewing the corporate risk register at the end of the financial year. Following the success of this process it is intended that it will be adopted on an annual basis going forward.

Risk Factors

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.

Risk area and potential impact	Management response
INDUSTRY RISKS AND TRENDS	
Raw materials	
The Group purchases a significant amount of raw materials each year. In recent years 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. To date we have a strong record of successfully recovering input cost increases.
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, in addition to operating efficient and effective manufacturing and procurement processes.	Premier is the largest food producer in the UK. Our business model is to use this scale to drive competitive advantage. Our focus on the UK and the range of categories we operate in also give us a deep insight into consumer trends in food. Our scale allows us to procure more effectively and the consolidation of our asset base helps to drive efficiency.
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. Factors such as taxation, 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. A continued economic downturn may lead to a decline in the volume of sales of premium brands, and may increase promotional pressure. In addition it may also lead to an increase in industrial action within the food industry and more generally.	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. Premier has a good track record of industrial relations and continues to work with employees and their representatives to mitigate the risk of any industrial action.
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 size and scale coupled with our focus on the UK enable us to work with customers to provide consumers with more choice and convenience and to coordinate activity to drive volume.

Risk area and potential impact	Management response
INDUSTRY RISKS AND TRENDS	
Consumer preferences	
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 changes in preference for fresh and chilled foods, ready prepared foods and organic foods. Furthermore, concerns as to the nutritional value of certain foods increasingly results 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.	We recognise that consumers are at the heart of what we do. We have a Consumer Insight team whose role is to monitor and understand the current trends within the categories that we operate. They also help identify opportunities for our brands to expand into new categories or by making our products more relevant to more eating occasions. In addition, we have a cross-functional steering committee responsible for monitoring and responding to nutrition and ingredient issues and reviewing our products against relevant external benchmarks.
Regulation	
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 affect our business operations and have an adverse effect on our results.	Premier is committed to complying with all its statutory and regulatory obligations and to managing its business in a socially responsible manner. Food quality and safety is embedded in the Quality Management System we operate at each site and is the subject of independent monitoring. Performance in the areas of food safety and health & safety are closely monitored and reported to and reviewed by the Group Executive and Board on a regular basis.
OPERATIONAL RISKS AND TRENDS	
Suppliers	
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.	Our procurement team reviews and monitors suppliers by category as part of its risk assessment process. Risk can be measured across a number of factors including the total size and availability of the supply, whether we are dependent upon a sole supplier, whether the supplier is in financial difficulties. Where necessary contingency plans are put in place and the situation monitored.
Seasonality	
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.	Management plans for changes in seasonal demand for its products and where possible builds contingency around changes in seasonality.

Risk area and potential impact	Management response
OPERATIONAL RISKS AND TRENDS	
Licences and intellectual property	
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.	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 trade marks are registered in the jurisdictions where our products are marketed.
Brand management	
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.	Premier has a strong track record of brand rejuvenation and innovation. We believe that branded sales growth can be achieved through product innovation and quality, though stretching our brands into new categories and by increasing the frequency of purchase by making our products more relevant to more eating occasions.
Damage to sites and IT systems	
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.	Fire and flood risks are monitored closely under health & safety and reported to and reviewed by the Group Executive and Board on a regular basis. 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.
Product quality and safety	
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.	The Company takes product quality very seriously and has rigorous quality assurance processes in place to minimise any potential risk.

Risk area and potential impact	Management response
FINANCIAL RISKS AND TRENDS	
Leverage and liquidity	
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. There is a risk that in certain circumstances, we may be unable to replace existing facilities when they come up for renewal.	The Board has now completed its review of the Group's capital structure and announced in March 2009 an equity issue, which we believe, combined with amended banking facilities and an agreed schedule of pension deficit contributions, has enabled us to put in place a more appropriate capital structure for the Group and in turn, provide a solid platform for future development. The Board and Finance Committee closely monitors the Group's level of debt and liquidity to ensure that it meets its covenant requirements and also has sufficient working capital. 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.
Interest rates swaps	
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.	The Group's policy is to have interest rate hedging in place for the majority of its borrowing. Interest rate exposure is actively monitored by the Board and the Finance Committee.
Currency exchange fluctuations	
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 US 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.	Exchange rate exposure is reviewed by the Board and the Finance Committee. The translation exposure resulting from euro-denominated profits and overseas net assets is hedged. We review the commercial position of the business and selectively enter into forward currency contracts to hedge 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.
Pension schemes	
We have defined benefit pension plans that are currently in deficit (on an actuarial basis). Valuations of all defined benefit plans are dependent 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.	The Board and the Finance Committee 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.

PEOPLE
AT PREMIER FOODS

"The success that we have experienced in recent years is in no small way attributable to the people who work within our business, and their ability to deal with significant change whilst at the same time, delivering against challenging commercial objectives."

Premier Foods is one of the largest employers in the UK food industry and as such we understand the need to treat our employees fairly, with respect, and give them opportunities to grow and develop.

Since the acquisitions of Campbell's and RHM, we have initiated a number of significant programmes to drive the development of our people practices.

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

We believe leadership is about:
- Being passionate
- Delivering on our commitments and accountabilities
- Empowering and developing our people
- Doing the right thing
- Focusing on our customers and consumers
- Striving to be the best

In 2010 we will embed the "Premier Way" framework throughout the business. This will have many benefits and will ultimately support the delivery of our vision and strategy.

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

Development and training
We are committed to providing high quality training and development initiatives to ensure we are equipped to deliver excellence in all we do. We provide training and development solutions through which all employees can maximise the contribution they can make to the development of the business and the achievement of personal goals.

Career progression
Premier actively encourages development from within. Our new talent identification and succession planning process is now becoming embedded across the business and our intention is to ensure we develop our internal pool of talent so we can resource roles internally in the majority of cases.

However, to anticipate future requirements we will look to bring the right people into the business to satisfy our anticipated growth. As an example, in 2009 we launched our first Finance Graduate Programme, aimed at giving us a pipeline of talented finance professionals for the future.

01 *Mr Kipling* cake factory, Carlton.

02 *Hovis* Bread Bakery, Erith.

Employee Assistance Programme

In October 2009, we launched a brand new service for all our employees. The Employee Assistance Programme (EAP) is a free, confidential, telephone and online counselling service for all employees which is available 24 hours a day, 7 days a week, across the entire year. EAP provides life coaching and personal development advice, counsel on issues such as debt management, tax matters and health issues.

Premier Foods sees this as a valuable free service. We want to support our employees and recognise that expert advice at a difficult time can make all the difference.

Occupational Health & Well-being

Occupational Health & Well-being provides professional, specialist health advice to employees on the following issues:

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

Premier Foods encourages employees to discuss any problems they are having at work with their line manager. Our in-house Occupational Health & Wellbeing Advisers will put forward proposals to management if they feel that any adjustments to work need to be considered.

Employee Recognition Awards

In 2008, we launched our first ever "Employee Recognition Awards" which is aimed at recognising and rewarding employees who have "gone the extra mile".

The awards proved that we have no shortage of people and teams with skill, dedication and creativity. We received over 100 entries from across the business and the winners were announced by Robert Schofield at an awards ceremony in June 2009.

The Grand Prix Award went to the *Hovis* team for their successful relaunch of the *Hovis* brand with a campaign that included the "Go on Lad" TV advert as well as new recipes, new pack design, new press, TV and online advertising, a new consumer and trade PR campaign, new truck graphics and communication with customers and employees — all pulled off in just four months!

The individual award went to Steve Finn, Plant Manager at Belasis, whose process innovation led to a 25% increase in productivity from the Belasis fermenters, which provide mycoprotein paste, the main ingredient in all *Quorn* products.

The Employee Recognition Awards were run again in 2009 and winners will be announced later this year.

Energy

-5.2%

Reduction of energy consumption (kWh/tonne)

2009 target of -5% exceeded

Carbon

-7.7%

Reduction of Carbon (CO_2e) emissions (kg/tonne)

2009 target of -5% exceeded

Waste

-37.7%

Reduction of waste to landfill (kg/tonne)

2009 target of -20% exceeded

Packaging

-2.0%

Reduction in packaging weight (kg/tonne)

2009 target of -2% achieved

Transport

-3.5%

Reduction of delivery mileage (miles/tonne)

2009 target of -5% part achieved

Water

-6.1%

Reduction of water usage (m^3/tonne)

2009 target of -3% exceeded

Note: All targets were against a 2008 baseline and were relative to tonnes of product manufactured in 2009.

OUR RESPONSIBILITIES

Doing the right thing . . .

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

In 2009 we set out six key environmental targets (set out in the table opposite) which are aligned to our aim of reducing waste and increasing efficiency. During the year we made excellent progress across the range of targets with five of the six targets either achieved or exceeded.

We are proud of our support for UK farmers particularly within the arable, meat and dairy sectors. This commitment has been further strengthened by our announcement that we will source 100% British wheat across the entire Hovis range in 2010.

Other achievements of note is our move to sourcing 100% certified sustainable Palm Oil through the GreenPalm Certification Scheme and the £205,000 raised by staff in 2009 for our corporate charity "Cancer Research UK".

We have set out the four core areas that we focus on as part of our Corporate Social Responsibility (CSR) initiatives:

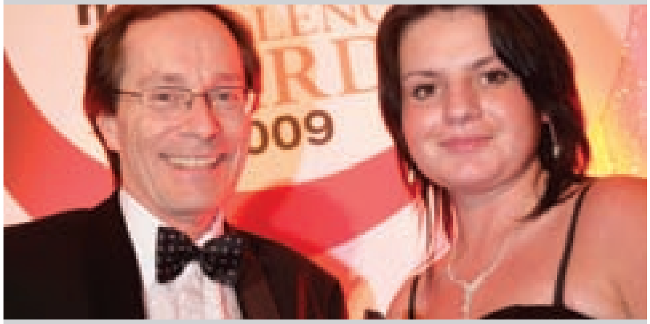
- Marketplace
- Environment
- Workplace
- Community

An overview of these four areas is set out in this report together with our key aims and objectives for 2010.

In addition, for the first time we have produced a dedicated CSR report. Copies of this report and further details of the progress we are making in this important area can be found on our website www.premierfoods.co.uk

Case Study

Empowered people in a capable organisation



Food Manufacturing Excellence Awards

In November 2009 Premier received two major awards at the Food Manufacturing Excellence Awards which recognises the best food and drink manufacturers and their employees.

Premier was named as the winner of the Judges Special Award for the successful completion of the Group's operational restructuring following the acquisitions of Campbell's and RHM. The project, which demonstrated excellent cross functional communication and co-operation, saw the Group's operating footprint reduced from 21 sites to 12. This resulted in the investment in 5 core manufacturing sites and the closure of 9 factories, all achieved in 12 months.

In addition Martyna Zelazek, a senior operator at our Methwold factory, won the Apprenticeships Award. Since completing her apprenticeship last year, Martyna has been promoted to team leader and now runs a production line of 28 people producing *Quorn* and *Cauldron* products.

MARKETPLACE

Our overall marketplace objective is to balance our responsiveness to consumer demands with a responsible and ethical approach to sourcing. Underpinning our approach are the many cases of strong partnerships we have formed with our UK food producers combined with our focus on the health and nutrition agenda.

Our aims

We believe that food must be affordable to the consumer whilst enabling our food producers to generate sufficient profits to enable investment and productivity improvements to drive sustainable and secure food sourcing. Product labelling is also important because it allows consumers to make informed choices. Our responsible marketing initiatives are compliant with both mandatory and voluntary codes of practice as set out by Ofcom and BCAP including rules for responsible advertising to children.

Link to performance

Our investment in our sourcing arrangements enables us to manage our cost base. This ensures quality products that our consumers continue to love and that continue to support our proud iconic brand heritage. Informed labelling protocols and responsible marketing enables our consumers to make good choices that attract them to our well-known and well-loved brands.

Leadership

Our commitment to sourcing 100% wheat from UK wheat fields for use in our *Hovis* range directly contributes an additional £18m back into the UK economy.

We are actively involved in many industry groups and working bodies including the Food and Drink Federation, the Institute of Grocery Distribution as well as research organizations such as the Leatherhead Food Research and Campden BRI.

Premier Foods believes that labelling should clearly communicate the nutritional content of products to allow for informed decisions by consumers to encourage balanced diets. Wherever feasible, Premier Foods' brands voluntarily provide nutrition labelling on energy, protein, carbohydrate, sugars, fat, saturated fat, fibre and sodium in a simple tabular format.

Additionally, all Premier Foods' brands (excluding foodservice) are working towards displaying, on the front of pack, the percentage of the Guideline Daily Amounts (GDAs) a serving provides for; energy, sugar, fat, saturated fat and salt equivalent.

Learn more online at
www.premierfoods.co.uk

Our key aims	Our key deliverables in 2010
Health and Nutrition	To meet, or exceed, the voluntary Food Standards Agency's (FSA) "2010 Salt Reduction Target"
	To seek to increase GDA's on front of pack to 75% of our branded products
	To review 100% of our branded products against our internal Health and Nutrition guidelines
UK Agriculture	To source 100% British wheat across the entire *Hovis* range in 2010

ENVIRONMENT

Our environmental objectives orchestrated through our Five Star Environmental Award Programme (FSEAP) focus on a number of areas underpinned by the climate change agenda and include energy use, waste management, water use and conservation, transport management, packaging reduction and involvement in a consumer education campaign to reduce food waste.

Our aims

The FSEAP aims to raise the profile of environmental management within the Group and improve environmental performance throughout the Group, as part of our desire to promote good business practice.

Link to performance

Tangible benefits of the programme include cost and risk reduction, the identification and dissemination of best practice, active engagement of local managers and employees and the fostering of positive relationships with local communities. Overall, our award programme assists in enhancing our corporate and brand reputation, and forms an integral element of successfully managing our brand portfolio.

Premier Foods were delighted to be presented with an award at the 2009 Food and Drinks Federation (FDF) Community Partnership Awards Ceremony in the "Environment Business Initiatives" category in recognition of our approach to environmental management across the Group.

Leadership:

Our soil doctors work extensively with our farmers to advise on how to get the best from their land, a resource that farmers find invaluable and more cost-effective than doing it on their own.

The water recycling plant installed at our Long Sutton factory saved over 175 million litres of water, equivalent to 19% of water supplied during 2009.

As one of the original signatories to the FDF's Transport Efficient Commitment we have been active in achieving "fewer and friendlier" food transport miles, helping to contribute to an absolute target for the food chain to reduce its environmental and social impacts by 20% by 2012, relative to 2002.

Did you know?

An estimated 8.3 million tonnes of household food waste is produced each year within the UK, most of which could have been eaten. To find out more about what we are doing to help consumers make a difference visit our "Love Food, Hate Waste" campaign featured on our website.

The Five Star Environmental Award programme

Compatible with ISO 14001, our FSEAP was developed internally to address the specific needs of our business. It provides the framework through which environmental performance improvement is encouraged, delivered and managed within Premier Foods.

Our key aims

Our key aims
Energy consumption and efficiency
Carbon (CO_2e) emissions
Transport and logistics
Water consumption and efficiency
Waste management and recycling

Our key deliverables in 2010

Our key deliverables in 2010
To reduce energy consumption by 3% from a 2009 baseline year
To reduce Carbon (CO_2e) emissions by 3% from a 2009 baseline year
To reduce delivery miles travelled by 5% from a 2009 baseline year
To reduce water usage in production by 2.5% from a 2009 baseline year
To reduce waste sent to landfill by 20% from a 2009 baseline year

Our business
Business review
Governance
Financial statements
Other information

WORKPLACE

Premier Foods is one of the largest employers in the UK food industry. As a major employer we understand the need to treat all our employees fairly and with respect, ensuring they all have the opportunity to grow and develop.

Our aims

Premier Foods is all about iconic British brands but we are also about great people who are given great opportunities to shine.

Link to performance

Premier Foods is on an exciting journey and we want to be the best employer in UK food manufacturing. We have great plans for the business and we recognise that our people are the key to our ability to successfully deliver on those plans. To support our leaders we have developed the "Premier Way" which highlights what we believe leadership is about at Premier Foods. The "Premier Way" will have many benefits and will ultimately support the delivery of our vision and strategy.

Leadership:

Over the past twelve months we have rolled out a full-scale occupational health programme that is available to all our employees to help meet their ongoing and future health needs.

In 2010, our dedicated Occupational Health practitioners will carry out the two key Group-wide health promotion activities; "Slip-Slop-Slap" will encourage employees to "slip on a shirt, slop on sunscreen, and slap on a hat" when they go out into the sun, in order to protect themselves against an increased risk of skin cancer.

A second promotion will raise awareness to alcohol which will offer advice on the health benefits and risks associated with drinking alcohol.

Health & Safety

Our Workplace Health and Safety Corporate Plan sets out a range of strategic initiatives and leading and lagging indicators which drive the ongoing improvement in our health and safety performance. In 2009 we achieved a 35% year on year improvement in a RIDDOR rate of 0.26 reportable accidents per 100,000 hours worked.

Other plans in 2010 include:

- To carry out occupational health training workshops for our HR department
- To undertake occupational health training for our factory supervisors and line managers
- To deliver management guidance on the use of the new UK Government "Fit Note" scheme

Our key aims

Health and Safety
Our People
Occupational Health

Our key deliverables in 2010

To achieve a Group RIDDOR rate of 0.23 of Reportable Accidents per 100,000 hours worked in 2010.
To embed the "Premier Way" leadership framework throughout the business
To embed the "talent identification and succession planning process"
To complete a Group-wide occupational health surveillance programme.
To undertake Group-wide workplace health screening programme

COMMUNITY

Charitable giving

In 2009, our employees ran, walked, cycled and even "paddled their way" to raise £194,000 in support of our corporate charity "Cancer Research UK" (CRUK).

Our aims

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

Link to performance

Charitable and community involvement provides Premier Foods with the opportunity to give something back and say thank you for the contribution that local communities make to the Group's success, whether as our consumers, our producers, our workforce or our neighbours.

Leadership

At the October meeting of the CSR Steering Group, chaired by Robert Schofield our Chief Executive, it was decided to extend our partnership with CRUK up until the end of 2010, and to increase our fundraising target accordingly to £300,000.

Whilst our employees have really got behind fundraising for our corporate charity, the question we asked was "how do we encourage and motivate employees to continue their fundraising activities in order to meet this new and challenging target?"

It was agreed that the senior management team would rise to a "Directors Challenge", and lead from the front, in order to keep up the momentum and show their personal support and commitment for our corporate charity.

Did you know?

We not only provide essential store cupboard heroes for our consumers we also help develop and support local community heroes. During the year a community involvement project was undertaken by a team of 60 employees from Premier Foods head office, based in St Albans. The Jubilee Community Centre Project provides a venue for local residents to hold events, take part in activities and receive advice and guidance from local community groups.

Fundraising highlights from 2009

All Premier Foods sites, up and down the UK, have been getting involved and raising vital funds for our corporate charity "Cancer Research UK" managing to raise an amazing £194,000 in 2009.

Fund raising events included: Brookes Avana in Wales raised £2,500 through "Wear It Pink" activities; *Branston* in Lincolnshire raised £370 with a factory "Fun Day"; *Ambrosia* in Devon held a golf tournament which raised £645; and Corporate staff in St Albans raised over £1,000 with a "Get Pampered" event.

Finally, the ladies at Premier Foods donned their trainers and took part in numerous "Race for Life" events, raising an astonishing £15,000 for Cancer Research UK. Our people are truly amazing.

Our key aims

Charitable giving
Community Involvement
Food donations

Our key deliverables in 2010

To raise £300k for our corporate partner "Cancer Research UK" by the time our partnership comes to an end in December 2010
To support the Royal British Legion's 2010 "Poppy Appeal" at all our sites
To ensure that a minimum of 20% of our manufacturing, distribution and head office sites complete a local community project in 2010
To support the redistribution of "aged stock" to those in social need within the UK and abroad in 2010

Board of directors

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8

9


Senior management

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EXECUTIVE DIRECTORS

1. Robert Schofield[(1)], Aged 58
Chief Executive
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. Jim Smart[(1)], Aged 50
Chief Financial Officer
Jim Smart joined the Group in October 2009 as Chief Financial Officer. Prior to his appointment he served as Chief Financial Officer of Friends Provident plc and was a non-executive director of F&C Asset Management plc. Formerly he was Chief Financial Officer of Boots Group plc having joined the company in 2003 as Group Financial Controller. Mr Smart is a Certified Accountant.

3. Tim Kelly[(1)], Aged 52
Chief Operating Officer, Hovis and Chilled
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. He previously held senior marketing roles at Diageo and Coca-Cola Schweppes Beverages.

NON-EXECUTIVE DIRECTORS

4. David Kappler, Aged 62
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 and Nomination Committees at Shire plc and senior independent director and Chairman of the Audit Committee at Intercontinental Hotels Group plc. Prior to this he was 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 65
Senior independent director
David Felwick joined the Group on flotation in 2004. Mr Felwick is currently Chairman of Product of the Year Ltd. Prior to this he was 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. Ian McHoul, Aged 50
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 Inntrepreneur Pub Company Limited and prior to that spent ten years with Courage Limited and its parent company Foster's Brewing Group in a variety of roles. Mr McHoul is a Chartered Accountant.

7. Louise Makin, Aged 49
Non-executive director
Louise 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 Louise 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.

8. David Beever, Aged 68
Non-executive director
David Beever joined the Group in January 2008. 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 Vice-Chairman. He has been a non-executive director of a number of listed companies including the Paragon Group of Companies plc, Volex Group plc and JJB Sports plc.

9. Charles Miller Smith, Aged 70
Non-executive director
Charles Miller Smith joined the Group in June 2009. He is a senior adviser to Warburg Pincus International LLC, Deutsche Bank (RREEF Infrastructure) and a senior adviser to Defence Strategy & Solutions. In 2008 he became a member of the International advisery council for Principal Financial in the USA. He was recently an international adviser at Goldman Sachs and a director of HSBC Holdings PLC. Mr Miller Smith was at Unilever for 30 years, culminating in his appointment as Director of Finance and a director of Unilever foods. He also served as Chief Executive and then Chairman of ICI. He is currently Chairman of Firstsource Solutions UK Limited.

1. Brian Carlton[(1)], Aged 53
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[(1)], Aged 53
Managing Director Grocery Division
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[(1)], Aged 49
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. Bob Spooner[(1)], Aged 55
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 Group Supply Director for Northern Foods and Managing Director of Northern Foods' Pastry Products business and prior to that held senior operational and supply chain roles with ICI Paints, and Sara Lee.

5. Mark Vickery, Aged 55
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.

6. Suzanne Wise[(1)], Aged 48
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.

7. Ian York[(1)], Aged 50
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.

[(1)] Member of Premier Foods Group Executive.

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 2009.

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:

- Our business on pages 1 to 17.
- Business Review on pages 18 to 49.
- Environmental, employee, social and community issues are discussed on pages 42 to 49.
- A review of risk management and risk factors on pages 36 to 41.
- Group key performance indicators (KPIs) on pages 8 to 12, 18 to 34 and 44 to 49.

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

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 within the overview of our business.

Financial statements

The audited financial statements are presented on pages 74 to 126.

Profit and dividends

The profit on ordinary activities before tax for the year ended 31 December 2009 was £46.7m (2008: loss of £404.8m). The directors do not recommend the payment of dividend for the year ended 31 December 2009 (2008: £nil).

Research and development

Applied research and development work continues to be directed towards the introduction of new and improved products, the application of new technology to reduce unit and operating cost and to improve service to customers. Research and development costs of £3.7m (2008: £5.1m) 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 (2008: £nil). During the year the Group made charitable donations amounting to £167,000 (2008: £287,000); further information on charitable giving can be found within the corporate social responsibility section of this annual report.

Directors

The present directors of the Company are listed on page 55 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 2009 are set out within 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 law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare 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 adequate accounting records that are sufficient to show and explain the Company's transactions and 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 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 profit 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 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 9 March 2010 the Company has been notified, in accordance with Disclosure and Transparency Rules issued by the Financial Services Authority, of the following interests of 3% or more in the ordinary shares of the Company:

Notification received from:	Number of ordinary shares	% of issued share capital
WP X Investments Ltd	376,761,419	15.71%
Franklin Templeton Investment Management	307,173,509	12.81%
Paulson Europe LLP	283,625,120	11.83%
Alliance Bernstein Investments LP	115,232,250	4.81%
Legal & General Investment Management	97,613,259	4.07%

Share capital and control

At the General Meeting held on 23 March 2009, the authorised share capital of the Company was increased to £35,000,000 divided into 3,500,000,000 ordinary shares of 1 pence each nominal value (ordinary shares). During the year, the number of ordinary shares in issue was increased to 2,398,021,581 shares as a result of the placing and open offer and firm placing. 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 on restrictions on share transfers or on voting rights other than as disclosed in Contractual Relationships below. Shares acquired through Company share schemes and plans rank *pari passu* with the shares in issue and have no special rights.

At the Annual General Meeting in 2009 shareholders authorised the directors to make market purchases of ordinary shares. Any ordinary shares so purchased may be cancelled or held in treasury. This authority will expire at the conclusion of the 2010 Annual General Meeting 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 Term and Revolving Facilities Agreement originally for £2.1bn entered into in 2006 which has subsequently been amended on 5 March 2009, and a Receivables Purchasing Agreement and guarantee dated 30 December 2007 which was amended on 5 March 2009 and further amended on 22 December 2009.

The Group entered into a Relationship Agreement with Warburg Pincus in March 2009 setting out the terms and conditions under which Warburg Pincus 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. Under the Relationship Agreement, Mr Charles Miller Smith was appointed to the Board on 16 June 2009.

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

The Group has a licence for certain of Cadbury Limited's trade marks in connection with ambient packaged cakes. The original licence which was due to expire in January 2010 has been extended for an additional 18 months. The Group has as an exclusive, worldwide licence to use the *Loyd Grossman* name on sauces, oils and dressings, accompaniments, toppings and marinades for a term lasting until 2026.

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

Employment policies

A summary of the Group's employment policies and the actions to involve employees is set out in the corporate governance report and employee section of this annual report.

Creditor payment policy

Premier Foods plc is a holding company and had no amounts owing to trade creditors at 31 December 2009 (2008: £nil). The Group's creditor days outstanding at 31 December 2009 were 64 days (2008: 61 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 end of month which are available as part of the standard terms and conditions on the Company's website www.premierfoods.co.uk.

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

Financial instruments

The financial risk management objectives and policies of the Group, and its exposure to price, credit, liquidity and cash flow risk are set out in note 23 to the financial statements.

Post-balance sheet events

Details of post-balance sheet events are set out in note 33 of the financial statements.

Office of Fair Trading

In April 2008, the UK Office of Fair Trading (OFT) notified the Company, and a number of other UK-based retailers, of an inquiry into potential co-ordination of retail prices in sectors of the grocery market. Premier are co-operating with the inquiry, which continues to gather information. It is not currently 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 489 of the Companies Act 2006. The reappointment of PricewaterhouseCoopers LLP has been approved by the Audit Committee, who will also be responsible for determining their audit fee on behalf of the directors.

Going concern

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

Annual General Meeting business

The Annual General Meeting of the Company will be held at Insurance Hall, 20 Aldermanbury, London EC2V 7HY on 20 May 2010 at 11.00 am. The Notice convening the Annual General Meeting 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
Premier Foods plc
Premier House, Centrium Business Park, Griffiths Way
St Albans, Hertfordshire, AL1 2RE
Registered in England and Wales No. 5160050
9 March 2010

Corporate governance

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 sets out to describe how the Group has applied the principles of good corporate governance as defined in section 1 of the revised Combined Code on Corporate Governance issued by the Financial Reporting Council in June 2008 ("the Combined Code"). The Code is publicly available at www.frc.org.uk.

In respect of the period from 1 January 2009 to 31 December 2009, the Board considers that the Group has complied with the provisions set out in the Combined Code. The corporate governance report forms part of the directors' report and is incorporated into it by reference.

The Board

Board structure

As at the year end, the Board consisted of a non-executive Chairman, three executive directors, and six non-executive directors. In accordance with the Combined Code, separate individuals, David Kappler and Robert Schofield, have been appointed to the positions of Chairman and Chief Executive respectively. David Felwick has been appointed the senior independent director. Charles Miller Smith was appointed as an additional non-executive director on 16 June 2009, Jim Smart was appointed as an executive director on 19 October 2009 and Christine Cross retired as a non-executive director on 31 January 2010.

The Board considers that the non-executive directors, with the exception of Charles Miller Smith, are independent in character and judgement and within the definition of this term in the Combined Code. Under the terms of the relationship agreement between the Company and Warburg Pincus, Mr Miller Smith, a senior adviser to Warburg Pincus International LLC, was appointed to the Board as a subscriber director. Under the agreement, Warburg Pincus, with the agreement of the Company, may appoint to the Board a director so long as they (Warburg Pincus) retain a minimum interest of 239,802,158 shares in the Company.

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 2009:

	Designation	Appointment
David Kappler	Chairman	19 July 2004
Robert Schofield	Chief Executive	22 June 2004
Tim Kelly	Chief Operating Officer — Hovis and Chilled	30 June 2008
Paul Thomas[(1)]	Finance Director	22 June 2004
Jim Smart	Chief Financial Officer	19 October 2009
David Felwick CBE	Senior independent director	19 July 2004
Louise Makin	Non-executive director	1 October 2006
Ian McHoul	Non-executive director	19 July 2004
David Beever	Non-executive director	21 January 2008
Christine Cross[(2)]	Non-executive director	21 January 2008
Charles Miller Smith	Non-executive director	16 June 2009

(1) Retired as a director on 31 August 2009.
(2) Retired as a director on 31 January 2010.

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.

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 ten 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 below.

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 and comprehensive briefing documents for all substantive agenda items for discussion, are circulated in advance of each meeting. Board meetings are structured to allow open discussion by all directors of agenda items and members of the Group Executive are invited to attend and make presentations to the Board regularly.

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 Chief Financial Officer 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. Biographies of the directors and members of the senior management team are provided in the section on Board of directors and senior management which precedes this report.

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

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

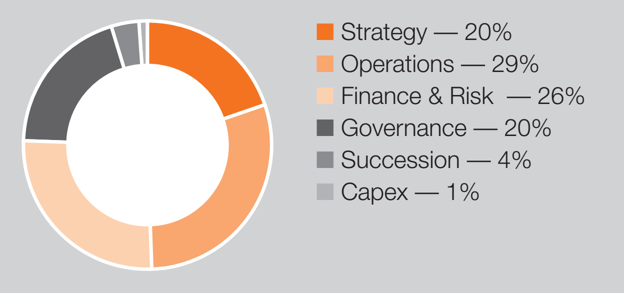
Meetings

The following table sets out the number of formal meetings of the Board and its Committees and individual attendances thereat during the financial year to 31 December 2009. In addition to the meetings detailed below, a number of additional meetings of the Board, committees of the Board and the Remuneration and Nomination Committees were held for the consideration of specific business (*denotes attendance by invitation). The Board met more frequently in 2009 than in previous years as a result of the additional work required in connection with refinancing.

	Group Board	Audit	Nomination	Remuneration	Finance
David Kappler	12/12	5/5(2)	4/4	4/4(2)	2/2
Robert Schofield	11/12	4/5(2)	2/4(2)	4/4(2)	2/2
Paul Thomas(1)	8/8	3/3(2)	—	—	—
Jim Smart(1)	2/2	2/2(2)	—	—	1/1
Tim Kelly	12/12	5/5(2)	—	—	—
David Felwick CBE	11/12	5/5	4/4	4/4	—
Louise Makin	12/12	5/5(2)	4/4	4/4	—
Ian McHoul	11/12	4/5	4/4	1/4(2)	2/2
David Beever	11/12	4/5	2/4	1/4(2)	2/2
Christine Cross	11/12	5/5(2)	3/4	3/4	—
Charles Miller Smith(1)	5/6	—	1/2	—	1/2

(1) Jim Smart was appointed as an executive director on 19 October 2009. Charles Miller Smith was appointed as a non-executive director on 16 June 2009 and Paul Thomas retired from the Board on 31 August 2009.
(2) Denotes attendance by invitation.

Board allocation of time: Year ended 31 December 2009



The chart to the left summarises the approximate time the Board has spent discussing agenda items during the year, separated into broad categories.

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 Company's policy on directors' and senior managers' remuneration, benefits, share scheme entitlements and pension arrangements is set out in the directors' remuneration report.

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 Annual General Meeting.

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.

Jim Smart was appointed as an executive director on 19 October 2009 and Charles Miller Smith was appointed as a non-executive director on 16 June 2009 and accordingly they will offer themselves for election at the forthcoming AGM. Ian McHoul and David Felwick retire by rotation and, being eligible, offer themselves for re-election at the AGM to be held on 20 May 2010.

Directors' biographical details are provided in the section on the Board of directors and senior management that precedes this report and also in the notice of AGM.

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.

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 a member of the KPMG Advisery Board, 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 half year results 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.

PricewaterhouseCoopers LLP (PwC) have been the Company's auditors since it was listed on the London Stock Exchange in July 2004. The Audit Committee considers that the relationship with auditors is working well and remains satisfied with their effectiveness. Accordingly, it has not considered it necessary to date to require PwC to tender for the audit work. The external auditors are required to rotate the audit partners responsible for the Group and subsidiary audits every five years and the current lead audit partner has been in place for three years. There are no contractual obligations restricting the Company's choice of external auditors.

During the year PwC were employed to complete a number of projects as part of the Group's review of financing arrangements, which began in 2008 and were reported in the last annual report.

Fees incurred in relation to this work amounted to £2.3m in 2009. Before commissioning PwC to undertake the work in 2008, 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 assessed that PwC were 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.

During the year the Committee approved and oversaw the implementation of a new whistle-blowing policy utilising an independent third party, allowing staff to disclose issues of malpractice or wrongdoing by any of the Group's businesses or employees in confidence, without the fear of reprisals. Concerns reported to the service are recorded and reported to the Audit Committee twice a year. Procedures exist for investigating such matters and for appropriate follow-up action to be taken.

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.
- Authorised the implementation of a new Group whistle-blowing policy.
- Considered the external auditors' report for the year ended 31 December 2008.
- Conducted an internal review of the Group's external auditors which included a review of the auditors' independence and objectivity and the effectiveness of the audit process.
- Approved the Company's risk management policy and key business risks.
- Conducted a review of the Group's treasury policy.
- Approved the simplification of the Group's legal entity structure.
- Reviewed matters relating to the Group's key performance indicators and proposals to embed good governance throughout the organisation.

Remuneration Committee

In October 2009, Louise Makin took over as Chairman of the Remuneration Committee from David Felwick. Other members of the Committee were David Felwick and Christine Cross. Christine retired as a director in January 2010. 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.

Information on the activities of the Remuneration Committee is set out in the directors' remuneration report.

Nomination Committee

David Kappler chairs the Nomination Committee, and its other members are Ian McHoul, David Felwick, Louise Makin, David Beever, Christine Cross and Charles Miller Smith. Christine Cross retired as a director in January 2010. 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. 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.

As announced in February 2010, David Kappler is to step down as Chairman during the course of 2010 and a formal succession process has been initiated.

During the year the Committee:

- Approved directors for reappointment at the AGM
- Approved the appointment of a new non-executive director
- Approved the selection and appointment of a new Chief Financial Officer
- Reviewed the composition and expertise of the Board

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

Finance Committee

During the year a new Finance Committee was established to provide additional focus and review in respect of the Group's ongoing financial strategy. The Finance Committee is chaired by David Beever and its other non-executive members are Ian McHoul and Charles Miller Smith. In addition the Chairman, Chief Executive, Chief Financial Officer and the Group Treasurer are also members of the Committee. The Committee, which will normally meet not less than three times a year, has responsibility to review and make recommendations to the Company in relation to matters relating to the Group's capital structure, financing and pensions strategy. The Committee also has responsibility to oversee the governance and activities of the Company's Treasury Committee and Treasury Risk Management Committee.

During the year the Committee:

- Approved the Committee's terms of reference
- Approved a Finance Strategy and Governance framework for the Committee
- Reviewed the Group's swap arrangements
- Undertook an initial review of the Group's financial and pensions strategy

Performance and effectiveness reviews

The Board follows a performance evaluation procedure, which measures its own performance and that of its Committees. In 2009 as previous years, the internal evaluation process was combined with individual performance evaluation as described below:

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

In accordance with good practice the Board carried out a detailed independent review of the Board and Committees' performance during the year. Accordingly, Boardroom Review, an independent consultant, conducted one to one meetings with all Board members during the year and attended Board and Committee Meetings in February. The findings of the review were presented to the Board and where possible are being incorporated into the operation and practices of the Board and its Committees.

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 half year 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, 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 Chief Financial Officer 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 poll vote and made available on the Company's website.

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 strive to support them in all aspects of their training and development through a variety of internal and external training and development schemes. 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 formal performance and development reviews, and we are continuing to develop this process across the entire business.

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

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

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

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. To the extent that control weaknesses are identified as part of this review, necessary actions have been, or are in the process of being, taken to remedy them.

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 which are also formally reported. In addition to the internal audit programme, senior business managers are required to complete comprehensive internal control self assessment questionnaires confirming the operation of internal controls within the business units for which they are responsible throughout the year. The result of this exercise, which also details any material control breakdowns, to the extent that they have occurred, is reviewed initially by the divisional boards and then the Group Executive prior to formal review by the Audit Committee. The self assessments are also tested for accuracy as part of the Internal Audit Process.

Further information in relation to the risk management process adopted by the Company is detailed within the risk management section of this annual report.

Directors' remuneration report

This report, prepared by the Remuneration Committee ("the Committee") on behalf of the Board, has been prepared pursuant to Schedule 8 of the large and medium sized Companies and Groups (Accounts and Reports) Regulations 2008 and the Listing Rules issued by the Financial Services Authority.

Remuneration Committee

Membership

The Committee comprised the following independent non-executive directors during the financial year to 31 December 2009:

Louise Makin (Committee Chairman)
David Felwick CBE
Christine Cross — retired 31 January 2010

On 13 November 2009, Mr Felwick stepped down as Chairman of the Remuneration Committee and was succeeded by Dr Makin.

Meetings

During 2009 the Committee met formally on four occasions with an additional four written resolutions passed in respect of routine business. Details of individual meeting attendance are given in the corporate governance report. The Company Secretary & General Counsel acts as secretary to the Committee. The Chairman, the Chief Executive and the Director of Human Resources are invited to attend the Committee's meetings, when appropriate. They are not involved in discussions concerning their own remuneration.

Role

The Board has delegated to the Remuneration Committee responsibility for reviewing and recommending the pay and benefits and contractual arrangements of the Chairman, executive directors and the Company Secretary & General Counsel, recommending the pay of senior managers 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 for executive directors 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 from the Company Secretary on request and also appear on the Group's website at: www.premierfoods.co.uk

Responsibilities

- To review and recommend the remuneration policy of executive directors and senior managers.
- Within this policy, agreeing individual remuneration packages for the Chairman, executive directors and senior managers.
- Reviewing and recommending the terms and conditions to be included in service agreements for executive directors.
- Reviewing and recommending any employee share-based incentive schemes and where appropriate overseeing any subsequent changes.
- 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 organisational and IT services to the Group. Additional advice in relation to remuneration was provided to the Company's senior management 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:

- Reviewed the remuneration policy for executive directors and senior managers.
- Carried out 2009 salary reviews for executive directors and senior managers.
- Reviewed and recommended the annual bonuses for executive directors and senior executives in respect of 2008 and set the targets for the annual bonus in respect of 2009.
- Reviewed the performance conditions and measures of the Premier Foods Co-Investment plan ("CIP") to ensure that they appropriately incentivised executives and focused on the delivery of shareholder value.
- Granted awards under the CIP and Premier Foods Long-Term Incentive Plan ("LTIP").
- Reviewed and approved a new grading structure for management.
- Determined the extent to which awards under the Executive Share Option Plan, 2006 LTIP and Premier Group Performance Share Plan had vested.

- Granted awards under the Premier Foods employee sharesave scheme, which included all eligible employees in the United Kingdom and Ireland.
- Reviewed and approved the basis of rebasing for the Company's share schemes following the placing and open offer and firm placing completed by the Company in March 2009.

Remuneration policy

Broad policy

The Committee has an ongoing process for monitoring its policies, including the Company's arrangements for performance related pay, against evolving market practice and relevant guidance. This is particularly relevant bearing in mind the restructuring undertaken during the year and the share price performance more generally over recent years. It also remains particularly pertinent in the current economic climate which 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.

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 focuses on performance-related incentives, as well as annual salary, to encourage the alignment of operating objectives and delivery of 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 and to ensure senior executives have sufficient focus on the long-term performance of the Company, 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 at large with the Chief Executive.

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' shareholdings are set out below in the section on directors' interest in ordinary shares.

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 2009, the balance between fixed and variable remuneration for the executive directors was as follows:

	At target	At maximum
Chief Executive	54% Fixed : 46% Variable	27% Fixed : 73% Variable
Chief Financial Officer	56% Fixed : 44% Variable	28% Fixed : 72% Variable
Chief Operating Officer — Hovis and Chilled	55% Fixed : 45% Variable	28% Fixed : 72% Variable

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 2009 salaries of executive directors remained unchanged from 2008. The effective salaries for 2009 were £606,900 for the Chief Executive (2008: £606,900), and £352,275 (2008: £352,275) for the Chief Operating Officer — Hovis and Chilled. For his role as Finance Director, to his retirement on 31 August 2009, Mr Paul Thomas received an annual salary of £408,000 (2008: £408,000). The annual basic salary agreed with Mr Smart on his appointment as Chief Financial Officer on 19 October 2009 was £430,000. Salary levels for 2010 for the Chief Executive, Chief Financial Officer and Chief Operating Officer — Hovis and Chilled will not be increased and will remain at their 2009 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 may 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 guidelines 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 it was agreed that the management of cash would continue to be business critical and as such, the bonus structure implemented for 2008 would be continued in 2009. As a result performance targets for 2009 were set such that 60% of the bonus was based on the delivery of trading profit, 20% was linked to the year-end debt figure and the remaining 20% linked to the achievement of personal performance targets. The annual bonus potentials for 2009 were set at 75% of salary for each of the executive directors with a target level of 50% of salary.

For 2010, the annual bonus will be based on the same criteria as for 2009 and the annual bonus potentials are set at 75% of salary for each of the executive directors, with a target level of 50% of salary. Bonus payments 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 Scheme. 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 Smart receives an allowance in lieu of pension scheme accrual, which may increase subject to the increase in the current notional earnings cap.

Mr Kelly is a member of the RHM Pension Scheme ("RHMPS") 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 RHMPS 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" broadly equivalent to that previously imposed by the Finance Act 1989. Prior to 6 April 2009 RHMPS was operating a pensionable salary freeze. From 6 April 2009, pensionable salary will increase in line with inflation capped at 5% per annum. The first increase to pensionable salary occurred on 6 April 2009. Mr Kelly receives a salary supplement in lieu of receiving no pension in respect of his earnings above the scheme earnings cap.

Other benefits

Each executive director is entitled to a car or car allowance, 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.

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 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. 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).

Awards made under the CIP and LTIP 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.

During the year the Committee reviewed the CIP prior to granting awards under the 2009 grant cycle. The decisions made are detailed below.

Co-Investment Plan (the "CIP")

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 to encourage participants 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 the Company — providing 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.

For awards granted in 2007 and 2008, the Chief Executive was invited to pledge investment shares of up to 200% of salary into the plan and other executive directors were invited to pledge 150% of salary.

Following the review of the Company's capital structure and as anticipated in the 2008 directors' remuneration report, the Remuneration Committee reviewed the structure of awards for the 2009 CIP cycle. This review was completed after last year's Remuneration Report had been published, and as such the Committee wrote to major shareholders to inform them of the outcome.

The Committee determined that for the 2009 grant cycle, individuals would not be invited to participate under the CIP by reference to a salary multiple as in previous years, in recognition of the movement in the Company's share price. Instead, participants were invited to pledge a fixed number of shares into the plan.

In respect of the 2009 cycle grant for the CIP, Mr Schofield was invited to pledge a comparable number of investment shares into the plan as in 2008. At the share price at the time of the invitation, this equated to approximately 67% of his annual base salary. Mr Kelly and Mr Thomas were invited to pledge approximately 61% of their annual base salaries. Mr Smart was invited to join the plan following his appointment in October 2009 and invited to pledge into the plan a comparable number of investment shares into the 2009 grant cycle as that of Mr Kelly and Mr Thomas. Mr Smart pledged investment shares into the plan equating to approximately 60% of his annual base salary.

At tiers of participation below executive director level, participants were invited to pledge approximately 48% of their annual base salaries, as opposed to the previous maximum level of investment of 100% of annual base salary.

The Committee felt this approach struck an appropriate balance between incentivising the senior executive team and recognising evolving best practice.

For awards granted in 2009, it was also decided that vesting of matching awards would continue to be conditional on achievement against a combination of EPS and TSR performance targets structured as a matrix as for awards in previous years. Full vesting of matching awards will still require delivery of exceptional performance under both performance metrics.

The performance matrix applicable to the 2009 awards under the CIP and LTIP is as follows:

	Multiple of nominal award payable									
Actual EPS Growth p.a.	14%+	0%	0%	50%	100%	150%	200%	250%	300%	300%
	12% to < 14.0%	0%	0%	0%	50%	100%	150%	200%	250%	300%
	10% to < 12%	0%	0%	0%	0%	100%	150%	200%	250%	250%
	8% to <10%	0%	0%	0%	0%	50%	100%	150%	200%	250%
	5% to < 8%	0%	0%	0%	0%	50%	100%	100%	150%	200%
	2% to < 5.0%	0%	0%	0%	0%	0%	50%	100%	100%	150%
		10th Percentile	20th Percentile	30th Percentile	40th Percentile	50th Percentile	60th Percentile	70th Percentile	80th Percentile	90th Percentile
	TSR Against FTSE 250 Index Constituents									

Relative TSR will continue to be measured against the FTSE 250, although in addition to Investment Trusts, companies in the Financial Services, Insurance, Real Estate and Oil & Gas sectors were also excluded, as the Committee believed that these were not representative comparators to the Company. The Company's relative TSR will need to be positioned at either the 80th or 90th percentile for the maximum matching award to vest (and this will only occur if very strong EPS growth is achieved).

The EPS thresholds for the 2009 CIP performance matrix, which represent the annualised growth rates calculated by comparing the EPS achieved in FY 2011 with that achieved in the "base year" of 2008, are set out in the table above.

Although the EPS growth targets for the 2009 awards are lower than previous awards, it should be noted that the 2007 and 2008 targets were set in the context of the synergy gains flowing from the acquisitions of RHM and Campbell's. The Committee felt that the majority of these synergy gains have now been extracted.

The Committee believes that the combination of stretching EPS and TSR targets for the 2009 awards appropriately incentivise executives and focus on delivery of shareholder value. It should be noted that a combination of exceptional annual EPS growth and TSR market out-performance is required for the maximum match under the award to be achieved and the Committee believes that the performance scale represents an exceptional level of stretch which will require a confluence of both internal and external factors.

For the 2010 cycle grant, the executive directors will be invited to participate under the CIP by reference to the same invitation levels as 2009. Mr Schofield will be invited to pledge approximately 60% of his base salary, while Mr Smart and Mr Kelly will be invited to pledge approximately 55% of their base salaries.

The Committee intend to conduct a review of the CIP during the year to decide if it remains the most appropriate incentive scheme for executive directors and senior management.

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.

Other long-term incentive schemes

(i) Long-Term Incentive Plan (the "LTIP")

Awards under the LTIP have been made since 2005. Executive directors were last granted an award under the scheme in 2006. It is not currently intended that the executive directors will participate in future awards, but awards are granted to participants below executive director level who do not take part in the CIP.

In recent years, the performance conditions for the LTIP grants for more junior participants have been aligned with the CIP awards (see above), but the Committee intends to keep this under review taking into account the needs of the Company.

For the awards granted in the 2006 grant cycle (in which executive directors participated), vesting was subject to TSR performance measured against two comparator groups. Following the end of the performance period for this award, the Committee determined that since Premier Foods was now positioned below median against both comparator groups, the required TSR performance conditions had not been achieved and the award lapsed in full.

(ii) The Premier Group Performance Share Plan (the "PSP")
Following the acquisition of RHM, former RHM employees were granted replacement "rollover" awards to correspond to the 2005 and 2006 RHM PSP awards which lapsed following the acquisition. The performance condition for these replacement awards were identical to the performance conditions which applied to the equivalent Premier Foods LTIP awards granted in 2005 and 2006.

The performance period for the awards corresponding to the 2006 grant cycle ended in 2009. As noted above in respect of the LTIP awards, since the required TSR performance condition was not achieved, the Committee determined that the awards would lapse in full.

No further awards will be granted under the PSP.

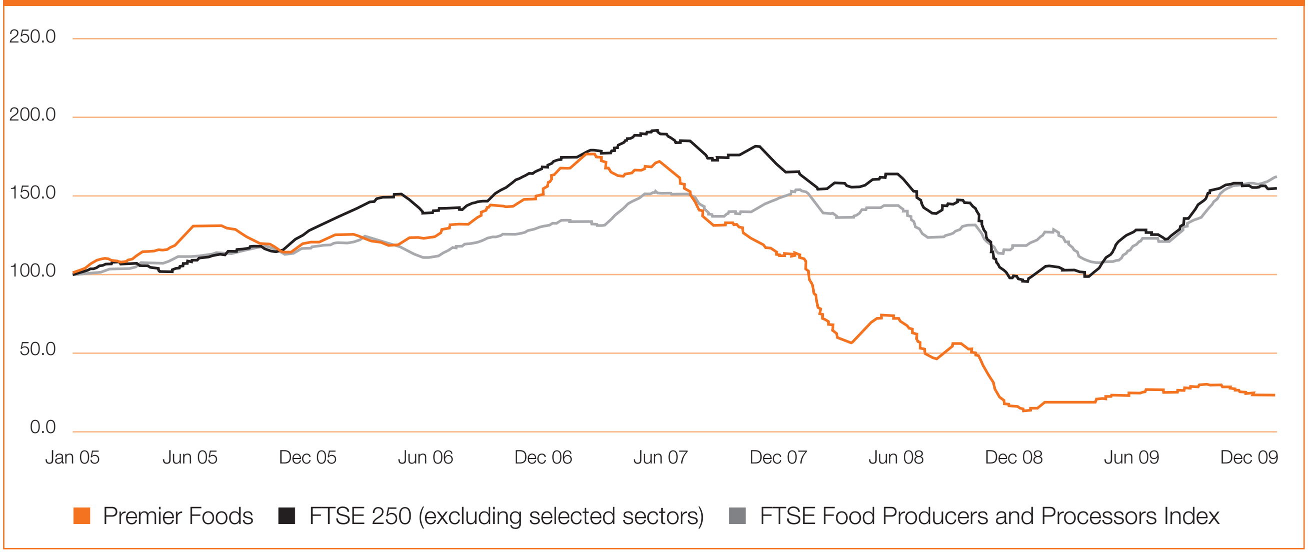
(iii) The Premier Foods plc Executive Share Option Scheme (the "ESOS")
The Company adopted the ESOS at the time of Admission in 2004. No further options will be granted under the ESOS, other than in exceptional circumstances (e.g. in relation to recruitment).

Outstanding vested options held by executive directors under this plan, would require the share price to reach 161.38p prior to exercise.

Performance graph
The following graph shows the TSR performance of the Company over the last five years, 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 — 2005 to 2009



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

Executive directors have service agreements that continue until terminated by 12 months' notice on either side. Mr Schofield's service agreement is dated 20 July 2004, Mr Kelly's service agreement is dated 11 February 2009 and Mr Smart's service agreement is dated 5 October 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 and pension contributions (calculated on a pro rata daily basis) which he would have received during the contractual notice period. Termination payments are to be made in instalments and to the extent that the executive director receives any sums as a result of alternative employment or provision of services while he is receiving such payments from the Company, the payments shall be reduced by the amount of such sums. Entitlements to on-target bonus payments in lieu of notice are included in the service agreements for Mr Schofield and Mr Smart. The Remuneration Committee specifically reviewed this provision during the year, and along with the Company believes that these entitlements continue to be appropriate in certain circumstances when recruiting executive directors. The Remuneration Committee will monitor this policy annually in the context of evolving market practice in this area.

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 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 2009	30 September 2012	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(2)	21 January 2008	21 January 2008	20 January 2011	One month
Charles Miller Smith(1)	16 June 2009	12 June 2009	See below	See below

(1) The appointment period for Mr Miller Smith is governed by the relationship between the Company and WP X Investments Limited ("WPX"), whereby as long as WPX own at least 239,802,158 shares in the Company, they may appoint to the Board, after agreement with the Company, a subscriber director. Mr Miller Smith may terminate his appointment as a director by giving one month's notice in writing.

(2) Retired 31 January 2010.

Paul Thomas

Paul Thomas retired as Group Finance Director, with effect from 31 August 2009. Under the terms of his service agreement, he was entitled to a 12 months' notice period. However, in accordance with that agreement, the Company has agreed to make the following payments in lieu of notice: £408,000 representing the value of his then salary; £204,000 in respect of his on target bonus entitlement; a payment into the pension scheme equivalent to 12 months' contributions; and other contractual entitlements with a total value of £30,300. These sums are to be paid in 12 monthly instalments.

All his awards under the CIP lapsed on his retirement (his 2006 LTIP award having previously lapsed due to the TSR performance condition not having been met). In accordance with the rules of the Deferred Bonus Scheme his shares in respect of the 2006 and 2007 DBS awards (17,275 and 8,220 respectively) were released to him.

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 Dec 2009	As at 31 Dec 2008
Robert Schofield	2,651,358[2]	1,820,043
Paul Thomas[1]	1,497,506[3]	702,800
Jim Smart (appointed 19 October 2009)	750,000	—
Tim Kelly	112,500	50,000
David Kappler	840,424	373,522
David Felwick CBE	235,737	104,772
Louise Makin	58,636	28,283
Ian McHoul	100,000	84,418
David Beever	168,750	75,000
Christine Cross (retired 31 January 2010)	90,659	40,293
Charles Miller Smith (appointed 16 June 2009)	680,272	—

(1) As at 31 August 2009, the date of Mr Thomas's departure from the Board.
(2) Includes 23,623 shares under the 2006 Deferred Bonus Scheme which vested but were not exercised during the year.
(3) Includes 25,495 shares under the 2006 and 2007 Deferred Bonus Scheme which vested on Mr Thomas's departure from the Board.

Directors' share interests include the interests of their spouses, civil partners and infant children, or stepchildren 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 2009 and 9 March 2010.

Information subject to audit

Remuneration of executive directors' year ended 31 December 2009

Details of the payments made to executive directors in respect of the year ended 31 December 2009 are shown below:

	Salary & fees 2009 £	Annual bonus 2009 £	Other payments £	Benefits[5] 2009 £	Total 2009 £	Total 2008 £
Robert Schofield[1]	643,530	133,821	—	20,616	797,967	658,463
Paul Thomas[2]	280,000	136,000	689,300	18,677	1,123,977	442,483
Tim Kelly[3]	401,179	90,887	—	28,208	520,274	210,758
Jim Smart[4]	98,975	—	—	—	98,975	—

(1) Included in the figure for Mr Schofield's salary & fees is a supplement in lieu of pension of £36,630 (2008: £34,920).

(2) Retired as a director on 31 August 2009. Payments under salary & fees and benefits represent payments made to Mr Thomas up to his retirement as a director. The annual bonus of £136,000 represents a pro rata on target bonus. Other payments represent contractual entitlements under Mr Thomas' service contract and with the exception of payment in lieu of holiday entitlement, are payable in 12 monthly instalments.

(3) An additional £8,006 was paid to Mr Kelly in the year for back dated salary relating to his appointment to the Board in 2008. Included in the figure for Mr Kelly's salary & fees is a pension supplement of £38,813.

(4) Appointed as a director on 19 October 2009. Included in the figure for Mr Smart's salary and fees is a supplement in lieu of pension of £7,585. Mr Smart was awarded no bonus in respect of 2009, however, his bonus for 2010 will be increased proportionately to reflect his period of employment to 31 December 2009.

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

Remuneration of non-executive directors

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

	Total fees 2009 £	Total fees 2008 £
David Kappler	234,600	233,450
David Felwick CBE[1]	70,750	71,875
Louise Makin[1]	58,750	56,500
Ian McHoul	70,000	69,375
David Beever[3]	60,250	53,710
Christine Cross	57,000	53,710
Charles Miller Smith[2]	30,875	—

(1) In November 2009, Mr Felwick stepped down as Chairman of the Remuneration Committee and was replaced by Dr Makin. The fee as Chairman of the Committee passed to Dr Makin from that date.

(2) Charles Miller Smith joined the Group on 16 June 2009.

(3) Mr Beever became Chairman of the newly established Finance Committee and received a fee as Chairman of the Committee with effect from October 2009.

The basic fee for a non-executive director, which includes Committee Membership Fees, did not increase during the year remaining at £57,000 (2008: £57,000). The basic fee for the Chairman of the Group also remained unchanged at £234,600 (2008: £234,600). The Chairman of the Remuneration Committee receives £10,500 and the Chairmen of Audit and Finance Committees (constituted in 1 October 2009) receive £13,000. The senior independent director receives an additional fee of £5,000. There are no changes to the fees for the Chairman and other non-executives for 2010.

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 2009, 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 and Savings Related Share Option Scheme:

	Options as at 31 Dec 2008	Granted during the year	Adjusted to take account of placing and open offer[1]	Lapsed/ Cancelled during the year	Options as at 31 Dec 2009	Adjusted exercise price	Exercise period
Robert Schofield	1,108,910[3]	—	56,776	—	1,165,686	161.38p	23.07.07–22.07.14
	9,760[5]	—	499	10,259	—	68.49p	01.12.11–31.05.12
	—	25,208[6]	—	—	25,208	36p	01.12.12–31.05.13
Paul Thomas[2]	660,188[3]	—	33,802	693,990	—	161.38p	23.07.07–22.07.14
	2,938[4]	—	150	3,088	—	186.45p	01.12.10–31.05.11
	4,853[5]	—	248	5,101	—	68.49p	01.12.11–31.05.12
Tim Kelly	9,760[5]	—	499	10,259	—	68.49p	01.12.11–31.05.12
	—	25,208[6]	—	—	25,208	36p	01.12.12–31.05.13

(1) Options adjusted on 19 August 2009 for the placing and open offer and firm placing which took place on 5 March 2009.
(2) Mr Thomas's awards under the ESOS lapsed on 31 August 2009 the date of his retirement from the Board.
(3) Options granted under the Premier Foods plc Executive Share Option Scheme. 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. Under the rules of the award there is provision for one retest of EPS performance targets. The retest of the EPS targets following the 2008 year-end was considered by the Remuneration Committee and it was decided that the portion of the award subject to EPS performance targets vested and became available for exercise.
(4) Options granted under the 2007 Premier Foods plc Savings Related Share Option Scheme.
(5) Options granted on 16 October 2008, under the Premier Foods plc Savings Related Share Option Scheme. These options were cancelled during the year.
(6) Options granted on 9 October 2009, under the Premier Foods plc Savings Related Share Option Scheme. Exercise of these options are not subject to any performance conditions.

On 31 December 2009 the market price of ordinary shares of Premier Foods plc was 35.70 pence and the range during 2009 was 25.0 pence to 45.39 pence.

There were no changes in the options held by the directors between 31 December 2009 and 9 March 2010. 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	1,230,418[(1)]	16.05.10
	15.04.08	125.50p	1,010,826	3,187,741[(1)]	15.04.11
	09.06.09	40.5p	1,062,580	3,187,740	09.06.12
Paul Thomas	16.05.07	315.50p	196,721	620,379[(1)(2)]	16.05.10
	15.04.08	125.50p	509,660	1,607,264[(1)(2)]	15.04.11
	09.06.09	40.5p	642,905	1,928,714[(2)]	09.06.12
Tim Kelly	16.05.07	315.50p	59,000	315,360[(1)]	16.05.10
	15.04.08	125.50p	157,350	841,056[(1)]	15.04.11
	09.06.09	40.5p	555,095	1,665,284	09.06.12
Jim Smart	13.11.09	34.63p	750,000	2,250,000	13.11.12

(1) Options adjusted on 19 August 2009 for the placing and open offer and firm placing which took place in March 2009.
(2) Mr Thomas's awards under the CIP lapsed on 31 August 2009 the date of his retirement from the Board.

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 Dec 2008	Lapsed during the year	Awards held 31 Dec 2009	End of period when qualifying conditions must be met
Robert Schofield	13.04.06	289.75p	198,155	198,155	—	13.04.09
Paul Thomas	13.04.06	289.75p	114,973	114,973	—	13.04.09
Tim Kelly	18.04.07	304.00p	72,685	72,685	—	13.04.09

For awards made in 2006 vesting was subject to the fulfilment of TSR-based performance conditions measured over a three year period against appropriate comparators, and the achievement of EPS growth 2% above the UK Retail Price Index over the performance period.

For awards in 2007 the performance conditions used for the LTIP were aligned to those used for the CIP and vesting was therefore 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) would also apply.

Following the end of the performance period for the 2006 LTIP and PSP in 2009 the Committee determined that the required TSR performance conditions had not been achieved and the awards lapsed in full.

Awards under the scheme were made in the year to senior management and the LTIP will continue to be the primary performance incentive scheme for management below executive Board level.

Pension entitlements

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

	Age at 31 Dec 2009	Years service at 31 Dec 2009	Total accrued benefit at 31 Dec 2009 £	Increase in accrued benefit during the year £	Increase in accrued benefit during the year, excluding inflation £
Robert Schofield	58	4 years 10 months	9,800	500	500
Paul Thomas[1]	54	7 years 2 months	21,400	5,100	5,100
Tim Kelly	52	6 years 4 months	21,500	3,400	3,400

[1] Retired as a director and left the scheme on 31 August 2009.

For each director, the total accrued benefit at 31 December 2009 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 2009. 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 2008.

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

Requirements under:	Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008			The Listing Rules
	Transfer value at 31 Dec 2008 of total accrued benefit £	Transfer value at 31 Dec 2009 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	124,200	142,600	18,400	6,600
Paul Thomas[1]	179,000	264,800	85,800	63,000
Tim Kelly	237,500	341,800	96,100	41,100

[1] Retired as a director and left the scheme on 31 August 2009.

All transfer values have been calculated in accordance with regulation 7 to 7E of the Occupational Pensions Schemes (Transfer Values) Regulations 1996 and subsequent amendments. The transfer values of the accrued 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 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 is the transfer value of the total accrued benefit at 31 December 2009 less the corresponding transfer value at 31 December 2008 less contributions made by the director during the period. The transfer value of the increase in accrued benefits under the Listing Rules is the transfer value at 31 December 2009 of the increase in accrued benefits during the period (excluding inflation) less contributions made by the directors during the period.

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.

Dr Louise Makin
Chairman of the Remuneration Committee
Premier Foods plc
9 March 2010

Independent auditors' report to the members of Premier Foods plc

We have audited the Group financial statements of Premier Foods plc for the year ended 31 December 2009 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated balance sheet, the consolidated statement of cash flows, the consolidated statement of changes in equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Respective responsibilities of directors and auditors

As explained more fully in the statement of directors' responsibilities set out on pages 52 to 53, the directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the Group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the Group financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 December 2009 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the information given in the directors' report for the financial year for which the Group financial statements are prepared is consistent with the Group financial statements; and
- the information given in the risk management section set out on pages 36 to 41 and the corporate governance statement set out on pages 55 to 60 in the "Annual report and accounts 2009" with respect to internal control and risk management systems and about share capital structures is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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

- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- a corporate governance statement has not been prepared by the Parent Company.

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 54, in relation to going concern; and
- the part of the corporate governance statement relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

Other matter

We have reported separately on the Parent Company financial statements of Premier Foods plc for the year ended 31 December 2009 and on the information in the directors' remuneration report that is described as having been audited.

Ranjan Sriskandan
(Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
9 March 2010

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 2009 which comprise the Company Balance Sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of directors and auditors

As explained more fully in the statement of directors' responsibilities set out on pages 52 to 53, the directors are responsible for the preparation of the Parent Company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the Parent Company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the Parent Company financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2009;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

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

Matters on which we are required to report by exception

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

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

Other matter

We have reported separately on the Group financial statements of Premier Foods plc for the year ended 31 December 2009.

Ranjan Sriskandan
(Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
9 March 2010

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 Dec 2009 £m	Year ended 31 Dec 2008 (Restated)[1] £m
Continuing operations			
Turnover	4	**2,661.0**	2,603.6
Cost of sales		**(1,863.0)**	(1,819.5)
Gross profit		**798.0**	784.1
Selling, marketing and distribution costs		**(356.0)**	(351.0)
Administrative costs		**(253.2)**	(479.1)
Net other operating (expenses)/income	5	**(12.3)**	4.6
Operating profit/(loss)	7	**176.5**	(41.4)
Before exceptional items		**236.3**	255.1
Impairment of goodwill	6	**–**	(194.4)
Other exceptional items	6	**(59.8)**	(102.1)
Interest payable and other financial charges	9	**(179.8)**	(186.1)
Interest receivable and other financial income	9	**11.3**	41.6
Net movement on fair valuation of interest rate financial instruments	9	**38.7**	(218.9)
Profit/(loss) before taxation for continuing operations		**46.7**	(404.8)
Taxation (charge)/credit	10	**(6.8)**	30.6
Profit/(loss) after taxation for continuing operations		**39.9**	(374.2)
Loss from discontinued operations	12	**(14.7)**	(70.5)
Profit/(loss) for the year attributable to equity shareholders		**25.2**	(444.7)
Basic and diluted earnings/(loss) per share (pence)[1,2]	11	**1.2**	(49.1)
Basic and diluted earnings/(loss) per share (pence) — continuing[1,2]	11	**1.9**	(41.3)
Basic and diluted loss per share (pence) — discontinued[2]	11	**(0.7)**	(7.8)
Adjusted earnings per share (pence) — continuing[1,2,3]	11	**5.8**	14.4

1 The 31 December 2008 comparatives have been restated to reflect an increased share-based payment charge following the amendment to IFRS 2.
2 Comparatives have been restated to reflect the impact of the placing and open offer and firm placing in the year.
3 Adjusted earnings per share is defined as trading profit less net regular interest payable, less a notional tax charge at 28% (2008: 28.5%) divided by the weighted average number of ordinary shares of the Company.

The notes on pages 81 to 122 form an integral part of the consolidated financial statements.

Consolidated statement of comprehensive income

	Note	**Year ended 31 Dec 2009 £m**	Year ended 31 Dec 2008 (Restated)[1] £m
Profit/(loss) for the year		**25.2**	(444.7)
Other comprehensive income			
Actuarial (losses)/gains on pensions	26	**(468.8)**	56.2
Deferred tax credit/(charge) on actuarial (losses)/gains on pensions		**132.1**	(18.8)
Exchange differences on translation		**(4.4)**	10.8
Fair value movement on net investment hedge		**5.7**	(19.9)
Translation reserves relating to disposals	13	**(6.1)**	–
Net investment hedge relating to disposals	13	**7.2**	–
Total other comprehensive income for the year		**(334.3)**	28.3
Total comprehensive income attributable to owners of the Company		**(309.1)**	(416.4)

1 Comparatives have been restated to reflect an increased share-based payment charge following the amendment to IFRS 2.

The notes on pages 81 to 122 form an integral part of the consolidated financial statements.

Consolidated balance sheet

	Note	As at 31 Dec 2009 £m	As at 31 Dec 2008 £m
ASSETS:			
Non-current assets			
Property, plant and equipment	15	**635.2**	638.9
Goodwill	16	**1,371.3**	1,371.3
Other intangible assets	17	**1,108.4**	1,159.5
Retirement benefit assets	26	**–**	163.7
Total non-current assets		**3,114.9**	3,333.4
Current assets			
Assets held for sale	14	**1.8**	124.4
Inventories	19	**214.0**	238.8
Trade and other receivables	20	**347.0**	337.0
Financial assets — derivative financial instruments	23	**2.5**	21.2
Cash and cash equivalents	28	**19.4**	40.6
Total current assets		**584.7**	762.0
Total assets		**3,699.6**	4,095.4
LIABILITIES:			
Current liabilities			
Trade and other payables	21	**(485.0)**	(539.8)
Financial liabilities			
— short-term borrowings	22	**(152.5)**	(174.8)
— derivative financial instruments	23	**(162.4)**	(250.3)
— other financial liabilities at fair value through profit or loss	23	**(36.8)**	–
Accrued interest payable		**(13.7)**	(22.8)
Provisions	25	**(15.9)**	(23.6)
Current income tax liabilities		**(2.5)**	(4.1)
Liabilities held for sale	14	**–**	(56.5)
Total current liabilities		**(868.8)**	(1,071.9)
Non-current liabilities			
Financial liabilities			
— long-term borrowings	22	**(1,232.0)**	(1,632.6)
Retirement benefit obligations	26	**(428.5)**	(175.2)
Provisions	25	**(31.0)**	(28.1)
Other liabilities		**(9.7)**	(2.7)
Deferred tax liabilities	24	**(64.7)**	(193.1)
Total non-current liabilities		**(1,765.9)**	(2,031.7)
Total liabilities		**(2,634.7)**	(3,103.6)
Net assets		**1,064.9**	991.8
EQUITY:			
Capital and reserves			
Share capital	27	**24.0**	8.5
Share premium	27	**1,124.7**	760.6
Merger reserve	27	**890.7**	890.7
Other reserves	27	**(10.1)**	(23.0)
Profit and loss reserve	27	**(964.5)**	(645.1)
Capital and reserves attributable to the Company's equity shareholders		**1,064.8**	991.7
Minority interest	27	**0.1**	0.1
Total shareholders' funds		**1,064.9**	991.8

The notes on pages 81 to 122 form an integral part of the consolidated financial statements.

Signed on behalf of the Board of directors, who approved the financial statements on 9 March 2010.

Robert Schofield
Director and
Chief Executive

Jim Smart
Director and
Chief Financial Officer

Consolidated statement of cash flows

	Note	Year ended 31 Dec 2009 £m	Year ended 31 Dec 2008 £m
Cash generated from operating activities	28	**219.4**	188.3
Interest paid		**(162.5)**	(150.4)
Interest received		**10.8**	45.0
Taxation received		**0.6**	0.1
Cash inflow from operating activities		**68.3**	83.0
Sale of subsidiaries	13	**45.2**	–
Purchase of property, plant and equipment		**(57.3)**	(129.8)
Purchase of intangible assets		**(27.6)**	(31.2)
Sale of property, plant and equipment		**9.4**	26.4
Cash outflow from investing activities		**(30.3)**	(134.6)
Repayment of borrowings		**(438.8)**	(178.7)
Proceeds from borrowings		**–**	291.6
Proceeds from securitisation programme		**–**	22.4
Financing costs	28	**(26.1)**	(20.2)
Proceeds from share issue	27	**403.9**	–
Share issue costs	27	**(24.3)**	–
Dividends paid		**–**	(54.7)
Cash (outflow)/inflow from financing activities		**(85.3)**	60.4
Net (outflow)/inflow of cash and cash equivalents		**(47.3)**	8.8
Cash and cash equivalents at beginning of year		**33.7**	23.8
Effect of movement in foreign exchange		**(1.5)**	1.1
Cash and cash equivalents at end of year	28	**(15.1)**	33.7

The notes on pages 81 to 122 form an integral part of the consolidated financial statements.

Consolidated statement of changes in equity

	Share capital £m	Share premium £m	Merger reserve £m	Other reserves £m	Profit and loss reserve £m	Minority interest £m	Total £m
At 1 January 2009	**8.5**	**760.6**	**890.7**	**(23.0)**	**(645.1)**	**0.1**	**991.8**
Profit for the year	**–**	**–**	**–**	**–**	**25.2**	**–**	**25.2**
Other comprehensive income	**–**	**–**	**–**	**12.9**	**(347.2)**	**–**	**(334.3)**
Shares issued	**15.5**	**388.4**	**–**	**–**	**–**	**–**	**403.9**
Cost of shares issued	**–**	**(24.3)**	**–**	**–**	**–**	**–**	**(24.3)**
Share-based payments	**–**	**–**	**–**	**–**	**2.6**	**–**	**2.6**
At 31 December 2009	**24.0**	**1,124.7**	**890.7**	**(10.1)**	**(964.5)**	**0.1**	**1,064.9**
At 1 January 2008	8.5	760.6	890.7	(3.1)	(196.5)	0.1	1,460.3
Loss for the year[1]	–	–	–	–	(444.7)	–	(444.7)
Other comprehensive income	–	–	–	(19.9)	48.2	–	28.3
Dividends paid	–	–	–	–	(54.7)	–	(54.7)
Share-based payments[1]	–	–	–	–	3.1	–	3.1
Tax on share-based payments	–	–	–	–	(0.5)	–	(0.5)
At 31 December 2008	8.5	760.6	890.7	(23.0)	(645.1)	0.1	991.8

1 Comparatives have been restated to reflect an increased share-based payment charge of £0.9m following the amendment to IFRS 2.

The notes on pages 81 to 122 form an integral part of the consolidated financial statements.

Notes to the financial statements

1. General information

Premier Foods plc (the "Company") is a public limited company incorporated in England and Wales under the Companies Act 1985 (as amended and restated), registered number 5160050, with its registered office at Premier House, Centrium Business Park, Griffiths Way, St Albans, Hertfordshire, AL1 2RE. The principal activities of the Company and its subsidiaries (the "Group") are food manufacturing, processing and distribution. Further information about the Group's activities can be found in the "Group at a glance" section of this annual report.

These Group consolidated financial statements were authorised for issue by the Board of directors on 9 March 2010.

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. In 2008, the report of the auditors was unqualified but contained an emphasis of matter in respect of the Group's ability to continue as a going concern. The material uncertainty, as described in note 2.1 of the Group's financial statements for the year ended 31 December 2008, has been addressed following the resolution passed at the Extraordinary General Meeting on 23 March 2009 to approve the placing and open offer and firm placing. See note 27 for further details.

The consolidated financial statements of Premier Foods plc have been prepared in accordance with International Financial Reporting Standards ("IFRS") as endorsed by the European Union ("EU"), International Financial Reporting Interpretation Committee ("IFRIC") interpretations, and the Companies Act 2006 applicable to companies reporting under IFRS, and on the historical cost basis with the exception of derivative financial instruments, defined benefit pension schemes and share-based payments which are incorporated using fair value. The principal accounting policies adopted are set out below.

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

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

IAS 1 (Revised) — "Presentation of financial statements"
IFRS 2 (Amendment) — "Vesting conditions and cancellations"
IFRS 7 (Amendment) — "Financial instruments: disclosures"
IFRS 8 — "Operating segments"
IAS 23 (Revised) — "Borrowing costs"
IFRS 1/IAS 27 — "Cost of an Investment in a subsidiary, jointly controlled entity or associate"
IAS 1/IAS 32 (Amendment) — "Puttable financial instruments and obligations arising on a liquidation"
IAS 39 — "Financial Instruments: recognition and measurement"
IFRIC 9/IAS 39 (Amendment) — "Embedded derivatives"
IFRIC 13 — "Customer loyalty programmes"
IFRIC 14 — "IAS 19 — The limit on a defined benefit asset, minimum funding requirements and their Interaction"

The application of International Accounting Standard ("IAS") 1 (Revised) has resulted in the Group presenting both a consolidated statement of comprehensive income and a consolidated statement of changes in equity as primary statements. The consolidated statement of changes in equity presents all changes in equity, and the consolidated statement of comprehensive income presents all changes in financial position other than through transactions with owners. This presentation has been applied in these consolidated financial statements for the year ended 31 December 2009. Comparative information has been represented so that it is also in conformity with the revised standard.

IFRS 2 (Amendment) — "Vesting conditions and cancellations" has been implemented during the year and the prior year results have been restated. The effect of this restatement has been to increase administrative costs and therefore increase the operating loss for the year ended 31 December 2008 by £0.9m and to increase the charge to the profit and loss reserve by the same amount.

The impact of the application of IFRS 8 is disclosed in note 4.

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

2. Accounting policies continued

New standards and interpretations not applied

Up to and during the year ended 31 December 2009, the IASB and the IFRIC have issued the following standards and interpretations with an effective date (as endorsed by the EU) after the date of these financial statements:

		Effective for accounting periods beginning on or after:
International Financial Reporting Standards		
IFRS 1 (Revised)	First time adoption of IFRS	1 July 2009
IFRS 3 (Revised)	Business combinations	1 July 2009
IAS 27 (Revised)	Consolidated and separate financial statements	1 July 2009
IFRS 1/IAS 27 (Amendment)	Cost of an investment in a subsidiary, jointly controlled entity or associate	1 July 2009
IAS 39 (Amendment)	Financial instruments: recognition and measurement on eligible hedged items	1 July 2009
IAS 32 (Amendment)	Financial instruments: presentation on classification of rights issues	1 February 2010
International Financial Reporting Interpretations Committee		
IFRIC 15	Agreement for the construction of real estate	1 January 2010
IFRIC 16	Hedges of a net investment in a foreign operation	1 July 2009
IFRIC 17	Distributions of non-cash assets to owners	1 July 2009
IFRIC 18	Transfers of assets from customers	31 October 2009

These standards will be adopted by the Group in future accounting periods. The impact of the application of the amendment to IFRS 7 is disclosed in note 23.

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.

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

International Financial Reporting Standards	
IFRS 1 (Amendment)	Additional exemptions
IFRS 1 (Amendment)	First time adoption
IFRS 2 (Amendment)	Share-based payments — Group cash-settled share-based payment transactions
IFRS 9	Financial instruments
IAS 24 (Amendment)	Related party disclosures
International Financial Reporting Interpretations Committee	
IFRIC 14 (Amendment)	Prepayments of a minimum funding requirement
IFRIC 19	Extinguishing financial liabilities with equity instruments

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.

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) 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. Accounting policies continued

2.4 Segmental reporting
Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision Maker. The Chief Operating Decision Maker is responsible for allocating resources and assessing performance of the operating segments. See note 4 for further details.

2.5 Share-based payments
The 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. Monetary assets and liabilities denominated in foreign currencies are translated into sterling, the Group's presentational currency, at rates of exchange ruling at the end of the financial year.

The results of overseas subsidiaries with functional currencies other than in sterling are translated into sterling at the average rate of exchange ruling in the year. The balance sheets of overseas subsidiaries are translated into sterling at the closing rate. Exchange differences arising from retranslation at year end exchange rates of the net investment in foreign subsidiaries are recorded in reserves as a separate component of equity. When a foreign operation is sold exchange differences previously taken to equity are recognised in the income statement as part of the gain or loss on sale.

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

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

2.7 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 IFRSs and the accounting policies of the Group.

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

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

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

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

2. Accounting policies continued

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

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

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

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

2.12 Interest
(i) Interest expense
Borrowing costs are accounted for on an accruals basis in the income statement using the effective interest method.

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

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

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

2.14 Inventories
Inventory is valued at the lower of cost and net realisable value. Where appropriate, cost includes production and other attributable overhead expenses as described in IAS 2 “Inventories”. Cost is calculated on a first in, first out basis by reference to the invoiced value of supplies and attributable costs of bringing the inventory to its present location and condition.

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

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

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

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

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

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

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

2. Accounting policies continued

Defined benefit plans

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

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

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

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

Defined contribution plans

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

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

2.17 Provisions

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

2.18 Contingent liabilities and contingent assets

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

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

2.19 Financial instruments

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

Trade and other receivables

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

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

Cash and cash equivalents

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

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

2. Accounting policies continued

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

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

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

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

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

Other items at fair value through profit or loss
Other items at fair value through profit or loss are initially recognised at fair value on the date the contract is entered into and are subsequently remeasured at their fair value. Movements in fair value are recorded within the net movement on fair valuation of interest rate financial instruments. See notes 9 and 23 for further details.

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, Company and scheme specific factors influencing each of these assumptions, using professional advice, in order to record the Group's ongoing commitment and obligation to defined benefit schemes in accordance with IFRS. One such assumption is the assumption of mortality rates and how these are expected to change in the future. If the Group's assumption on the mortality of its members was amended to assume an increase of a further one year improvement in mortality, total liabilities would increase by approximately 3.6%. Each 0.1% decrease or increase in bond yields would increase or decrease the deficit by a further £52m. Each 0.1% increase or decrease in the assumed inflation rate would increase or decrease the deficit by a further £25m. Each of the underlying assumptions is set out in more detail in note 26.

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

The Group has considered the impact of the assumptions used on the calculations and has conducted sensitivity analysis on the impairment tests of the CGUs' carrying values. See note 16 for further details.

Acquired trade marks, brands, customer relationships, recipes and similar assets are considered to have finite lives that range from 7 to 40 years. The determination of the useful lives takes into account certain quantitative factors such as sales expectations and growth prospects, and also many qualitative factors such as history and heritage, and market positioning, hence the determination of useful lives are subject to estimates and judgement. For further details see note 17.

3. Critical accounting policies, estimates and judgements continued

3.3 Advertising and promotion costs

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

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

3.4 Exceptional items

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

3.5 Securitisation

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

3.6 Financial instruments

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

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

4. Segmental analysis

IFRS 8 requires operating segments to be determined based on the Group's internal reporting to the Chief Operating Decision Maker ("CODM"). The CODM has been determined to be the Chief Executive Officer and Chief Financial Officer as they are primarily responsible for the allocation of resources to segments and the assessment of performance of the segments. Previously, segments were determined and presented in accordance with IAS 14 "Segment Reporting".

The CODM uses trading profit, as reviewed at monthly business review meetings, as the key measure of the segments' results as it reflects the segments' underlying trading performance for the period under evaluation. Trading profit is a consistent measure within the Group and the reporting of this measure at the monthly business review meetings, which are organised according to product types, has been used to identify and determine the Group's operating segments. Trading profit is defined as operating profit before exceptional items, amortisation of intangible assets, the revaluation of foreign exchange and other derivative contracts under IAS 39 and pension credits or charges in relation to the difference between the expected return on pension assets, administration costs and interest costs on pension liabilities.

Following the adoption of IFRS 8, the Group revised its operating and reporting segments. The Group's operating segments were originally defined as "Grocery", "Hovis", "Retailer Branded Chilled", "Ireland" and "Meat-free". Certain of these operating segments have been aggregated and the Group reports on three continuing segments within the business: "Grocery", "Hovis" and "Other".

The Grocery and Ireland operating segments were previously aggregated into the Grocery reporting segment which sells ambient food products. The Group's Irish operations were transferred from the former Chilled & Ireland segment into the Grocery reporting segment as this reflects the fact that the businesses have similar economic characteristics, sell similar products using similar distribution methods and share common customer types.

In response to the significant strategic changes in the Irish customer base and the decision to rationalise the Irish operations (see note 6), the Group no longer reports Ireland internally as a separate operating segment to the CODM as it is now considered to be part of the Grocery operating segment. This has not impacted the reporting segments as the Grocery and Ireland operating segments were previously aggregated.

The Hovis reporting segment comprises the Hovis operating segment, which now includes the Charnwood Foods frozen pizza base business from the former Chilled & Ireland segment. The Hovis segment sells bread, morning goods, flour products and frozen pizza bases.

The Other reporting segment comprises the Retailer Branded Chilled and Meat-free operating segments, both from the former Chilled & Ireland segment. These businesses have been included in the Other reporting segment as they do not meet the relevant quantitative thresholds and do not have similar economic characteristics and therefore can not be aggregated into their own separate reporting segment under IFRS 8. The Other segment includes businesses which sell chilled ready meals and cakes and Meat-free products.

Comparative information has been restated to reflect these new segments.

4. Segmental analysis continued

The segment results for the year ended 31 December 2009 and for the year ended 31 December 2008 and the reconciliation of the segment measures to the respective statutory items included in the consolidated financial statements are as follows:

Year ended 31 Dec 2009	Grocery £m	Hovis £m	Other £m	Total for Group £m
Turnover from continuing operations				
External	1,574.5	741.6	344.9	2,661.0
Inter-segment	4.0	27.0	4.4	35.4
Result				
Trading profit	256.0	41.9	25.2	323.1
Amortisation of intangible assets				(78.7)
Fair value movements on foreign exchange and other derivative contracts				(6.3)
Pension financing charge				(1.8)
Operating profit before exceptional items				236.3
Exceptional items				(59.8)
Operating profit				176.5
Interest payable and other financial charges				(179.8)
Interest receivable and other financial income				11.3
Net movement on fair valuation of interest rate financial instruments				38.7
Profit before taxation for continuing operations				46.7
Depreciation	27.2	17.0	8.1	52.3
Amortisation	43.9	18.3	16.5	78.7
Impairment of assets held for sale	–	1.0	–	1.0
Balance sheet				
Segment assets	2,414.2	694.0	564.0	3,672.2
Unallocated assets				27.4
Consolidated total assets				3,699.6

Year ended 31 Dec 2008 (Restated)[1]	Grocery £m	Hovis £m	Other £m	Total for Group £m
Turnover from continuing operations				
External	1,502.2	770.0	331.4	2,603.6
Inter-segment	3.6	43.8	4.2	51.6
Result				
Trading profit	250.7	24.2	34.4	309.3
Amortisation of intangible assets				(76.7)
Fair value movements on foreign exchange and other derivative contracts				6.9
Pension financing credit				15.6
Operating profit before exceptional items				255.1
Exceptional items				(296.5)
Operating loss				(41.4)
Interest payable and other financial charges				(186.1)
Interest receivable and other financial income				41.6
Net movement on fair valuation of interest rate financial instruments				(218.9)
Loss before taxation for continuing operations				(404.8)
Depreciation	27.1	15.9	7.7	50.7
Amortisation	41.9	18.3	16.5	76.7
Impairment of PPE	0.1	11.3	–	11.4
Impairment of goodwill	–	194.4	–	194.4
Balance sheet				
Segment assets	2,482.1	929.8	616.0	4,027.9
Unallocated assets				67.5
Consolidated total assets				4,095.4

1 Comparatives have been restated to reflect the new segmental reporting requirements under IFRS 8 and the increased share-based payment charge following the amendment to IFRS 2.

4. Segmental analysis continued

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

Inter-segment transfers or transactions are entered into under the same terms and conditions that would be available to unrelated third parties. As a consequence of extensive integration of the business, certain operating costs have been incurred centrally. These costs are allocated to reporting segments on an appropriate basis depending on the various cost drivers and therefore the total segment result is equal to the Group's total trading profit.

Segment assets comprise property, plant and equipment, goodwill and intangible assets, inventories, receivables and retirement benefit assets and exclude cash and cash equivalents, derivative assets and certain Corporate assets that are not able to be allocated to the Group's reporting segments.

Revenues of approximately £503.7m and £349.5m (2008: £479.6m and £322.8m) are derived from two external customers. These revenues are attributable across the three reporting segments above.

The Group primarily supplies the UK market, although it also supplies certain products to other European countries and a number of other countries. The following table provides an analysis of the Group's turnover, which is allocated on the basis of geographical market destination and an analysis of the Group's non-current assets (excluding retirement benefit assets) by geographical location.

Continuing operations — turnover

	Year ended 31 Dec 2009 £m	Year ended 31 Dec 2008 £m
United Kingdom	2,498.3	2,433.5
Other Europe	134.9	144.6
Rest of world	27.8	25.5
Total for Group	**2,661.0**	2,603.6

Non-current assets

	As at 31 Dec 2009 £m	As at 31 Dec 2008 £m
United Kingdom	3,049.9	3,103.3
Other Europe	65.0	66.4
Total for Group	**3,114.9**	3,169.7

5. Net other operating expenses/(income)

	Year ended 31 Dec 2009 £m	Year ended 31 Dec 2008 £m
Loss/(gain) on mark to market valuation of foreign exchange contracts and other derivatives	6.3	(6.9)
Loss on disposal of fixed assets	1.2	1.3
Net other operating expenses	4.8	1.0
Total net other operating expenses/(income)	**12.3**	(4.6)

6. Exceptional items

During the year, the Group has seen a reduction in exceptional expenditure following the completion of its major administrative, integration and manufacturing rationalisation programmes. Expenditure relating to the remaining elements of its restructuring and integration programmes and costs associated with the refinancing of the Group, are the primary factors behind total non-recurring integration and exceptional costs during the year.

		Year ended 31 Dec 2009 £m	Year ended 31 Dec 2008 £m
Exceptional items — continuing operations			
Integration of RHM UK operations	(a)	**25.2**	60.6
Integration of Campbell's UK operations	(b)	**1.5**	6.3
Integration of Irish operations	(c)	**2.3**	6.0
Restructure of Meat-free operations	(d)	**1.2**	3.5
Hovis restructuring and other costs	(e)	**10.9**	21.1
Other restructuring costs	(f)	**6.0**	4.2
Gain on property disposals	(g)	**(4.1)**	(2.1)
Goodwill impairment	(h)	**–**	194.4
Total operating exceptional items		**43.0**	294.0
Refinancing costs	(i)	**16.8**	2.5
Total exceptional items		**59.8**	296.5

(a) Integration of RHM UK operations

On 16 March 2007, the Group acquired RHM plc. During 2009, the Group has completed its factory closure programme but residual costs were incurred from the commissioning of equipment and production transferred to remaining Group manufacturing sites. Redundancy and restructuring costs have been incurred relating to the move of existing administrative functions to a Group-wide share service centre in Manchester and the integration of certain warehousing facilities into other Group warehouses. The current adverse market conditions have also resulted in a charge to increase onerous property lease provisions.

(b) Integration of Campbell's UK operations

On 14 August 2006, the Group acquired Campbell's Grocery Products Limited. The charge during this year primarily related to an increase in an onerous property lease provision, again driven by the current adverse market conditions. The integration of the manufacturing operations and warehousing facilities at King's Lynn into the existing operations of the Group was largely completed in the previous year.

(c) Integration of Irish operations

The recession in Ireland has resulted in significant strategic changes by the Group's Irish customer base, with moves to sourcing products directly from the UK and a shift from primarily store-based trading to central purchasing and distribution. The Group has responded quickly to these changes and on 1 December 2009, the Group announced its decision to rationalise part of its Irish operations.

In the previous year, restructuring costs were incurred after the Group completed the principal phases of integrating its Irish companies into a single operating business.

(d) Restructure of Meat-free operations

During the year, the Group has performed a strategic review of its Meat-free manufacturing facilities in order to address production inefficiencies at its chilled facility at Methwold. Costs have been incurred during the year on commercial supply chain restructuring initiatives to address these issues at Methwold. The current year charge also included an increase in an onerous property lease provision, again driven by the current adverse market conditions.

In the previous year, the Group incurred commissioning costs from its Methwold site to enable the integration of chilled production for *Quorn* and *Cauldron* products on a single site.

(e) Hovis restructuring and other costs

The Hovis business has completed a number of restructuring projects in 2009 which involved headcount reductions through organisational and structural changes, new warehouse technology and operating methods, supply chain management restructuring initiatives and various compliance related initiatives. The current year charge also includes an impairment recognised against our site in Hull.

The previous year exceptional charges also included 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 costs

This category incorporates a variety of other exceptional costs, including redundancy and restructuring costs relating to other cost reduction initiatives associated with our warehousing network, factory transformation programme and other supply chain initiatives. It also includes training linked to the implementation of our new ERP software, professional fees and production commissioning costs.

The previous year exceptional charges relate to costs associated with general business restructuring and factory transformation, the restructuring of our warehousing network and supply chain, training and a number of compliance related initiatives.

6. Exceptional items continued

(g) Gain on property disposals

The net disposal gain of £4.1m in the year primarily relates to the disposal of our site at King's Lynn. The gain in the previous year related to the disposal of sites and plant and equipment 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 was recognised in the year ended 31 December 2008 against the goodwill allocated to the Hovis CGU due to the significant increase in the discount rate used to calculate the recoverable amount of the Hovis CGU.

(i) Refinancing costs

Advisory fees have been incurred during the year relating to the placing and open offer and firm placing (see note 27), amended lending agreements (see notes 9 and 22), renegotiation of interest rate swaps and new pensions framework.

7. Operating profit/(loss) for continuing operations

7a. Analysis of costs by nature

	Year ended 31 Dec 2009 £m	Year ended 31 Dec 2008 (Restated)[1] £m
Cost of inventories sold	**1,512.7**	1,463.3
Employee benefits expense (note 8)	**524.7**	504.5
Depreciation of property, plant and equipment:		
— owned assets	**52.1**	50.5
— under finance leases	**0.2**	0.2
Amortisation of intangible assets:		
— software and licences	**9.7**	7.7
— brands and trade marks	**34.3**	34.3
— customer relationships	**34.7**	34.7
Impairment of inventory	**4.2**	5.6
Impairment of assets held for sale	**1.0**	–
Impairment of property, plant and equipment	**–**	11.4
Impairment of goodwill	**–**	194.4
Operating lease rental payments:		
— plant and machinery	**17.1**	21.2
— land and buildings	**13.5**	8.8
Repairs and maintenance expenditure	**57.2**	54.5
Research and development costs	**3.7**	5.1
Gain on disposal of property, plant and equipment/intangible assets	**(2.9)**	(0.8)
Net foreign exchange gain	**(9.0)**	(5.1)
Auditor remuneration	**3.8**	2.2

1 The 31 December 2008 comparatives have been restated to reflect an increased share-based payment charge following the amendment to IFRS 2.

Operating lease obligations are further disclosed in note 29.

7b. Auditor remuneration

	Year ended 31 Dec 2009 £m	Year ended 31 Dec 2008 £m
Fees payable to the Company's auditors for the audit of the Parent Company and consolidated financial statements	**0.6**	0.6
Fees payable to the Company's auditors and their associates for other services:		
— The audit of the Company's subsidiaries, pursuant to legislation	**0.6**	0.7
— Other services relating to taxation	**–**	0.2
— Other services pursuant to legislation	**–**	0.1
— Services relating to corporate finance transactions	**2.3**	3.1
Total auditor remuneration	**3.5**	4.7

Included within total fees paid to the auditors of £3.5m (2008: £4.7m) were £2.3m (2008: £3.1m) of costs which were directly attributable to the financing negotiations and equity raising detailed in notes 9, 22 and 27. In 2008, £2.5m out of the £3.1m relating to corporate finance transactions was held on the balance sheet. In 2009, £2.2m of this amount was taken to share premium relating to the issue of shares and the balance was written off giving a total operating profit charge of auditors' remuneration in 2009 of £3.8m (2008: £2.2m).

In 2009, fees of £10,750 (2008: £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.

8. Employees

	Year ended 31 Dec 2009 £m	Year ended 31 Dec 2008 (Restated)[1] £m
Staff costs for the Group during the year for continuing operations		
Wages and salaries	**454.7**	429.2
Social security costs	**42.2**	38.4
Termination benefits	**12.5**	15.6
Share options granted to directors and employees	**2.6**	3.1
Pension costs — defined contribution plans (note 26)	**1.1**	1.1
Pension current service costs — defined benefit plans (note 26)	**11.6**	17.1
Total staff costs	**524.7**	504.5

1 The 31 December 2008 comparatives have been restated to reflect an increased share-based payment charge following the amendment to IFRS 2.

Average monthly number of people employed (including executive directors) for continuing operations:

	Number	Number
Management	**564**	583
Administration	**1,874**	1,857
Production, distribution and other	**13,661**	13,473
Total average headcount	**16,099**	15,913

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 61 to 73, which form part of these financial statements.

9. Interest payable and receivable

On 5 March 2009, the Group announced revised financing arrangements including a share issuance, changes to lending agreements to provide greater covenant and liquidity headroom and the extension of the maturity of the facility. These revised financing arrangements were approved by ordinary shareholders at an Extraordinary General Meeting on 23 March 2009.

The amendments to the Group's Term and Revolving Credit Facilities included a rephasing of the facilities to provide additional liquidity and covenant headroom and an extension of the maturity date to December 2013. The total facility as at 31 December 2009 was £1,780m and will be amortised by £50m in both June and December of each year until December 2013.

In respect of these amendments to the existing facilities and arrangement of the new facilities, the Group incurred costs of £26.1m, £3.0m of which were immediately charged to the income statement.

On 5 March 2009, the Group amended the break clauses in one of its long dated swaps to make it consistent with other long dated swaps.

At the same time the Group also restructured two other swaps into one new swap which resulted in an amendment to the payment terms and an amendment to the break clauses, being an optional break at August 2012 and a mandatory break at June 2013. The terms were also amended such that it will now settle at either break point for a mark to market payment to the counterparty bank. As a result of these amendments, a new contract was recognised which comprises both an underlying host as well as embedded derivatives. This hybrid instrument was classified within a new class of financial liabilities being "Other financial liabilities at fair value through profit or loss".

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 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. These short-term facilities were fully repaid on 23 December 2008 and the facilities terminated.

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 in the year to 31 December 2008.

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 were expensed in the year to 31 December 2008.

9. Interest payable and receivable continued

	Year ended 31 Dec 2009 £m	Year ended 31 Dec 2008 £m
Interest payable on bank loans and overdrafts	**16.7**	35.0
Interest payable on term facility	**61.7**	96.0
Interest payable on revolving facility	**12.6**	29.6
Interest payable on interest rate derivatives	**60.7**	–
Interest payable on interest rate financial liabilities designated as other liabilities at fair value through profit or loss	**1.7**	–
Unwind of discount on provisions	**1.0**	0.9
Amortisation of debt issuance costs and deferred fees	**12.6**	7.6
	167.0	169.1
Exceptional write-off of financing costs	**3.0**	17.0
Accelerated amortisation of debt issuance costs	**9.8**	–
Total interest payable and other financial charges	**179.8**	186.1
Interest receivable on bank deposits	**(10.6)**	(16.8)
Interest receivable on interest rate derivatives	**(0.7)**	(24.8)
Total interest receivable and other financial income	**(11.3)**	(41.6)
Movement on fair valuation of interest rate derivatives	**(75.5)**	218.9
Movement on fair valuation of interest rate financial liabilities designated as other financial liabilities at fair value through profit or loss	**36.8**	–
Net movement on fair valuation of interest rate financial instruments	**(38.7)**	218.9
Net interest payable	**129.8**	363.4

The fair value of interest rate swaps and other financial liabilities at fair value through profit or loss has fallen from a £237.4m liability at 31 December 2008 to a £198.7m liability at 31 December 2009 resulting in a net credit of £38.7m for the year due to amortisation (refer to note 23) offset by a change in the yield curve. The liability at 31 December 2009 represents the net present value of the interest cash flows calculated using the contracted fixed rates compared to the net present value of interest cash flows that would arise if the interest was calculated on a floating basis.

10. Tax on profit on ordinary activities

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

	Continuing operations £m	Discontinued operations £m	Total £m
2009			
Current tax			
— Prior years	**(4.0)**	**1.4**	**(2.6)**
Overseas current tax			
— Current year	**0.7**	**0.7**	**1.4**
— Prior years	**(0.2)**	**0.9**	**0.7**
Deferred tax (note 24)			
— Current year	**15.2**	**(15.8)**	**(0.6)**
— Prior years	**(4.9)**	**–**	**(4.9)**
Income tax charge/(credit) for the year	**6.8**	**(12.8)**	**(6.0)**
2008			
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 (note 24)			
— Current year	(24.3)	0.2	(24.1)
— Prior years	(1.5)	0.6	(0.9)
Income tax (credit)/charge for the year	(30.6)	3.1	(27.5)

10. Tax on profit on ordinary activities continued

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

	Year ended 31 Dec 2009 £m	Year ended 31 Dec 2008 £m
Deferred tax charge on share options	–	0.5
Deferred tax (credit)/charge on pension movements	(117.7)	19.2
Current tax credit on pension movements	(14.4)	(0.4)
	(132.1)	19.3

The tax credit from continuing operations for the year differs from the standard rate of corporation tax in the UK of 28.0% for the year ended 31 December 2009, and 28.5% for the year ended 31 December 2008. The reasons for this are explained below:

	Year ended 31 Dec 2009 £m	Year ended 31 Dec 2008 (Restated)[1] £m
Profit/(loss) before taxation for continuing operations	46.7	(404.8)
Tax charge/(credit) at the domestic income tax rate of 28% (2008: 28.5%)	13.1	(115.4)
Tax effect of:		
Non-deductible exceptional items	4.5	63.6
Other disallowable items	0.3	1.5
Adjustment to reflect the abolition of tax relief for industrial buildings	–	25.4
Adjustment for share-based pay	0.9	2.2
Adjustment due to current year deferred tax being provided at 28%	–	1.2
Previously unrecognised losses utilised	(2.9)	–
Adjustments to prior years	(9.1)	(9.1)
Income tax charge/(credit)	6.8	(30.6)

1 The 31 December 2008 comparatives have been restated to reflect an increased share-based payment charge following the amendment to IFRS 2.

11. Earnings Per Share

Basic earnings per share has been calculated by dividing the profit attributable to ordinary shareholders of £25.2m (2008: £444.7m loss) by the weighted average number of ordinary shares of the Company.

	Year ended 31 Dec 2009			Year ended 31 Dec 2008 (Restated)[1]		
	Basic	Dilutive effect of share options	Diluted	Basic	Dilutive effect of share options	Diluted
Continuing operations						
Profit/(loss) after tax (£m)	39.9	–	39.9	(374.2)	–	(374.2)
Weighted average number of shares (m)	2,079.0	–	2,079.0	905.3	–	905.3
Earnings/(loss) per share (pence)	1.9	–	1.9	(41.3)	–	(41.3)
Discontinued operations						
Loss after tax (£m)	(14.7)	–	(14.7)	(70.5)	–	(70.5)
Weighted average number of shares (m)	2,079.0	–	2,079.0	905.3	–	905.3
Loss per share (pence)	(0.7)	–	(0.7)	(7.8)	–	(7.8)
Total						
Profit/(loss) after tax (£m)	25.2	–	25.2	(444.7)	–	(444.7)
Weighted average number of shares (m)	2,079.0	–	2,079.0	905.3	–	905.3
Earnings/(loss) per share (pence)	1.2	–	1.2	(49.1)	–	(49.1)

1 The 31 December 2008 comparatives have been restated to reflect an increased share-based payment charge following the amendment to IFRS 2.
2 Comparatives have been restated to reflect the impact of the placing and open offer and firm placing in the year.

11. Earnings Per Share continued

Adjusted earnings per share ("Adjusted EPS")

Adjusted earnings per share is defined as trading profit less net regular interest payable, less a notional tax charge at 28.0% (2008: 28.5%) 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, administration costs and interest costs on pension liabilities.

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

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

	Year ended 31 December 2009		
	Continuing £m	**Discontinued £m**	**Total £m**
Operating profit/(loss)	176.5	(27.4)	149.1
Exceptional items	59.8	27.9	87.7
Operating profit before exceptional items	236.3	0.5	236.8
Pension financing charge	1.8	–	1.8
Fair value movements on foreign exchange and other derivative contracts	6.3	–	6.3
Amortisation of intangible assets	78.7	–	78.7
Trading profit	323.1	0.5	323.6
Less net regular interest payable	(154.7)	–	(154.7)
Adjusted profit before tax	168.4	0.5	168.9
Notional tax at 28%	(47.1)	(0.1)	(47.2)
Adjusted profit after tax	121.3	0.4	121.7
Average shares in issue (m)	2,079.0	2,079.0	2,079.0
Adjusted EPS (pence)	5.8	–	5.8
Net regular interest payable			
Net interest payable	129.8	0.1	129.9
Exclude exceptional write-off of financing costs	(3.0)	–	(3.0)
Exclude accelerated amortisation of debt issuance costs	(9.8)	–	(9.8)
Exclude fair value adjustments on interest rate financial instruments	38.7	–	38.7
Exclude unwind of discount on provisions	(1.0)	(0.1)	(1.1)
Net regular interest payable	154.7	–	154.7

	Year ended 31 December 2008 (Restated)[1]		
	Continuing £m	Discontinued £m	Total £m
Operating loss	(41.4)	(68.1)	(109.5)
Exceptional items	296.5	71.9	368.4
Operating profit before exceptional items	255.1	3.8	258.9
Pension financing credit	(15.6)	–	(15.6)
Fair value movements on foreign exchange and other derivative contracts	(6.9)	–	(6.9)
Amortisation of intangible assets	76.7	5.3	82.0
Trading profit	309.3	9.1	318.4
Less net regular interest (payable)/receivable	(126.6)	0.1	(126.5)
Adjusted profit before tax	182.7	9.2	191.9
Notional tax at 28.5%	(52.1)	(2.6)	(54.7)
Adjusted profit after tax	130.6	6.6	137.2
Average shares in issue (m)	905.3	905.3	905.3
Adjusted EPS (pence)	14.4	0.7	15.1
Net regular interest payable/(receivable)			
Net interest payable/(receivable)	363.4	(0.7)	362.7
Exclude exceptional write-off of financing costs	(17.0)	–	(17.0)
Exclude fair value adjustments on interest rate financial instruments	(218.9)	–	(218.9)
Exclude unwind of discount on provisions and receivables	(0.9)	0.6	(0.3)
Net regular interest payable/(receivable)	126.6	(0.1)	126.5

1 The 31 December 2008 comparatives have been restated to reflect an increased share-based payment charge following the amendment to IFRS 2.
2 Comparatives have been restated to reflect the impact of the placing and open offer and firm placing in the year.

11. Earnings Per Share continued

Dilutive effect of share options

The dilutive effect of share options is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The only dilutive potential ordinary shares of the Company are share options. A calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to the outstanding share options.

For the years ended 31 December 2009 and 31 December 2008, there is no dilutive effect as the outstanding share options that could have been acquired at fair value is less than the monetary value of the subscription rights attached to these options.

The issue of 1,553,416,776 ordinary shares during the year has been included in determining the weighted average for the current year (see note 27).

No adjustment is made to the profit or loss in calculating undiluted and diluted earnings/loss per share.

	2009 Number	2008 Number[1]
Weighted average number of ordinary shares for the purpose of basic earnings/(loss) per share	2,079,022,507	905,269,075
Effect of dilutive potential ordinary shares:		
— Share options	–	–
Weighted average number of ordinary shares for the purpose of diluted earnings/(loss) per share	2,079,022,507	905,269,075

1 Comparatives have been restated to reflect the impact of the placing and open offer and firm placing in the year.

12. Discontinued operations

During the year, the Group disposed of its speciality bakery businesses, Martine Spécialités S.A.S. ("Martine"), Le Pain Croustillant ("LPC") and Sofrapain S.A.S. ("Sofrapain"). The sale of Martine and LPC completed on 2 March 2009 and the sale of Sofrapain completed on 30 April 2009.

The results of the speciality bakery businesses are included in discontinued operations in the Group's consolidated income statement up to the date effective control was transferred. Effective control of Sofrapain was transferred on 6 February 2009 and for LPC and Martine on 28 February 2009. The speciality bakery businesses were sold for £47.5m before disposal costs. The results of discontinued operations for the year are as follows:

	Year ended 31 Dec 2009 £m	Year ended 31 Dec 2008 £m
Turnover	21.4	173.0
Operating expenses	(24.3)	(241.1)
Operating loss before taxation	(2.9)	(68.1)
Interest payable	(0.1)	(0.3)
Interest receivable	–	1.0
Loss before taxation	(3.0)	(67.4)
Taxation charge	(0.7)	(3.1)
Loss after taxation on discontinued operations for the year	(3.7)	(70.5)
Loss on disposal before taxation	(24.5)	–
Tax credit on loss on disposal	13.5	–
Loss on disposal after taxation	(11.0)	–
Total loss arising from discontinued operations	(14.7)	(70.5)

The net loss in the previous year from discontinued operations included the results of the speciality bakery businesses and property proceeds, which the Group was entitled to under the terms of the sale of our Netherlands-based subsidiary, Jonker Fris BV, on 8 December 2005.

During the year, discontinued operations contributed to a net outflow of £6.6m (2008: £16.2m inflow) to the Group's net operating cash flows, and a £0.5m outflow to investing activities (2008: £4.0m outflow) and an outflow of £nil (2008: £0.3m outflow) in respect of financing activities.

13. Disposal of subsidaries/businesses

During the year, the Group disposed of its speciality bakery businesses. The impact on the results of the Group is disclosed in note 12. On the dates of disposal, the net assets of the businesses, the consideration and the loss on disposal were as follows:

	£m
Property, plant and equipment	36.5
Intangible assets and goodwill	42.8
Inventories	9.2
Trade and other receivables	24.0
Trade and other payables	(41.5)
Provisions and lease obligations	(4.9)
Pension obligation	(0.9)
Translation reserves relating to speciality bakery businesses	(6.1)
Net investment hedge relating to speciality bakery businesses	7.2
Net assets disposed	66.3
Less net consideration	(41.8)
Loss on disposal before tax	24.5
Taxation credit on loss on disposal	(13.5)
Loss on disposal after tax	11.0
Net cash inflow arising on disposal:	
Initial consideration	47.5
Disposal costs	(2.3)
Net cash inflow for the year	45.2

In the previous year, £3.4m of disposal costs were paid for and classified within cash flow from operating activities.

14. Assets and liabilities held for sale

	2009 £m	2008 £m
Non-current assets		
Property, plant and equipment	1.8	45.6
Goodwill	–	15.3
Other intangible assets	–	27.5
Other non-current assets	–	0.4
Current assets:		
Inventories	–	9.0
Trade and other receivables	–	26.6
Total assets held for sale	1.8	124.4
Current liabilities		
Trade and other payables	–	(41.0)
Financial liabilities — short-term borrowings	–	(0.4)
Current income tax liabilities	–	(1.0)
Non-current liabilities		
Financial liabilities — long-term borrowings	–	(1.3)
Provisions	–	(3.0)
Other liabilities	–	(0.6)
Deferred tax liabilities	–	(9.2)
Total liabilities held for sale	–	(56.5)
Net assets and liabilities held for sale	1.8	67.9

As at 31 December 2009, the non-operational property at Hull was classified as an asset held for sale. This disposal has taken longer than anticipated due to adverse market conditions; however, the contract for sale has been completed in January 2010.

As at 31 December 2008, properties at King's Lynn and Hull were classified as assets held for sale and assets and liabilities relating to the speciality bakery businesses were classified as held for sale following the receipt of firm offers for these businesses.

15. Property, plant and equipment

	Freehold land and buildings £m	Long leasehold land and buildings £m	Short leasehold land and buildings £m	Vehicles, plant and equipment £m	Total £m
Cost					
At 1 January 2008	145.2	10.7	31.5	517.2	704.6
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
At 31 December 2008	**140.6**	**8.8**	**31.2**	**570.0**	**750.6**
Additions	**7.1**	**–**	**–**	**44.4**	**51.5**
Disposals	**–**	**–**	**–**	**(4.6)**	**(4.6)**
Reclassifications	**(0.8)**	**–**	**(0.1)**	**0.9**	**–**
Foreign exchange	**–**	**–**	**–**	**(0.1)**	**(0.1)**
At 31 December 2009	**146.9**	**8.8**	**31.1**	**610.6**	**797.4**
Aggregate depreciation and impairment					
At 1 January 2008	1.4	0.6	1.2	94.3	97.5
Depreciation charge for the year	6.8	0.8	1.0	47.9	56.5
Disposal	(0.9)	–	(0.3)	(43.7)	(44.9)
Impairment	2.3	–	1.6	7.5	11.4
Reclassification	–	–	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
At 31 December 2008	**8.3**	**0.6**	**4.3**	**98.5**	**111.7**
Depreciation charge for the year	**5.7**	**0.5**	**0.8**	**45.3**	**52.3**
Disposal	**–**	**–**	**–**	**(1.7)**	**(1.7)**
Foreign exchange	**–**	**–**	**–**	**(0.1)**	**(0.1)**
At 31 December 2009	**14.0**	**1.1**	**5.1**	**142.0**	**162.2**
Net book value 31 December 2008	132.3	8.2	26.9	471.5	638.9
Net book value 31 December 2009	**132.9**	**7.7**	**26.0**	**468.6**	**635.2**

The net book value of the Group's vehicles, plant and equipment includes an amount of £0.7m (2008: £0.9m) in respect of assets held under finance leases.

At 31 December 2009, the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £14.8m (2008: £22.8m).

The impairment in 2008 of £11.4m mostly related to the closure of our mill in Rotherham and an impairment against certain plant and machinery relating to discontinued production lines. The impairment charge reflected the difference between the carrying value of assets and their expected recoverable amounts. Recoverable amounts were determined on the basis of value in use or fair value less costs to sell.

As at 31 December 2009, the rate used to discount the forecasted cash flows was 11.8% (2008: 11.1%). No property, plant and equipment were impaired in 2009.

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

16. Goodwill

	2009 £m	2008 £m
Cost		
At 1 January	**1,371.3**	1,649.5
Impairment — continuing	**–**	(194.4)
Impairment — discontinuing	**–**	(68.5)
Transferred to held for sale	**–**	(15.3)
At 31 December	**1,371.3**	1,371.3

As a result of the integration programme undertaken by the Group, the previously disclosed CGUs have been changed to more closely align them with the new segmental structure, which was effective from 1 January 2009.

This has resulted in four CGUs in which Goodwill acquired in various business combinations has been allocated. Goodwill previously allocated to the Cake and Ireland CGUs has been allocated to the Grocery CGU. During the year, the Chilled CGU has been renamed as Brookes Avana.

The new CGUs are as follows:

	2009 £m	2008 (Restated)[1] £m
Grocery	**948.0**	948.0
Brookes Avana	**170.7**	170.7
Hovis	**163.0**	163.0
Meat-free	**89.6**	89.6
Net carrying value of goodwill	**1,371.3**	1,371.3

1 The 31 December 2008 comparatives have been restated into their new CGUs.

Impairment tests for goodwill

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

Key assumptions

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

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% (2008: 2.25%) and is not considered to be higher than the average long-term industry growth rate.

Discount rate

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

The Group has considered the impact of the current economic climate in determining the appropriate discount rate to use in impairment testing. At 31 December 2009, the pre-tax rate used to discount the forecasted cash flows has been determined to be 11.8% (2008: 11.1%).

16. Goodwill continued

Impairment

No impairment charge has been recognised in the year (2008: £262.9m).

The current economic climate has increased the discount rate adopted by the Group due to the higher level of return expected by equity holders (due to the continued perceived risk and volatility in equity markets). The Group has considered this impact on the assumptions used and has conducted sensitivity analysis on the impairment test of the Brookes Avana CGU's carrying value. This has not resulted in any impairment of the carrying value at 31 December 2009 as the CGU's recoverable amount exceeds its carrying value by £6.9m. However, the CGU's recoverable amount would be comparable to its carrying value if the discount rate were to increase by 0.5%. Any favourable change in assumptions in future periods will result in additional headroom.

With regards to the remaining CGUs, 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.

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., was 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 CGUs has been undertaken by assessing the CGU's value-in-use.

In 2008, included within the impairment charge is £68.5m recognised against the goodwill allocated to the speciality bakery businesses and was recorded within discontinued operations. The residual goodwill attributable to these businesses of £15.3m was transferred to assets held for sale (refer to note 14).

In 2008, a further charge of £194.4m was recognised against the goodwill allocated to the Hovis CGU (which is included within the Hovis segment) thereby reducing the carrying value of this CGU to its recoverable amount. This impairment arose as a result of the significant increase in discount rate in 2008. Any favourable change in assumptions in future periods will result in additional headroom; however, any adverse change would result in additional impairment.

17. Other intangible assets

	Software/ licences £m	Brands/ trade marks £m	Customer relationships £m	Total £m
Cost				
At 1 January 2008	57.3	989.7	280.0	1,327.0
Additions	31.2	–	–	31.2
Transferred to held for sale	–	–	(37.0)	(37.0)
At 31 December 2008	**88.5**	**989.7**	**243.0**	**1,321.2**
Additions	**27.6**	**–**	**–**	**27.6**
Disposals	**(1.1)**	**–**	**–**	**(1.1)**
At 31 December 2009	**115.0**	**989.7**	**243.0**	**1,347.7**
Amortisation				
At 1 January 2008	8.1	49.4	31.7	89.2
Charge for the year	7.7	34.3	40.0	82.0
Transferred to held for sale	–	–	(9.5)	(9.5)
At 31 December 2008	**15.8**	**83.7**	**62.2**	**161.7**
Disposals	**(1.1)**	**–**	**–**	**(1.1)**
Charge for the year	**9.7**	**34.3**	**34.7**	**78.7**
At 31 December 2009	**24.4**	**118.0**	**96.9**	**239.3**
Net book value 31 December 2008	72.7	906.0	180.8	1,159.5
Net book value 31 December 2009	**90.6**	**871.7**	**146.1**	**1,108.4**

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

Included in the software additions for the year above are £7.3m of internal costs (2008: £6.5m).

As at 31 December 2009, the Group's borrowings are secured on the assets of the Group including other intangible fixed assets.

17. Other intangible assets continued

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

Brand/Trade mark	Carrying value at 31 Dec 2009 £m	Estimated useful life remaining years
Bisto	163.3	27
Hovis	148.8	37
Oxo	100.5	37
Batchelors	86.1	27
Sharwood's	77.2	27
Quorn	67.8	26
Mr Kipling	63.6	27

18. Investments

Principal subsidiaries

Name of Subsidiary	Country of incorporation or registration and principal operations	Principal activity	Effective interest in ordinary share capital at 31 Dec 2009	2008
Operating subsidiaries				
Chivers Hartley Limited	United Kingdom	Spreads and pickles manufacturing	**100%**	100%
H.L. Foods Limited	United Kingdom	Manufacture and distribution of soups, meat, 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	United Kingdom	Meat-free manufacturing	**100%**	100%
Premier Grocery Products Ireland Limited	Republic of Ireland	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%
Other subsidiaries				
Premier Brands Foods Limited	United Kingdom	Intermediate holding company	**100%**	100%
Premier Financing Limited	United Kingdom	Intermediate holding company	**100%**	100%
Premier Foods (Holdings) Limited	United Kingdom	Intermediate holding company	**100%**	100%
Premier Foods Investments Limited	United Kingdom	Financing company	**100%**	100%
Premier Foods Investments No. 1 Limited	United Kingdom	Intermediate holding company	**100%**	100%
Premier Foods Investments No. 2 Limited	United Kingdom	Intermediate holding company	**100%**	100%
Premier Foods Investments No. 3 Limited	United Kingdom	Intermediate holding company	**100%**	100%
Premier Foods 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 has the same year-end as Premier Foods plc. The companies listed above are those that materially affect the results and the assets of the Group. A full list of subsidiary undertakings is available from the Company Secretary.

On 1 January 2010, the Group undertook an internal reorganisation which resulted in the transfer of the trade and assets of Chivers Hartley Limited, H.L. Foods Limited, Premier Ambient Products (UK) Limited and Premier International Foods UK Limited to a fellow subsidiary, Premier Foods Group Limited.

19. Inventories

	2009 £m	2008 £m
Raw materials	**79.3**	88.4
Work in progress	**4.5**	5.8
Finished goods and goods for resale	**130.2**	144.6
Inventories	**214.0**	238.8

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

20. Trade and other receivables

	2009 £m	2008 £m
Trade receivables	**308.2**	287.4
Trade receivables impaired	**(7.7)**	(6.0)
Net trade receivables	**300.5**	281.4
Prepayments	**22.3**	19.6
Interest receivable	**1.1**	0.6
Other tax and social security receivable	**13.2**	20.0
Other receivable	**9.9**	15.4
Trade and other receivables	**347.0**	337.0

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

21. Trade and other payables

	2009 £m	2008 £m
Trade payables	**386.2**	431.6
Other tax and social security payable	**7.8**	11.4
Other payables	**48.9**	56.6
Accruals	**42.1**	40.2
Trade and other payables	**485.0**	539.8

22. Bank and other borrowings

	2009 £m	2008 £m
Due within one year:		
Secured Senior Credit Facility — Term (note a)	**100.0**	150.6
Debt issuance costs	**(1.0)**	(0.8)
	99.0	149.8
Bank overdrafts	**34.5**	6.9
Total bank borrowings due within one year	**133.5**	156.7
Finance lease obligations (note 23)	**0.5**	0.6
Other unsecured loans (note c)	**18.5**	17.5
Total borrowings due within one year	**152.5**	174.8
Due after more than one year:		
Secured Senior Credit Facility — Working Capital (note b)	**–**	10.0
	–	10.0
Secured Senior Credit Facility — Revolving (note a)	**67.9**	450.0
Debt issuance costs	**(5.0)**	(3.4)
	62.9	446.6
Secured Senior Credit Facility — Term (note a)	**1,179.9**	1,181.0
Debt issuance costs	**(11.7)**	(6.2)
	1,168.2	1,174.8
Finance lease obligations (note 23)	**0.9**	1.1
Other unsecured loans	**–**	0.1
Total other	**0.9**	1.2
Total borrowings due after one year	**1,232.0**	1,632.6
Total bank and other borrowings	**1,384.5**	1,807.4

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".

22. Bank and other borrowings continued

(a) Senior Term Credit Facility and Revolving Credit Facility Arrangement — 2009

On 5 March 2009, the Group entered into a supplemental agreement with its banks amending certain terms of its Senior Term Credit Facility and Revolving Credit Facility Arrangement of 16 March 2007.

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

The Senior Term Credit Facility now comprises £1,430m of Term facilities (of which £100m was immediately repaid in April 2009 after the successful equity raising), and a multi-currency Revolving Credit Facility of up to £500m (or its equivalent in other currencies). The final maturity date of the above arrangements is 31 December 2013.

(b) 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. The Working Capital line was fully repaid in March 2009 as a result of the refinancing and the facility terminated. The £125m of short-term facility was fully repaid on 23 December 2008 and the facility terminated.

(c) Other unsecured loans

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

23. Financial instruments

The Group's activities expose it to a variety of financial risks: market risk (arising from adverse movements in interest rates, commodity prices, and foreign currency), credit risk and liquidity risk. The Group uses a variety of derivative financial instruments to manage certain of these risks. The management of these risks, along with the day-to-day management of treasury activities, is performed by the Group Treasury function. The policy framework governing the management of these risks is defined by the Finance Committee, a sub-committee of the Board. The framework for management of these risks is incorporated into a policies and procedures manual.

The Group also enters into contracts with suppliers for its principal raw material requirements, some of which are considered commodities, and also diesel and energy. These commodity and energy contracts are part of the Group's normal purchasing activities. Some of the risk relating to diesel is mitigated with the use of derivative financial instruments.

(a) Market risk

(i) Foreign exchange risk

The Group's main operating entities' functional currencies and the Group's presentational currency is sterling although some transactions are executed in non-sterling currencies, including euros, US dollars, Canadian dollars, Swiss francs and Swedish kronor. The transactional amounts realised or settled are therefore subject to the effect of movements in these currencies against 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. A portion of the translation exposure resulting from these euro denominated profits and overseas net assets is hedged.

As at 31 December 2009, the Group has euro denominated borrowings of €22.3m (2008: €74.2m) designated as a hedge of euro denominated assets.

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

Principal rate of exchange €/£	Year ended 31 Dec 2009	Year ended 31 Dec 2008
Year end	**1.1185**	1.0310
Average	**1.1142**	1.2541

23. Financial instruments continued

The majority of the Group's assets and liabilities are denominated in the functional currency of the relevant division or subsidiary.

The table below shows the Group's currency exposures as at 31 December 2009 and 2008 that gave rise to net currency gains and losses recognised in the consolidated income statement as a result of monetary assets and liabilities that are not denominated in the functional currency of the subsidiaries involved.

	Functional currency of subsidiaries		
	Sterling £m	Euro £m	Total £m
At 31 December 2009			
Net foreign currency monetary assets/(liabilities)			
Sterling	**–**	**0.4**	**0.4**
Euro	**(7.9)**	**–**	**(7.9)**
US dollar	**0.7**	**–**	**0.7**
Other currencies	**0.2**	**–**	**0.2**
Total	**(7.0)**	**0.4**	**(6.6)**
At 31 December 2008			
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
Total	12.8	2.6	15.4

In addition, the Group also has forward foreign currency exchange contracts outstanding at the year end in order to manage the exposures above but also to hedge future transactions in foreign currencies. The sterling nominal amounts outstanding are as follows:

	2009 Payable/ (receivable) £m	2008 Payable/ (receivable) £m
Euro	**46.0**	32.2
US dollar	**46.9**	47.6
Swiss franc	**(1.8)**	(1.7)
Swedish krona	**(2.7)**	(2.3)
Total	**88.4**	75.8

If the euro were to weaken against sterling by 10 cents, with all other variables held constant, post-tax profit would decrease by £1.7m (2008: £3.5m).

If the euro were to strengthen against sterling by 10 cents, with all other variables held constant, post-tax profit would increase by £2.7m (2008: £3.2m).

This is primarily driven by the effect on the mark to market valuation of the foreign exchange derivatives of the Group as the hedged rates are above the spot rate.

If the euro were to weaken against sterling by 10 cents, the foreign exchange movement taken to equity in relation to the Net Investment Hedge would be an additional £1.6m gain (2008: £6.4m gain).

If the euro were to strengthen against sterling by 10 cents, the foreign exchange movement taken to equity in relation to the Net Investment Hedge would be an additional £2.0m loss (2008: £7.7m loss).

If the US dollar were to weaken against sterling by 20 cents, with all other variables held constant, post-tax profit would decrease by £3.4m (2008: £6.0m).

If the US dollar were to strengthen against sterling by 20 cents, with all other variables held constant, post-tax profit would increase by £4.9m (2008: £7.9m).

(ii) Commodity price risk

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

23. Financial instruments continued

(iii) Interest rate risk

The Group's borrowing facilities comprise term debt and a revolving facility, principally in sterling. Interest is charged at floating rates plus a margin on the amounts drawn down, and at half the margin for the non-utilised portion of the facility, hence the borrowings are sensitive to changes in interest rates.

The Group then seeks to mitigate the effect of adverse movements in interest rates by entering into derivative financial instruments that reduce the level of exposure to floating rates. The target of fixed/capped debt is defined in the Group Treasury policy and procedures, however, the amount hedged can be amended subject to agreement by the Finance Committee. Hedge accounting is not sought for these transactions.

The gross cash flows on the interest rate derivatives are sensitive to changes in interest rates as they are driven by three month LIBOR which is reset on a quarterly basis. As at 31 December 2009 the reset rate was 0.605%.

The weighted average interest rate for these derivative financial instruments is as follows:

	Weighed average interest rate %
Currency Sterling	
At 31 December 2009	**6.0**
At 31 December 2008	7.1

The following table reflects the likely contractual maturity date of the interest rate derivative contracts taking into account zero cost call features, where market rates at the balance sheet date indicate they will be triggered by the banks, 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 28 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
At 31 December 2009							
Derivative financial liabilities:							
Fixed rate	**125.0**	**–**	**–**	**50.0**	**–**	**–**	**175.0**
Cap and floor structure	**–**	**–**	**350.0**	**–**	**–**	**–**	**350.0**
Long dated callable swaps	**–**	**–**	**225.0**	**150.0**	**–**	**25.0**	**400.0**
Other callable swaps	**–**	**–**	**–**	**275.0**	**–**	**–**	**275.0**
Other financial liabilities at fair value through profit or loss:							
Other callable swaps	**–**	**–**	**150.0**	**–**	**–**	**–**	**150.0**
	125.0	**–**	**725.0**	**475.0**	**–**	**25.0**	**1,350.0**
At 31 December 2008							
Derivative financial liabilities:							
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
	340.0	225.0	50.0	625.0	385.0	25.0	1,650.0

Fixed rate derivatives with a nominal value of £175m (2008: £465m) are conventional interest rate swaps whose maturities are between 2010 and 2013. One swap of £50m (2008: £50m) has a callable option whereby the counterparty bank can cancel the swap at nil cost at certain specified dates from June 2011 onwards.

The cap and floor structures have a nominal value of £350m (2008: £350m) with caps set at 6.15% to 6.25% and floor rates between 4.31% and 4.55%. In addition, when LIBOR rates are beneath the floor strike price, a digital option is triggered which results in the Group paying interest at 5.75% on all of these instruments for three months.

Long dated swaps of £400m (2008: £600m) include £400m of swaps which have callable options whereby the counterparty bank can cancel the swap at nil cost at certain specified dates. Of these contracts, £250m (2008: £400m) have a stated maturity date of 2037, £150m have a maturity date of 2023 (2008: £150m), and £nil of 2013 (2008: £50m). These swaps have an average fixed rate of 4.87% (ranging between 4.52% and 5.21%). Of the contracts in place, £100m are currently callable with a further £150m becoming callable from 30 September 2010, and the remainder being callable from September 2011 onwards (all at nil cost).

On 5 March 2009, the Group restructured two long dated swaps (one swap with a nominal value of £50m and another with a nominal value of £100m) into one new swap of £150m so as to amend the break clauses to an optional break at August 2012 and a mandatory break at June 2013, and also amend its terms such that it will now settle at either break point for a mark to market payment to the counterparty bank. The swap was structured to amortise the fair value at 5 March 2009 over the life of the new contract. In addition, a derivative element provides for an adjustment to the payments should interest rates rise above 7%. As a result, a new contract was recognised which comprises both an underlying host as well as embedded derivatives. This hybrid instrument was classified within a new class of liabilities being "Other financial liabilities at fair value through profit or loss".

23. Financial instruments continued

The earliest contractual maturity date of this is August 2012 (within two and three years). The current fair value as at 31 December 2009 is £36.8m, and based on the current yield curve the mark to market payment in August 2012 would be £32.6m.

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 pays a fixed rate of interest of an average 4.51% for each quarter when the rate is below the trigger. These contracts are also callable at nil cost.

In addition, the Group has entered into a debt securitisation programme which has the effect of reducing the interest cost 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 Group's provisions of £46.9m as at 31 December 2009 (2008: £51.7m) include £16.6m relating to onerous leases which are considered to be floating rate financial liabilities. These cash flows are discounted where the effect is material.

At 31 December 2009, for every 50 basis points reduction in rates below the last floating reset rate of 0.605% (based on three month LIBOR), with all other variables held constant, annualised net interest expense would increase by £2.8m.

At 31 December 2009, if interest rates were 200 basis points higher than the last floating reset rate of 0.605% (based on three month LIBOR), with all other variables held constant, annualised net interest expense would decrease by £11.1m.

At 31 December 2008, for every 50 basis points reduction in rates below the last floating reset rate of 2.77% (based on three month LIBOR), with all other variables held constant, annualised net interest expense 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 three month LIBOR), with all other variables held constant, annualised net interest expense would decrease by £5.1m. This analysis assumes that currently applicable callable features in two contracts with nominals of £110m are not exercised.

The Group's other financial assets and liabilities are not exposed to material interest rate risk.

(b) Credit risk

The Group's principal financial assets are cash and cash deposits, 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).

At 31 December 2009, trade and other receivables of £31.3m (2008: £42.3m) were past due but not impaired. These relate to customers with whom there is no history of default.

The ageing of trade and other receivables was as follows:

		Past due					
	Fully performing £m	1–30 days £m	31–60 days £m	61–90 days £m	91–120 days £m	120+ days £m	Total £m
Trade and other receivables							
2009	**280.2**	**17.6**	**4.3**	**1.9**	**1.7**	**5.8**	**311.5**
2008	255.1	32.8	4.1	4.3	1.0	0.1	297.4

At 31 December 2009, trade and other receivables of £7.7m (2008: £6.0m) 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:

	2009 £m	2008 £m
At 1 January	**6.0**	3.8
Receivables written off during the year as uncollectable	**(2.4)**	(5.7)
Provision for receivable impairment raised	**4.1**	7.9
At 31 December	**7.7**	6.0

The Group has benefited from a £90m securitisation programme to allow it to transfer trade receivable balances to one of the Group's primary banks. This programme also allows the Group to de-link its own credit rating from that of the underlying assets and achieve a lower cost of funding.

23. Financial instruments continued

(c) Liquidity risk

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

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

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

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

	Within 1 year £m	1 and 2 years £m	2 and 3 years £m	3 and 4 years £m	4 and 5 years £m	Over 5 years £m	Total £m
At 31 December 2009							
Trade and other payables	**477.2**	**–**	**–**	**–**	**–**	**–**	**477.2**
Bank overdraft	**34.5**	**–**	**–**	**–**	**–**	**–**	**34.5**
Bank Term Loan	**100.0**	**100.0**	**100.0**	**979.9**	**–**	**–**	**1,279.9**
Bank Revolver Facility	**–**	**–**	**–**	**67.9**	**–**	**–**	**67.9**
Finance leases	**0.5**	**0.3**	**0.2**	**0.2**	**0.1**	**0.4**	**1.7**
Other loans	**18.5**	**–**	**–**	**–**	**–**	**–**	**18.5**
At 31 December 2008							
Trade and other payables	528.4	–	–	–	–	–	528.4
Bank overdraft	6.9	–	–	–	–	–	6.9
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
Finance leases	0.6	0.4	0.2	0.2	0.1	0.5	2.0
Other loans	17.6	–	–	–	–	–	17.6

The Bank Term Loan and Bank Revolver Facility are repriced quarterly, and other liabilities are not repriced before the maturity date.

The Group has £nil (2008: £90.0m) of facilities available and not drawn as at 31 December 2009 expiring between 1 and 2 years, and £387.6m (2008: £50.4m), expiring between 3 and 4 years.

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

The following table analyses the expected undiscounted cash flows of interest on the floating rate debt to maturity (based on the last fixed rate refix of 0.605% (2008: 2.77%) plus applicable margin).

	Within 1 year £m	1 and 2 years £m	2 and 3 years £m	3 and 4 years £m	4 and 5 years £m	Over 5 years £m	Total £m
Interest							
2009	**51.0**	**45.1**	**38.5**	**33.6**	**–**	**–**	**168.2**
2008	74.7	68.4	61.0	12.7	–	–	216.8

The following table analyses the Group's derivative financial instruments (including Other financial liabilities at fair value through profit or loss) into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed are the undiscounted cash flows, except in the case of "Other financial liabilities at fair value through profit or loss" where to the outflows included the expected mark to market value at the call date.

23. Financial instruments continued

	Within 1 year £m	1 and 2 years £m	2 and 3 years £m	3 and 4 years £m	4 and 5 years £m	Over 5 years £m	Total £m
At 31 December 2009							
Forward foreign exchange contracts:							
Outflow	**(85.4)**	**–**	**–**	**–**	**–**	**–**	**(85.4)**
Inflow	**86.9**	**–**	**–**	**–**	**–**	**–**	**86.9**
Inflow on options	**0.4**	**–**	**–**	**–**	**–**	**–**	**0.4**
Commodities:							
Outflow	**(10.7)**	**(1.0)**	**–**	**–**	**–**	**–**	**(11.7)**
Interest rate swaps:							
Outflow	**(80.0)**	**(77.6)**	**(330.6)**	**(105.9)**	**(1.1)**	**(26.2)**	**(621.4)**
Inflow	**6.8**	**6.5**	**39.5**	**11.1**	**0.2**	**3.5**	**67.6**
Other financial liabilities at fair value through profit or loss:							
Outflow	**(6.5)**	**(6.5)**	**(36.9)**	**–**	**–**	**–**	**(49.9)**
Inflow	**4.5**	**4.5**	**3.0**	**–**	**–**	**–**	**12.0**
	(84.0)	**(74.1)**	**(325.0)**	**(94.8)**	**(0.9)**	**(22.7)**	**(601.5)**
At 31 December 2008							
Forward foreign exchange contracts:							
Outflow	(78.9)	(16.7)	–	–	–	–	(95.6)
Inflow	64.3	13.7	–	–	–	–	78.0
Commodities:							
Outflow	(24.2)	(0.4)	–	–	–	–	(24.6)
Outflow on options	(0.6)	–	–	–	–	–	(0.6)
Inflow	14.9	0.2	–	–	–	–	15.1
Interest rate swaps:							
Outflow	(76.5)	(194.5)	(61.1)	(363.4)	(88.2)	(27.0)	(810.7)
Inflow	44.1	106.3	30.1	208.9	45.8	16.5	451.7
	(56.9)	(91.4)	(31.0)	(154.5)	(42.4)	(10.5)	(386.7)

The above table incorporates the contractual cash flows of the interest rate derivatives with floating rates of interest calculated based on LIBOR of 0.605% (2008: 2.77%) 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. The Group 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 (2008: no contracts) are expected to be called at nil prior to their contractual maturity based on the current yield curve.

23. Financial instruments continued

(d) Fair value

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

	2009 Book and market value £m	2008 Book and market value £m
Loans and receivables:		
Cash and cash equivalents	19.4	40.6
Trade and other receivables	311.5	297.4
Financial assets at fair value through profit or loss:		
Derivative financial instruments		
— Forward foreign currency exchange contracts/currency options	2.0	21.2
— Commodity and energy derivatives	0.5	–
Financial liabilities at fair value through profit or loss:		
Derivative financial instruments		
— Forward foreign currency exchange contracts/currency options	(0.5)	(1.0)
— Commodity and energy derivatives	–	(11.9)
— Interest rate swaps	(161.9)	(237.4)
Other financial liabilities at fair value through profit or loss:		
— Interest rate swaps	(36.8)	–
Financial liabilities at amortised cost:		
Trade and other payables	(477.2)	(528.4)
Bank Term Loan	(1,279.9)	(1,341.6)
Bank Revolver Facility (drawn down)	(67.9)	(450.0)
Bank overdraft	(34.5)	(6.9)
Finance leases	(1.4)	(1.7)
Other	(18.5)	(17.6)
Interest payable	(13.7)	(22.8)

Effective 1 January 2009, the Group adopted the amendment to IFRS 7 for financial instruments that are measured in the balance sheet at fair value, this requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2009.

	Level 2
Financial assets at fair value through profit or loss:	
Derivative financial instruments	
— Forward foreign currency exchange contracts/currency options	2.0
— Commodity and energy derivatives	0.5
Financial liabilities at fair value through profit or loss:	
Derivative financial instruments	
— Forward foreign currency exchange contracts/currency options	(0.5)
— Interest rate swaps	(161.9)
Other financial liabilities at fair value through profit or loss:	
— Interest rate swaps	(36.8)

23. Financial instruments continued

Fair value estimation

Derivatives

Forward exchange contracts are marked to market using prevailing market prices. Hedge accounting has not been applied to forward contracts and as a result the movement in the fair value of £18.6m has been debited to the income statement in the year (2008: £18.8m 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 £11.7m (2008: £11.9m debit) 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 £75.5m has been credited to the income statement in the year (2008: £218.9m charge).

Interest rate swaps classed as "Other financial liabilities at fair value through profit or loss" are also marked to market using prevailing market prices. These are also not designated for hedge accounting. As a result the movement in the fair value of £36.8m has been charged to the income statement in the year (2008: £nil).

Short and long-term borrowings, loan notes and interest payable

Fair value is calculated based on discounted expected future principal and interest rate cash flows. The fair value of the floating rate debt approximates the carrying value above.

Finance lease liabilities

The fair value of finance lease liabilities approximates book value.

Trade and other receivables/payables

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

(e) Obligations under finance leases

	Minimum lease payments		Present value of minimum lease payments	
	2009	2008	**2009**	2008
	£m	£m	**£m**	£m
Not later than one year	**0.5**	0.6	**0.5**	0.6
Later than one year but not later than five years	**0.8**	0.9	**0.6**	0.7
Later than five years	**0.4**	0.5	**0.3**	0.4
	1.7	2.0	**1.4**	1.7
Less: future finance charges	**(0.3)**	(0.3)	**n/a**	n/a
Present value of lease obligations	**1.4**	1.7	**1.4**	1.7
Less: amounts due for settlement within 12 months			**(0.5)**	(0.6)
Amounts due for settlement after 12 months			**0.9**	1.1

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

For the year ended 31 December 2009, the average effective borrowing rate was 8.2% (2008: 7.6%).

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.

23. Financial instruments continued

(f) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may vary the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as equity plus net debt.

The gearing ratios at 31 December 2009 and 31 December 2008 were as follows:

	2009 £m	2008 £m
Total borrowings	1,384.5	1,807.4
Less cash and cash equivalents	(19.4)	(40.6)
Net borrowings	1,365.1	1,766.8
Total equity	1,064.9	991.8
Total capital	2,430.0	2,758.6
Gearing ratio	56%	64%

Under the Group's financing arrangement, the Group is required to meet two convenant tests which are calculated and tested on a 12 month rolling basis at the half year and full year, each year. The Group has complied with these tests during the year, and at year end.

24. 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 28.0% except for an asset of £1.0m (2008: £1.9m) relating to Irish retirement benefit obligations where the local rate of 12.5% has been used.

	2009 £m	2008 £m
At 1 January	193.1	207.6
Charged/(credited) to the income statement	10.3	(25.0)
(Credited)/debited to equity	(132.1)	19.7
Transferred to held for sale	–	(9.2)
Disposal of subsidiaries/businesses	(6.6)	–
At 31 December	64.7	193.1

Due to the unpredictability of future profit streams the Group has not recognised deferred tax assets of £48.1m (2008: £48.1m) relating to capital losses, £nil (2008: £7.1m) relating to UK corporation tax losses, £0.4m (2008: £1.3m) Irish corporate tax losses and £34.8m (2008: £34.8m) relating to ACT. Under current legislation these losses can generally be carried forward indefinitely.

Deferred tax liabilities	Accelerated tax depreciation £m	Intangibles £m	Total £m
At 1 January 2008	44.8	273.0	317.8
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)
At 31 December 2008	72.8	254.4	327.2
Current year charge/(credit)	(0.6)	(14.8)	(15.4)
Prior years credit	(34.5)	(6.2)	(40.7)
Disposal of subsidiaries/businesses	(6.6)	–	(6.6)
At 31 December 2009	31.1	233.4	264.5

24. Deferred tax continued

Deferred tax assets	Retirement benefit obligation £m	Share-based payments £m	Financial instruments £m	Losses £m	Other £m	Total £m
At 1 January	(35.3)	(2.3)	(4.2)	(52.1)	(16.3)	(110.2)
Current year	14.9	1.7	(59.1)	(17.2)	10.2	(49.5)
Prior year charge/(credit)	–	–	–	6.8	(0.9)	5.9
(Credited)/debited to equity	19.2	0.5	–	–	–	19.7
At 31 December 2008	**(1.2)**	**(0.1)**	**(63.3)**	**(62.5)**	**(7.0)**	**(134.1)**
Current year	**–**	**(0.3)**	**8.9**	**15.2**	**6.8**	**30.6**
Prior year charge/(credit)	**0.3**	**(0.1)**	**(0.4)**	**34.1**	**1.9**	**35.8**
Debited to equity	**(117.7)**	**–**	**–**	**(14.4)**	**–**	**(132.1)**
At 31 December 2009	**(118.6)**	**(0.5)**	**(54.8)**	**(27.6)**	**1.7**	**(199.8)**

Net deferred tax liability	£m
At 31 December 2009	**64.7**
At 31 December 2008	193.1

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

Deferred tax assets in respect of losses are only recognised to the extent that it is anticipated they will be utilised in the foreseeable future.

25. Provisions for liabilities and charges

	Restructuring £m	Other £m	Total £m
At 1 January 2008	58.6	16.4	75.0
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)
At 31 December 2008	**38.2**	**13.5**	**51.7**
Utilised during the year	**(29.3)**	**(4.5)**	**(33.8)**
Additional charge in the year	**21.6**	**11.7**	**33.3**
Unwind of provision	**0.7**	**0.4**	**1.1**
Released during the year	**(2.8)**	**(2.6)**	**(5.4)**
At 31 December 2009	**28.4**	**18.5**	**46.9**

Analysis of total provisions:			**2009 £m**
Current	**8.9**	**7.0**	**15.9**
Non-current	**19.5**	**11.5**	**31.0**
	28.4	**18.5**	**46.9**

Analysis of total provisions:			2008 £m
Current	18.4	5.2	23.6
Non-current	19.8	8.3	28.1
	38.2	13.5	51.7

25. Provisions for liabilities and charges continued

At 31 December 2009, restructuring and redundancy provisions have been raised in respect of the integration and restructuring of the Group's Irish operations and onerous lease provisions in respect to properties to reflect the current adverse market conditions. Other than onerous leases provisions, which range from 3 to 23 years, it is anticipated that the majority of these provisions will be utilised during 2010.

At 31 December 2008, restructuring, redundancy and onerous lease provisions were 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 provisions at 31 December 2009 and 2008 primarily relate to insurance claims and dilapidations against leasehold properties. The costs relating to dilapidation provisions will be incurred over a number of years in accordance with the length of the leases. These provisions have been discounted at rates between 4.4% and 5.2%. The unwinding of the discount is charged to the income statement under interest payable.

26. Retirement benefit schemes

Defined benefit schemes

The Group operates a number of defined benefit schemes under which employees are entitled to retirement benefits which are based on final salary on retirement. These are as follows:

(a) Premier schemes

The Premier Foods Pension Scheme ("PFPS") was the principal funded defined benefit scheme within the old Premier Group which also operated a smaller funded defined benefit scheme, the Premier Ambient Products Pension Scheme ("PAPPS") for employees acquired with the Ambrosia business in 2001. As a result of the acquisition of Campbell's in 2006, the Group inherited the Premier Grocery Products Pension Scheme ("PGPPS") covering the employees of Campbell's UK business, and the Premier Grocery Products Ireland Pension Scheme ("PGPIPS") covering the employees of Campbell's Ireland. The Group also acquired two further schemes with the acquisition of Chivers Ireland in January 2007, the Chivers 1987 Pension Scheme, and the Chivers 1987 Supplementary Pension Scheme. These schemes are presented together below as the Premier schemes.

(b) RHM schemes

As a result of the acquisition of RHM plc, the Group also acquired the RHM Pension Scheme, the Premier Foods Ireland Pension Scheme (1994), the Premier Foods Ireland Van Sales Scheme and the French Termination Indemnity Arrangements. These schemes are presented together below as the RHM schemes, with the exception of the French Termination Indemnity Arrangements which were disposed of with the speciality bakery businesses during the year. At 31 December 2008, the French Termination Indemnity Arrangements were 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 = 1.1142 euros for the average rate during the year, and £1.00 = 1.1185 euros for the closing position at 31 December 2009.

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 combined principal actuarial assumptions used for all the schemes were as follows:

	Premier schemes 2009	RHM schemes 2009
Discount rate	**5.8%**	**5.8%**
Inflation	**3.5%**	**3.5%**
Expected salary increases	**4.5%**	**3.5%**
Future pension increases	**2.2%**	**2.2%**
	2008	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%

26. Retirement benefit schemes continued

For the smaller overseas schemes the discount rate used was 5.4%, expected salary increases of 3.0%, and future pension increases of 1.75%.

The mortality assumptions are based on standard mortality tables which allow for future mortality improvements. The assumptions are as follows:

Life expectancy	Premier schemes	RHM schemes	Total
Male pensioner, currently aged 65	85.9	85.0	85.2
Female pensioner, currently aged 65	88.4	87.3	87.6
Male non-pensioner, currently aged 45	87.2	86.2	86.4
Female non-pensioner, currently aged 45	89.6	88.4	88.7

The fair values of plan assets split by type of asset are as follows:

Pension scheme assets	Premier schemes	RHM schemes	Total
Assets at 31 December 2009			
Equities	**116.5**	**483.1**	**599.6**
Government bonds	**12.4**	**7.4**	**19.8**
Corporate bonds	**71.7**	**303.3**	**375.0**
Property	**2.0**	**164.0**	**166.0**
Absolute/target return products	**209.1**	**313.1**	**522.2**
Interest rate and inflation swaps	**25.3**	**(38.8)**	**(13.5)**
Cash/other	**40.1**	**820.8**	**860.9**
Fair value of scheme assets	**477.1**	**2,052.9**	**2,530.0**
Assets at 31 December 2008			
Equities	148.5	387.5	536.0
Government bonds	12.6	1.4	14.0
Corporate bonds	9.4	277.9	287.3
Property	1.3	191.1	192.4
Absolute/target return products	180.4	222.9	403.3
Interest rate and inflation swaps	26.5	250.0	276.5
Cash/other	36.7	782.1	818.8
Fair value of scheme assets	415.4	2,112.9	2,528.3

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
2009 (for 2010 return)			
Expected rate (%)	**8.0**	**7.0**	**7.2**
Market value (£m)	**477.1**	**2,052.9**	**2,530.0**
2008 (for 2009 return)			
Expected rate (%)	7.4	6.3	6.5
Market value (£m)	415.4	2,112.9	2,528.3
2007 (for 2008 return)			
Expected rate (%)	8.0	6.9	7.2
Market value (£m)	506.2	2,079.2	2,585.4
2006 (for 2007 return)			
Expected rate (%)	7.5	–	7.5
Market value (£m)	465.7	–	465.7

The expected return on pension scheme assets is based on the long-term investment strategy set out in the Schemes' Statement of Investment Principles at the start of the year.

The actual rate of return on plan assets was a gain of 17.5% (2008: 18.2% loss) for Premier schemes, and a loss of 0.2% for RHM schemes (2008: 4.3% gain).

The pension schemes hold a charge over the assets of the Group.

26. Retirement benefit schemes continued

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
2009			
Present value of funded obligations	**(685.5)**	**(2,273.0)**	**(2,958.5)**
Fair value of plan assets	**477.1**	**2,052.9**	**2,530.0**
Deficit in scheme	**(208.4)**	**(220.1)**	**(428.5)**
2008			
Present value of funded obligations	(587.7)	(1,952.1)	(2,539.8)
Fair value of plan assets	415.4	2,112.9	2,528.3
(Deficit)/surplus in scheme	(172.3)	160.8	(11.5)
2007			
Present value of funded obligations	(581.7)	(2,126.9)	(2,708.6)
Fair value of plan assets	506.2	2,079.2	2,585.4
Deficit in scheme	(75.5)	(47.7)	(123.2)
2006			
Present value of funded obligations	(550.4)	–	(550.4)
Fair value of plan assets	465.7	–	465.7
Deficit in scheme	(84.7)	–	(84.7)
2005			
Present value of funded obligations	(418.9)	–	(418.9)
Fair value of plan assets	334.5	–	334.5
Deficit in scheme	(84.4)	–	(84.4)

As at 31 December 2008, all of the schemes recognised a deficit with the exception of the RHM scheme which was 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 aggregate deficit has increased by £417.0m during the year primarily due to an increase in the defined benefit obligation. This was a result of a fall in discount rate assumption used, which is based on the AA bond yield, from 6.3% to 5.8%, and an increase in the inflation rate assumption from 2.8% to 3.5%.

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

	Premier schemes £m	RHM schemes £m	Total £m
2009			
Opening defined benefit obligation	**(587.7)**	**(1,952.1)**	**(2,539.8)**
Current service cost	**(8.0)**	**(3.6)**	**(11.6)**
Past service cost	**–**	**(1.2)**	**(1.2)**
Interest cost	**(36.1)**	**(119.9)**	**(156.0)**
Actuarial loss	**(81.2)**	**(295.1)**	**(376.3)**
Other income/exchange differences	**3.6**	**1.4**	**5.0**
Curtailments	**0.1**	**0.9**	**1.0**
Contributions by plan participants	**(4.7)**	**(11.5)**	**(16.2)**
Benefits paid	**28.5**	**108.1**	**136.6**
Closing defined benefit obligation	**(685.5)**	**(2,273.0)**	**(2,958.5)**
2008			
Opening defined benefit obligation	(581.7)	(2,126.9)	(2,708.6)
Current service cost	(9.0)	(8.1)	(17.1)
Past service cost	–	(2.8)	(2.8)
Interest cost	(33.9)	(122.9)	(156.8)
Actuarial gain	23.3	214.8	238.1
Other costs/exchange differences	(10.2)	(4.1)	(14.3)
Curtailments	–	(0.2)	(0.2)
Contributions by plan participants	(4.3)	(13.1)	(17.4)
Benefits paid	28.1	111.2	139.3
Closing defined benefit obligation	(587.7)	(1,952.1)	(2,539.8)

26. Retirement benefit schemes continued

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

	Premier schemes £m	RHM schemes £m	Total £m
2009			
Opening fair value of plan assets	**415.4**	**2,112.9**	**2,528.3**
Expected return	**30.2**	**131.6**	**161.8**
Administrative and life insurance costs	**(2.2)**	**(5.4)**	**(7.6)**
Actuarial gain/(loss)	**42.5**	**(135.0)**	**(92.5)**
Contributions by employer	**17.7**	**46.8**	**64.5**
Contributions by plan participants	**4.7**	**11.5**	**16.2**
Other costs/exchange differences	**(2.7)**	**(1.4)**	**(4.1)**
Benefits paid	**(28.5)**	**(108.1)**	**(136.6)**
Closing fair value of plan assets	**477.1**	**2,052.9**	**2,530.0**
2008			
Opening fair value of plan assets	506.2	2,079.2	2,585.4
Expected return	39.7	140.4	180.1
Administrative and life insurance costs	(2.2)	(5.5)	(7.7)
Actuarial loss	(131.6)	(50.3)	(181.9)
Contributions by employer	18.0	43.1	61.1
Contributions by plan participants	4.3	13.1	17.4
Other income/exchange differences	9.1	4.1	13.2
Benefits paid	(28.1)	(111.2)	(139.3)
Closing fair value of plan assets	415.4	2,112.9	2,528.3

The history of the plans for the current and prior years is as follows:

	Premier schemes £m	RHM schemes £m	Total £m
2009			
Actuarial loss on plan liabilities	**(81.2)**	**(295.1)**	**(376.3)**
Actuarial gain/(loss) on plan assets	**42.5**	**(135.0)**	**(92.5)**
Net actuarial loss for the year	**(38.7)**	**(430.1)**	**(468.8)**
Cumulative actuarial loss	**(225.0)**	**(118.1)**	**(343.1)**
2008			
Actuarial gain on plan liabilities	23.3	214.8	238.1
Actuarial loss on plan assets	(131.6)	(50.3)	(181.9)
Net actuarial (loss)/gain for the year	(108.3)	164.5	56.2
Cumulative actuarial (loss)/gain	(186.3)	312.0	125.7
2007			
Actuarial gain on plan liabilities	2.6	135.8	138.4
Actuarial (loss)/gain on plan assets	(14.8)	11.7	(3.1)
Net actuarial (loss)/gain for the period	(12.2)	147.5	135.3
Cumulative actuarial (loss)/gain	(78.0)	147.5	69.5
2006			
Actuarial gain on plan liabilities	4.4	–	4.4
Actuarial gain on plan assets	11.7	–	11.7
Net actuarial gain for the year	16.1	–	16.1
Cumulative actuarial loss	(65.8)	–	(65.8)
2005			
Actuarial loss on plan liabilities	(43.7)	–	(43.7)
Actuarial gain on plan assets	17.8	–	17.8
Net actuarial loss for the year	(25.9)	–	(25.9)
Cumulative actuarial loss	(81.9)	–	(81.9)

The actual return on plan assets was a £69.3m gain (2008: £1.8m loss), which is £92.5m less (2008: £181.9m less) than the expected return on plan assets of £161.8m (2008: £180.1m) at the start of the relevant periods.

The actuarial loss on liabilities of £376.3m (2008: £238.1m gain) comprises a gain on member experience of £8.9m (2008: £8.6m loss) and an actuarial loss due to changes in assumptions of £385.2m (2008: £246.7m gain).

26. Retirement benefit schemes continued

The net actuarial losses taken to the statement of comprehensive income were £468.8m (2008: £56.2m gain). These were £336.7m (2008: £37.4m gain) net of taxation (with tax at 28% for UK schemes, and 12.5% for Irish schemes).

The Group expects to contribute approximately £64.9m (2009: £57.5m) to its defined benefit plans in 2010, £24.9m (2009: £25.0m) of regular contributions and £40.0m (2009: £32.5m) 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
2009			
Current service cost	**(8.0)**	**(3.6)**	**(11.6)**
Past service cost	**–**	**(1.2)**	**(1.2)**
Administrative and life insurance costs	**(2.2)**	**(5.4)**	**(7.6)**
Interest cost	**(36.1)**	**(119.9)**	**(156.0)**
Expected return on plan assets	**30.2**	**131.6**	**161.8**
Gains on curtailment	**0.1**	**0.9**	**1.0**
Total (expense)/income	**(16.0)**	**2.4**	**(13.6)**
2008			
Current service cost	(9.0)	(8.1)	(17.1)
Past service cost	–	(2.8)	(2.8)
Administrative and life insurance costs	(2.2)	(5.5)	(7.7)
Interest cost	(33.9)	(122.9)	(156.8)
Expected return on plan assets	39.7	140.4	180.1
Losses on curtailment	–	(0.2)	(0.2)
Total (expense)/income	(5.4)	0.9	(4.5)

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 (2008: £1.1m) represents contributions payable to the plans by the Group at rates specified in the rules of the plans.

Other post-retirement benefits
The Group does not provide any other post-retirement benefits.

27. Reserves and share capital
Share premium reserve
The share premium reserve comprises the premium paid over the nominal value of shares for shares issued.

Merger reserve
The merger reserve comprises the non-statutory premium arising on shares issued as consideration for acquisition of subsidiaries where merger relief under section 612 of the Companies Act 2006 applies.

Other reserves
Other reserves comprise the hedging reserve which represents the effective portion of the gains or losses on derivative financial instruments that have been designated as hedges.

Profit and loss reserve
The profit and loss reserve represents the cumulative surplus or deficit and the own shares reserve which represents the cost of shares in Premier Foods plc, purchased in the market and held by the Company on behalf of the Employee Benefit Trust in order to satisfy options and awards under the Company's incentive schemes.

Minority interest reserve
The minority interest reserve represents the reserves attributable to minority interests.

Share capital	**2009 £m**	2008 £m
Authorised		
3,500,000,000 (2008: 1,500,000,000) ordinary shares of 1 pence each	**35.0**	15.0
Issued and fully paid		
2,398,021,581 (2008: 844,604,805) ordinary shares of 1 pence each	**24.0**	8.5

2009
On 24 March 2009, the Group raised approximately £379.6m, net of expenses, through the issue of 1,553,416,776 new 1 pence ordinary shares. The issue was structured as a placing and open offer of 1,055,756,006 new ordinary shares at a price of 26 pence per share, and a firm placing of 497,660,770 new ordinary shares at a price of 26 pence per share.

2008
In 2008, 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.

27. Reserves and share capital 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 74.8m ordinary shares of 1 pence each between 2010 and 2014, granted at prices ranging between 1 pence per ordinary share and 186 pence per ordinary share. The number of shares subject to options, the periods in which they were granted and the periods in which they may be exercised are given below. For 2009, 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 58.8m 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 ("LTIP") for senior managers. The individuals involved in the scheme have the right to subscribe for up to 6.1m ordinary shares at 1 pence per ordinary share. The number of shares subject to awards, the periods in which they were granted and the periods in which they may be awarded are given below. These awards are equity-settled and have a maximum term of 3 years.

   The vesting conditions attached to the Company's LTIP arrangements are explained in detail in the directors' remuneration report on pages 61 to 73.

4. A Co-Investment Plan ("CIP") for directors and senior managers. The scheme is structured as a share matching plan and the individuals involved in the scheme are required to commit and retain a significant amount of capital in the form of Premier Foods shares. The number of shares subject to awards, the periods in which they were granted and the periods in which they may be awarded are given below. These awards are equity-settled and have a maximum term of 3 years.

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 LTIP noted below. They have an exercise price of 1 pence and remaining contractual life of 0.6 years.

During the year, the Group modified its outstanding share option and award schemes following the placing and open offer and firm placing in March 2009.

The Group decreased the exercise price by 4.87% for certain schemes and increased the number of share options/awards for all schemes by 5.12%. The incremental fair value granted resulting from these modifications was £0.2m increase in charge over the remaining vesting periods of the schemes. The incremental fair value granted was measured using pricing models consistent with the Group's other schemes.

Details of the share options of the Premier Foods ESOS are as follows:

		2009		2008	
	Year of expiry	**Options**	**Weighted average exercise price (p)**	Options	Weighted average exercise price (Restated)[1] (p)
Outstanding at beginning of year		**2,559,360**	**162**	2,598,043	162
Granted from placing and open offer and firm placing		**128,597**	**162**	–	–
Forfeited during the year		**(1,087,175)**	**162**	(38,683)	162
Outstanding at the end of the year	2014	**1,600,782**	**162**	2,559,360	162
Exercisable at the end of the year		**1,600,782**	**162**	1,096,869	162

1 The 2008 weighted average exercise prices have been restated to reflect the 4.87% reduction in exercise price for certain schemes following the placing and open offer and firm placing in the year.

27. Reserves and share capital continued

The options outstanding at 31 December 2009 had a weighted average exercise price of 162 pence (2008: 162 pence), and a weighted average remaining contractual life of 4.6 years (2008: 5.6 years).

The options under the Premier Foods plc ESOS are equity-settled and have a maximum term of 10 years.

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

	2009		2008	
	Options	Weighted average exercise price (p)	Options	Weighted average exercise price (Restated)[1] (p)
Outstanding at beginning of year	**20,783,748**	**89**	11,373,922	175
Granted from placing and open offer and firm placing	**854,871**	**89**	–	–
Exercised during the year	**–**	**–**	(4,731)	164
Granted during the year	**50,685,147**	**36**	16,876,711	68
Forfeited during the year	**(13,551,818)**	**81**	(7,462,154)	175
Outstanding at the end of the year	**58,771,948**	**45**	20,783,748	89
Exercisable at the end of the year	**9,700**	**177**	17,495	173

1 The 2008 weighted average exercise prices have been restated to reflect the 4.87% reduction in exercise price for certain schemes following the placing and open offer and firm placing in the year.

During the year, 50.7m (2008: 16.9m) options were granted under the Savings Related Share Option Schemes, with a weighted average exercise price at the date of exercise of 36 pence per ordinary share.

The options outstanding at 31 December 2009 had a weighted average exercise price of 45 pence (2008: 89 pence), and a weighted average remaining contractual life of 2.7 years (2008: 2.6 years).

Details of the share options of the Premier Foods LTIP are as follows:

	2009		2008	
	Options	Weighted average exercise price (p)	Options	Weighted average exercise price (p)
Outstanding at beginning of year	**5,035,277**	**1**	4,417,661	1
Granted from placing and open offer and firm placing	**128,400**	**1**	–	–
Granted during the year	**3,991,150**	**1**	2,394,634	1
Forfeited during the year	**(3,024,596)**	**1**	(1,777,018)	1
Outstanding at the end of the year	**6,130,231**	**1**	5,035,277	1
Exercisable at the end of the year	**–**	**–**	–	–

During the year, 4.0m (2008: 2.4m) of awards were granted under the LTIP, with a weighted average share price at the date of exercise of 1 pence. The awards outstanding at 31 December 2009 had a weighted average remaining contractual life of 1.9 years (2008: 1.7 years). Details of executive director participation in the above schemes can be found in the directors' remuneration report on pages 61 to 73.

The weighted average fair value of awards granted during the year was 49 pence per award (2008: 70 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:

	2009	2008
Weighted average share price (pence)	**41**	126
Annual risk-free interest rate (%)	**2.5**	4.0
Expected dividend at grant date (%)	**–**	4.5
Expected option life (years)	**3**	3
Expected volatility (%)	**37**	33

The expected dividend used in 2008 was 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.

27. Reserves and share capital continued

Details of the share awards of the Premier Foods CIP are as follows:

	2009		2008	
	Options	Weighted average exercise price (p)	Options	Weighted average exercise price (p)
Outstanding at beginning of year	**4,427,418**	**1**	1,272,454	1
Granted from placing and open offer and firm placing	**226,684**	**1**	–	–
Granted during the year	**5,236,033**	**1**	3,530,765	1
Forfeited during the year	**(1,624,298)**	**1**	(375,801)	1
Outstanding at the end of the year	**8,265,837**	**1**	4,427,418	1
Exercisable at the end of the year	**–**	**–**	–	–

The awards outstanding at 31 December 2009 had a weighted average remaining contractual life of 1.9 years (2008: 2.1 years). The weighted average fair value of awards granted during the year was 48 pence per award (2008: 66 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:

	2009	2008
Weighted average share price (pence)	**40**	118
Annual risk-free interest rate (%)	**2.5**	4.0
Expected dividend (%)	**–**	4.5
Expected option life (years)	**3**	3
Expected volatility (%)	**37**	33

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 2009, the Group recognised an expense of £2.7m (2008: £2.3m), related to all equity-settled share-based payment transactions.

28. Notes to the cash flow statement

Reconciliation of operating profit/(loss) to cash flows from operating activities

	Year ended 31 Dec 2009 £m	Year ended 31 Dec 2008 (Restated)[1] £m
Continuing operations		
Operating profit/(loss)	**176.5**	(41.4)
Depreciation of property, plant and equipment	**52.3**	50.7
Amortisation of intangible assets	**78.7**	76.7
Impairment and (gain)/loss on disposal of property, plant and equipment	**(1.9)**	10.6
Impairment of goodwill	**–**	194.4
Revaluation losses/(gains) on financial instruments	**6.3**	(6.9)
Share-based payments	**2.7**	2.3
Net cash inflow from operating activities before interest and tax and movements in working capital	**314.6**	286.4
Decrease/(increase) in inventories	**24.4**	(38.8)
Increase in trade and other receivables	**(8.9)**	(42.5)
(Decrease)/increase in trade and other payables and provisions	**(53.2)**	23.6
Movement in net retirement benefit obligations	**(50.9)**	(56.6)
Cash generated from continuing operations	**226.0**	172.1
Discontinued operations	**(6.6)**	16.2
Cash generated from operating activities	**219.4**	188.3
Exceptional items cash flow	**(71.3)**	(121.8)
Cash generated from operations before exceptional items	**290.7**	310.1

1 The 31 December 2008 comparatives have been restated to reflect an increased share-based payment charge following the amendment to IFRS 2.

28. Notes to the cash flow statement continued

Additional analysis of cash flows

	Year ended 31 Dec 2009 £m	Year ended 31 Dec 2008 £m
Interest paid	(162.5)	(150.4)
Interest received	10.8	45.0
Financing costs	(26.1)	(20.2)
Return on financing	**(177.8)**	(125.6)
Sale of subsidiaries/businesses	**45.2**	–

Reconciliation of cash and cash equivalents to net borrowings

	Year ended 31 Dec 2009 £m	Year ended 31 Dec 2008 £m
Net (outflow)/inflow of cash and cash equivalents	(47.3)	8.8
Decrease in finance leases	0.3	2.6
Decrease/(increase) in borrowings	464.0	(133.2)
Other non-cash changes	(15.3)	(26.5)
Decrease/(increase) in borrowings net of cash	**401.7**	(148.3)
Total net borrowings at beginning of year	(1,766.8)	(1,618.5)
Total net borrowings at end of year	**(1,365.1)**	(1,766.8)

Analysis of movement in borrowings

	As at 1 Jan 2009 £m	Cash flow £m	Other non-cash changes £m	As at 31 Dec 2009 £m
Bank overdrafts	(6.9)	(27.6)	–	(34.5)
Cash and bank deposits	40.6	(19.7)	(1.5)	19.4
Net cash and cash equivalents	33.7	(47.3)	(1.5)	(15.1)
Borrowings — term facilities	(1,341.6)	61.7	–	(1,279.9)
Borrowings — revolving credit facilities	(450.0)	377.1	5.0	(67.9)
Finance leases	(1.7)	0.6	(0.3)	(1.4)
Other	(17.6)	(0.9)	–	(18.5)
Gross borrowings net of cash[1]	(1,777.2)	391.2	3.2	(1,382.8)
Debt issuance costs	10.4	26.1	(18.8)	17.7
Total net borrowings[1]	**(1,766.8)**	**417.3**	**(15.6)**	**(1,365.1)**

1 Borrowings excludes derivative financial instruments and other financial liabilities fair valued through profit or loss.

29. 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.

	2009		2008	
	Property £m	Plant and equipment £m	Property £m	Plant and equipment £m
Within one year	14.7	14.9	16.4	13.9
Between 2 and 5 years	50.1	28.2	56.0	33.0
After 5 years	84.7	2.1	115.3	1.5
Total operating lease commitments	**149.5**	**45.2**	187.7	48.4

The Group sub-lets various properties under non-cancellable lease arrangements.

30. Capital commitments

	2009 £m	2008 £m
Contracts placed for future capital expenditure not provided in the financial statements	14.8	22.8

31. 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.

During the year the Group has been in discussion with one of the Group Pension Schemes relating to the possibility that it may have to recognise some additional liability. The legal position and the potential methods of calculation of the liability is, as yet, uncertain. In the event that it materialises, the impact on net assets is not expected to be significant and the cash impact would be spread over several years in line with the agreed pension deficit recovery period for the Scheme agreed by the Group and Trustees.

There were no other material contingent liabilities at 31 December 2009. Other contingencies and guarantees in respect of the Parent Company are described in note 8 of the Parent Company financial statements.

32. 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 61 to 73.

	Year ended 31 Dec 2009 £m	Year ended 31 Dec 2008 £m
Salaries and other short-term benefits	**5.1**	4.3
Post-employment benefits	**0.3**	0.4
Termination benefits	**1.3**	0.7
Share-based payments	**0.9**	0.1
Total	**7.6**	5.5

WP X Investments Limited ("Warburg Pincus") is considered to be a related part of the Group by virtue of its 15.7% equity shareholding in Premier Food plc and of its power to appoint a member to the Board of directors, which has been exercised. There have been no transactions during the year.

Apart from the information above, there were no other related party transactions.

33. Post-balance sheet events

On 1 January 2010, the Group undertook an internal reorganisation which resulted in the transfer of the trade and assets of Chivers Hartley Limited, H.L. Foods Limited, Premier Ambient Products (UK) Limited and Premier International Foods UK Limited to a fellow subsidiary, Premier Foods Group Limited.

Premier Foods plc Company financial statements

The following statements reflect the financial position of the Company, Premier Foods plc, as at 31 December 2009 and 2008. 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 408 of the Companies Act 2006 and not presented a profit and loss account for the Company alone.

Balance sheet

	Note	**As at 31 Dec 2009 £m**	As at 31 Dec (Restated)[1] 2008 £m
ASSETS:			
Non-current assets			
Investments	3	**1,743.7**	1,741.5
Deferred tax assets		**0.3**	1.0
Current assets			
Debtors	4	**624.5**	232.6
Cash at bank		**0.3**	0.3
Total assets		**2,368.8**	1,975.4
Current liabilities			
Creditors	5	**(47.0)**	(43.9)
Total liabilities		**(47.0)**	(43.9)
Net assets		**2,321.8**	1,931.5
Capital and reserves			
Share capital	6	**24.0**	8.5
Share premium	6	**1,124.7**	760.6
Merger reserve	6	**1,027.5**	1,027.5
Profit and loss reserve	6	**145.6**	134.9
Total shareholders' funds		**2,321.8**	1,931.5

1 The 31 December 2008 comparatives have been restated to reflect an increased share-based payment charge following the amendments to IFRS 2.

The notes on pages 124 to 126 form an integral part of the financial statements.

Signed on behalf of the Board of directors, who approved the financial statements on 9 March 2010.

Robert Schofield
Director and
Chief Executive

Jim Smart
Director and
Chief Financial Officer

Notes to the Company financial statements

1. Accounting policies

Basis of preparation
The financial statements have been prepared in accordance with the Companies Act 2006 and applicable accounting standards in the United Kingdom ("UK GAAP"), under the historical cost convention, with the exception of share-based payments which are incorporated using fair value. The profit for the year of £8.1m (2008: £9.1m) is recorded in the accounts of Premier Foods plc. The directors have taken advantage of the exemption available under section 408 of the Companies Act 2006 and not presented a profit and loss account for the Company.

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

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

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

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

Share-based payments
The fair value of employee share option plans is calculated using an option-pricing model. In accordance with Financial Reporting Standard 20, Share-based Payment ("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 (2008: £nil).

At 31 December 2009, the Company had 3 employees (2008: 3), and their remuneration totalled £3.1m (2008: £1.3m). This excludes the Company's 7 (2008: 6) non-executive directors whose remuneration totalled £0.6m (2008: £0.6m).

3. Investments

	2009 £m	2008 (Restated)[1] £m
Shares in subsidiary undertakings		
At 1 January	**1,741.5**	1,739.3
Additions	**2.2**	2.2
At 31 December	**1,743.7**	1,741.5

1 The 31 December 2008 comparatives have been restated to reflect an increased share-based payment charge following the amendment to IFRS 2.

During 2009, a capital contribution of £2.2m (2008: £2.2m) was given in the form of share incentive awards to employees of subsidiary companies which were reflected as an increase in investments. See note 18 on page 101 in the Group financial statements for a list of the principal subsidiary undertakings. A full list of subsidiary undertakings is available from the Company Secretary.

4. Debtors

	2009 £m	2008 £m
Amounts falling due within one year:		
Amounts owed by subsidiaries	**624.5**	232.3
Prepayments	**–**	0.3
Total debtors falling due within one year	**624.5**	232.6

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

5. Creditors

	2009 £m	2008 £m
Amounts payable within one year:		
Amounts due to subsidiaries	**40.8**	39.5
Accruals	**–**	0.7
Corporation tax	**6.2**	3.7
Total creditors falling due within one year	**47.0**	43.9

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 2008	8.5	760.6	1,027.5	177.4	1,974.0
Shares issued (a)	–	–	–	–	–
Profit for the year	–	–	–	9.1	9.1
Dividends paid	–	–	–	(54.7)	(54.7)
Share-based payments[1] (b)	–	–	–	3.1	3.1
At 31 December 2008	8.5	760.6	1,027.5	134.9	1,931.5
Shares issued (a)	**15.5**	**388.4**	**–**	**–**	**403.9**
Share issue costs (a)	**–**	**(24.3)**	**–**	**–**	**(24.3)**
Profit for the year	**–**	**–**	**–**	**8.1**	**8.1**
Share-based payments (b)	**–**	**–**	**–**	**2.6**	**2.6**
At 31 December 2009	**24.0**	**1,124.7**	**1,027.5**	**145.6**	**2,321.8**

1 The 31 December 2008 comparatives have been restated to reflect an increased share-based payment charge following the amendments to IFRS 2.

For details on authorised share capital, and the Company share option schemes see note 27 on page 117 in the Group's financial statements.

(a) **2009**
On 24 March 2009, the Group raised approximately £379.6m, net of expenses, through the issue of 1,553,416,776 new 1 pence ordinary shares. The issue was structured as a placing and open offer of 1,055,756,006 new ordinary shares at a price of 26 pence per share, and a firm placing of 497,660,770 new ordinary shares at a price of 26 pence per share.

2008
During 2008, 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.

(b) These costs reflect the cost of share option schemes in operation.

7. Operating lease commitments

At 31 December 2009, the Company had annual commitments under non-cancellable operating leases in respect of land and buildings as follows:

	2009 £m	2008 £m
Within one year	–	–
Between 2 and 5 years	–	–
After 5 years	0.3	0.3
Total	**0.3**	0.3

The lease expense has been borne by a subsidiary company.

8. Contingencies and guarantees

Premier Foods plc has provided guarantees to third parties in respect of borrowings of certain subsidiary undertakings. The maximum amount guaranteed at 31 December 2009 is £1.8bn (2008: £1.9bn).

During the year the Group has been in discussion with one of the Group Pension Schemes relating to the possibility that it may have to recognise some additional liability. The legal position and the potential methods of calculation of the liability are, as yet, uncertain. In the event that it materialises, the impact on net assets is not expected to be significant and the cash impact would be spread over several years in line with the agreed pension deficit recovery period for the Scheme agreed by the Group and Trustees.

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.

9. Post-balance sheet events

On 1 January 2010, the Group undertook an internal reorganisation which resulted in the transfer of the trade and assets of Chivers Hartley Limited, H.L. Foods Limited, Premier Ambient Products (UK) Limited and Premier International Foods UK Limited to a fellow subsidiary, Premier Foods Group Limited.

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 or contact the registrar at the address below. The Shareview website also enables shareholders to view details of their own shareholding or electronically appoint a proxy to vote on their behalf on any poll that may be held at the forthcoming Annual General Meeting.

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 www.premierfoods.co.uk

Corporate social responsibility

The Premier Foods corporate social responsibility report is available on our website at www.premierfoods.co.uk

Annual General Meeting

20 May 2010 at 11.00 am
Insurance Hall, 20 Aldermanbury, London EC2V 7HY

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EC2M 4AA

Glossary

Adjusted earnings per share
Adjusted earnings per share is defined as Adjusted profit before tax less a notional tax rate for the Group divided by the weighted average number of shares in issue during the period.

Adjusted Profit before tax
Trading profit less net regular interest payable.

AGM
Annual General Meeting.

Amortisation
An annual charge made in a company's profit and loss account to reduce the value of an intangible asset to its residual value over its useful economic life.

Bps
Basis point — a unit that is equal to 1/100th of 1%.

BRC
The British Retail Consortium.

Called-up share capital
Ordinary shares, issued and fully paid.

CGU
Cash Generating Unit — the smallest identifiable group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

CIP
Premier Foods plc Co-Investment Plan.

Combined Code
The 2008 Combined Code on Corporate Governance published by the Financial Reporting Council.

EBITDA
Earnings before interest, tax, depreciation and amortisation.

EBT
Employee Benefit Trust.

EPS
Earnings Per Share — calculated as total earnings divided by the weighted average number of shares in issue during the period.

ESOS
Premier Foods plc Executive Share Option Scheme.

Fair value
The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

FDF
The Food and Drink Federation.

Finance lease
A lease that transfers substantially all the risks and rewards incidental to ownership of an asset.

Free Cash Flow
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.

FSA
Depending on the context either the Food Standards Agency or the Financial Services Authority.

GDAs
Guidance Daily Amounts.

HACCP
Hazard Analysis Critical Control Point.

Higgs Report
Report in the UK by Derek Higgs on the role and effectiveness of non-executive directors.

HMRC
Her Majesty's Revenue & Customs.

IAS
International Accounting Standards.

IFRIC
International Financial Reporting Interpretations Committee.

IFRS
International Financial Reporting Standards.

Intangible assets
An identifiable non-monetary asset without physical substance, e.g. patents, goodwill, trade marks and copyrights.

Interest rate hedging
Entering into a financial derivative to protect against unfavourable changes in interest rates.

Interest rate swaps
An agreement between two parties that allows either party to modify the interest cost without changing the characteristics of the underlying debt.

KPI
Key Performance Indicator.

LIBOR
The London Inter-Bank Offered Rate.

LTIP
Premier Foods plc Long-Term Incentive Plan.

Mark to market
The recording of a financial asset or liability to reflect its fair value rather than its book value.

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

Non branded
Non branded products comprise retailer brand and business to business sales.

Non-recourse securitisation
The sale of selected accounts receivable on a non-recourse basis where legal title and non-payment risk is transferred to a third party.

Operating lease
A lease that is not a Finance lease.

Operating Profit
A company's profit after deducting its operating costs from gross profit.

Orders to Cash
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.

Placing and Open Offer
Placing and Open Offer and Firm Placing carried out by the Company in March 2009 as part of its refinancing exercise.

pp
Percentage points.

Pro forma
Pro forma comparisons are calculated as follows: current year actual results (which include acquisitions and/or disposals from the relevant date of completion) are compared with prior year actual results, adjusted to include the results of acquisitions and/or disposals for the commensurate period in the prior year.

Project Fusion
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.

Proposed dividend
Dividend declared by directors but not yet approved by shareholders.

PSP
Premier Group Performance Share Plan.

RIDDOR
Reporting of Injuries, Diseases and Dangerous Occurrences Regulations.

Retailer branded
Also known as "private label" or "own label" products.

SAP
SAP is the market leader in the supply of enterprise resources planning (ERP). SAP is also the name of the software and is an acronym for Systems, Applications and Products. This software is being deployed as part of the Fusion programme.

SAYE
Save-as-you-earn Employee Sharesave Scheme.

Share Capital
Ordinary shares issued and fully paid.

Share Premium Account
Additional paid-in capital or paid-in surplus (not distributable).

SKU (Stock Keeping Unit)
Each specific product item which is identifiable as separate from any other due to brand, size, flavour etc.

Term and Revolving Credit Facility
The amounts of money borrowed or available for borrowing where the repayment of the debt is predetermined by a contract.

The Company
Premier Foods plc.

The Group
The Company and its subsidiaries.

Trading Profit
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, administration costs and interest costs on pension liabilities.

TSR
Total Shareholder Return — the growth in value of a shareholding over a specified period assuming that dividends are reinvested to purchase additional shares.

Turnbull report
Guidance issued by the Institute of Chartered Accountants in England & Wales on the implementation of the internal control requirements of the Combined Code on Corporate Governance at the request of the London Stock Exchange.

UK GAAP
UK Generally Accepted Accounting Principles.

WACC
Weighted Average Cost of Capital.

YoY
Year on year.

Cadbury is a trade mark of Cadbury Ltd, *Erin* is a trade mark of Erin Foods Limited, *Ormo* is a trade mark of A H Foods Ltd and *Rose's* is a trade mark of L. Rose & Company Limited, all of which are used under licence. The Group has an exclusive worldwide licence to use the *Loyd Grossman* name on certain products.

Cautionary Statement

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

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

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