



PREMIER  
FOODS

ANNUAL REPORT AND  
FINANCIAL STATEMENTS

2016/17



INTRODUCTION

## Overview and headlines



# We have moved quickly to rebalance our strategy

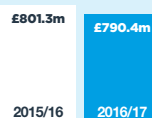
The UK Grocery industry has gone through a period of rapid change during the financial year. Responding quickly to these challenges, we have reviewed our strategy to deliver a more balanced focus on revenue, cost efficiency and cash generation.

**Our target is to reduce our Net debt/EBITDA<sup>1</sup> ratio to below 3x in the next 3–4 years.**

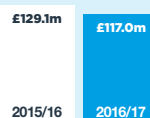


## Financial headlines

### Group underlying sales\*



### Underlying Trading profit\*



### Profit before tax

£12.0m

(2015/16: loss £(13.0)m)

### Net debt\*

£523.2m

(2015/16: £534.2m)

## Operational headlines

- Group underlying sales £790.4m, down -1.4%
- Market share gains in six of our eight largest brands
- Strong momentum in our International business with revenue up +18%
- *Batchelors* Super Noodle pot product launched in collaboration with Nissan
- Cost reduction and efficiency programme to deliver £20m over two years
- Extended revolving credit facility and launched offering of new £210m 5 year Senior Secured floating rate notes

## Explore our report

### INTRODUCTION

At a glance	02
Chairman's statement	03

### STRATEGIC REPORT

Business model	04
Chief Executive's review	05
Strategy	06
Strategy in action	07
Key performance indicators	08
Operating and financial review	10
Our responsibilities	18
Managing our risks	20


### GOVERNANCE


Chairman's introduction	24
Board of directors	25
Governance	26
Nomination Committee report	29
Audit Committee report	30
Other statutory information	32
Directors' Remuneration report	35

### FINANCIAL STATEMENTS

Independent auditor's report	53
Consolidated financial statements	58
Notes to the financial statements	62
Company financial statements	108
Notes to the Company financial statements	110

 The directors' report is comprised of **pages 2 to 52**.

 <sup>1</sup> Net debt/EBITDA is EBITDA on an adjusted basis as defined on **page 16**.

 \* A definition and reconciliation of non GAAP measures to reported measure is set out on **pages 16 and 17**.

## INTRODUCTION

## At a glance

*We LOVE food at Premier Foods. We love how it brings people together and provides moments of pleasure in a busy world. And so do our consumers. Many of our brands have been part of UK life for more than a century, but we don't let them stand still – we're constantly innovating in line with our purpose to create the food our nation loves most for modern life. And today you'll find our brands in 95% of British households<sup>1</sup>.*

## A great British food company

As one of Britain's biggest listed food companies we're committed to the UK, employing over 4,000 dedicated colleagues at 15 manufacturing sites and offices up and down the country. More than 97% of what we sell is made in the UK from quality ingredients, wherever we can sourced sustainably from British suppliers and farmers. We're also working hard to expand internationally by finding new markets for our brands around the world.

## Expanding internationally

Our International business is expanding rapidly. We're finding increasing consumer interest in our *Mr Kipling* and *Cadbury* cake brands and *Sharwood's* cooking sauces in a number of markets including Australia, the USA and the Middle East. And we continue to focus on building momentum closer to home in Ireland.

## Strategic partnerships

Since we entered into a co-operation agreement with Nissin Foods in 2016 we've launched *Batchelors* Super Noodles in a new pot format using Nissin's noodle technology and manufacturing expertise, taken on distribution of Nissin's Soba brand of noodles in the UK and we're now working with Nissin to expand international opportunities for our brands using Nissin's global network.

In May 2017, we signed a non-binding Heads of Terms with Mondelez International for a Strategic Global Partnership for *Cadbury* cake. Once finalised, this agreement will extend the Group's long-standing partnership for at least another five years and be expanded to cover a total of 46 countries with the potential to use additional brands.

## Our Business

We operate primarily in the ambient food sector which continues to be the largest sector within the total £179.1bn<sup>2</sup> UK grocery market. Our Grocery business is responsible for developing our portfolio of brands in four key categories: Flavourings & seasonings; Cooking sauces & accompaniments; Quick meals & soups and Ambient desserts. Our Sweet Treats business is responsible for growing our brands in the Ambient cakes category.

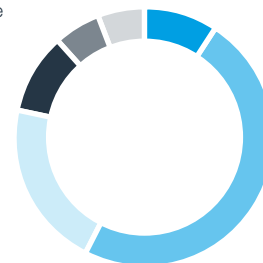
Category	Our brands	Our market position	Total <sup>3</sup> market size
Flavourings & seasonings	<i>Bisto, OXO, Paxo</i>	No. 1	£476m
Cooking sauces & accompaniments	<i>Sharwood's, Loyd Grossman, Homepride</i>	No. 1	£908m
Quick meals & soups	<i>Batchelors, Smash</i>	No. 1	£383m
Ambient desserts	<i>Ambrosia, Bird's, Angel Delight, Mr Kipling, Cadbury</i>	No. 1	£374m
Ambient cakes	<i>Mr Kipling, Cadbury, Lyons</i>	No. 1	£1,007m

We also have a growing presence in the home-baking category with brands including our new *Paul Hollywood* range of mixes.

Our key customers are the major UK supermarkets but we also serve a wide range of other channels including: discounters; convenience stores; online; wholesale and food service.

UK grocery channel value<sup>2</sup>

■ Hypermarkets: £16.5bn	■ Discounters: £17.9bn
■ Supermarkets: £86.6bn	■ Online: £10.5bn
■ Convenience: £37.5bn	■ Other retailers: £10.0bn



## INTRODUCTION

## Chairman's statement

**Dear shareholder,**

2016/17 was a challenging year for the food industry generally and for the categories in which we operate. As a consequence, we announced in January 2017, that our financial results would be below expectation. However, management have moved quickly to adapt to the changing environment and refine our strategy to deliver more balanced progress in terms of revenue, cost efficiency and cash generation in the future.

**Performance over the year**

Group underlying sales for the financial period were £790.4m (-1.4%) and underlying Trading profit was £117.0m (-9.3%). Our performance was impacted by a change in retailer promotional strategies which reduced category volumes, a time lag in recovering input cost inflation and a period of warmer than usual weather which impacted Grocery in the second quarter.

We did nevertheless manage to grow market share for most of our core brands during the year and our International business continued to deliver excellent double-digit growth. As a result we have outperformed the majority of our peer group in the UK ambient grocery market during the last six months of the period.

I'm also encouraged with the progress we've made with Nissin Foods following the co-operation agreement we signed in 2016. We've already started to distribute Nissin's Soba brand of noodles in the UK and recently launched *Batchelors* Super Noodles in a pot format using Nissin's technology and manufacturing expertise. Early signs are very encouraging. I'm also very pleased that we've been able to announce the signing of non-binding Heads of Terms with Mondelez International to renew our long-standing licence to produce *Cadbury* cakes in the coming years.



*"Management have moved swiftly to adapt to the current market situation and are targeting to deleverage the business to below 3x Net debt to EBITDA."*

After a period of lower food prices, rising commodity costs, compounded by the devaluation of Sterling following the EU referendum last year, led to the re-emergence of food price inflation in the UK.

Management have worked hard to recover these cost increases through a combination of internal efficiencies, adjustments to promotional mechanics and, where necessary, limited price increases although it's true to say this has not been easy and has taken longer than expected.

To help us adapt to the challenging market, management announced a cost reduction and efficiency programme in January 2017, including both operational efficiencies in the supply chain and our head office functions. This is targeted to deliver cost savings of £20m over the next two years. As a consequence, we've streamlined our organisational structures and this has regrettably resulted in some colleagues leaving the business. I would like to thank them for their contribution, as well as thanking all colleagues for their hard work and commitment over the year.

I'm pleased to say that despite a changing market environment our commitment to sustainability has remained strong. We've made good progress in delivering the health commitments we announced in 2016, for instance in removing sugar from our products and launching healthier options. We've also been recognised externally for the progress we've made on animal welfare and sustainable palm oil and, encouragingly, we exceeded many of our environmental targets through improving our focus and efficiency.

**Board changes**

We welcomed Tsunao Kijima to the Board as a representative of Nissin Foods, our largest shareholder. Tsunao, who is Managing Executive Officer of Nissin, was appointed as a non-executive director in July 2016.

In March 2017 we also announced the appointment of Daniel Wosner as a representative director of Oasis, an international investment firm who are now our second largest shareholder. Daniel is Managing Director and Head of Europe at Oasis and oversees the firm's UK and Continental European investments.

Both Tsunao's and Daniel's experience will be a valuable addition to the Board as we look to enhance the Company's long-term value for all our shareholders.

Finally, you will be aware that in September 2016, I notified the Board of my intention to step down as Chairman during 2017, having spent nine years as a non-executive Director and the last five as Chairman. The search for a successor is underway led by Ian Krieger, Senior Independent Director and further details can be found on page 29.

**Outlook**

The last year has clearly been difficult for the business and the market looks to remain challenging in the year ahead. I believe management have moved swiftly to adapt to the current situation and put in place a robust plan which targets to deleverage the business to below 3x Net debt to EBITDA in the next three to four years through a more balanced focus on revenue growth, cost efficiency and cash generation.

I would like to thank shareholders for their significant support for the Company during my tenure as Chairman. I remain confident in the effectiveness of our strategy, the strength of our brands, the quality of our customer relationships and the experience of our management team. I look forward to a bright future for Premier Foods.

**David Beever**  
**Chairman**

**16 May 2017**

## STRATEGIC REPORT

## Business model

As a business we believe we have certain capabilities which set us apart from our competitors. We have a broad range of category leading British brands, we have the ability to serve a wide range of customer channels in both the UK and overseas and the capability to manufacture a diverse range of products in multiple formats.

We have a unique portfolio of British brands which are well loved by the British consumer. We put the consumer at the heart of everything we do and use our insights to create innovative new products that meet consumers' needs.

We build strong relationships with our customers and build joint plans for mutual growth. We are able to service a full range of customers from the major retailers, discounters, convenience, food service, wholesale and international markets.

Our manufacturing capability gives us the scope to manufacture a diverse range of products from sauces, powder mixes, desserts and cakes in a range of formats from tins, jars, pouches and cartons. We have an experienced management team who have a deep understanding of today's food industry and a workforce with many years of experience in manufacturing and product development.

We are committed to being a responsible food business and have leading standards of safety both for our food and our colleagues. We have taken a pro-active role in the health agenda making a number of key commitments over the next three years.

Our values define how we work together and do our jobs. All colleagues in the business understand the importance of our 5 key values:

- We aim higher;
- We champion fresh ideas;
- We are agile;
- We are united; and
- We respect and encourage one another.

**The strategic report on pages 04 to 23 was approved by the Board of directors on 16 May 2017 and signed on its behalf by Gavin Darby, Chief Executive Officer.**



## STRATEGIC REPORT

## Chief Executive's review



It's difficult to remember a year when there's been as much change in the food market as we've seen in the last twelve months. The rapid switch from food price deflation to inflation, changing retailer promotional strategies and the surprise result of the EU referendum have all combined to make this past year a difficult one, not only for Premier Foods but right across the UK food and drink industry.

Like others, our results have been adversely affected although I'm encouraged that we still out-performed the majority of our peer group, particularly in the latter half of the year.

Fundamentally we're doing the right things and our strategy is delivering in important key areas. We've continued to invest in our brands in line with consumer trends for snacking, convenience and health and six out of our eight key brands grew market share in 2016/17. Our International business continues to grow strongly quarter after quarter and is now 34% larger in terms of revenue than it was when we started to invest in this area two years ago. And our strategic partnership with Nissin Foods is progressing well with the launch of *Batchelors* Super Noodles in a pot format in February together with our distribution of Nissin's Soba brand of noodles in the UK.

But in today's challenging marketplace we can't stand still. Together with the Board we've therefore taken the opportunity to review our strategy and agreed to adjust the balance of priorities between our strategic objectives of delivering revenue growth, driving cost and efficiency savings and cash generation. Previously this balance has been weighted more towards delivering category and revenue growth but in future will be more evenly balanced with a specific focus on reducing our net debt/EBITDA ratio to below 3.0x, helping ensure we generate best value for our shareholders over the medium-term.



*"We've taken the opportunity to review our strategy and adjust the balance of priorities between our strategic objectives of delivering revenue growth, driving cost and efficiency savings and cash generation."*

Our rebalanced strategy has three main pillars:

### Protect and drive revenues

We plan to continue investing in our brands but in a more focused way supporting innovation that is closer to our core brand offering and making sure that our marketing spend is used in the most efficient way to get the best return on investment. We'll also continue to build on our strong customer relationships through closer collaboration, category management expertise and shopper insights helping us drive growth ahead of category levels.

Our plans in the UK will be enhanced by the strong momentum we've built in our International business. We've made great progress in key markets, notably Australia, and we aim to continue delivering double-digit revenue growth in the medium-term through these markets and others.

Our strategic partnerships will add further to our growth plans in the UK and internationally. The first products we've been working on together with Nissin are exceeding expectations with more to come, both in the UK and through tapping into Nissin's broad global network. I'm also delighted that we've agreed Heads of Terms with Mondelez International for a new strategic global partnership for *Cadbury* cakes. This partnership is a significant improvement on our current licence arrangements and opens up exciting new growth opportunities in a much wider range of countries representing a further boost to our fast-growing International business. It also gives us the potential to access the full *Cadbury* brand family in addition to the *Oreo* brand.

### Cost and efficiency

Closely managing our costs is imperative in the current environment and will be key to funding future investment in the business and supporting the profit needed to be able to accelerate our debt reduction. In January we announced a major cost reduction and efficiency programme designed to deliver savings of £20m over the next two years.

A major part of this will come from combining our separate Sweet Treats and Grocery warehousing and logistics operations into one consolidated warehousing and transport solution helping drive greater efficiencies, improved customer service and fewer road miles. And we're continuing to drive our continuous improvement programmes in manufacturing and procurement via both capital and non-capital cost reduction projects.

We've also streamlined our overhead cost base, reducing duplication and complexity and creating a leaner and more agile management structure. Regrettably this has meant over 50 valued colleagues have had to leave the business and we wish them well in their future careers.

### Cash generation

We plan to keep a tight focus on managing cash. Our capital expenditure will be held to £20-£25m over the medium-term. Additionally, in March we announced an agreement with the trustees of our pension schemes to reduce our deficit payments to the schemes by £32m over the next three years. And we're continuing to maintain diversified sources of financing through an extension of the maturity of our revolving credit facilities and launch of a new 5 year floating rate note due 2022.

Whilst it's been a difficult year overall, I believe we've continued to make progress in many important areas helping us out-perform the marketplace. By rebalancing our strategy to give equal focus to revenue growth, cost efficiencies and cash generation I'm confident we can be successful in this environment, reduce our leverage and deliver shareholder value.

**Gavin Darby**  
Chief Executive Officer

16 May 2017

## STRATEGIC REPORT

## Strategy

Recent developments in the external environment have adversely affected the Group's performance. As a result, the Board has reviewed its strategy and decided to adjust the balance of priorities between existing strategic objectives. Going forward we will pursue a strategy which is more evenly balanced between the three objectives of delivering revenue growth, achieving cost and efficiency savings and reducing net debt.



### Protect & drive revenues

#### UK

- Invest in innovation and marketing to drive growth ahead of category levels
- Further strengthen well established relationships with major customers

#### International

- Strong double-digit revenue growth

#### Strategic partnerships

- *Cadbury* and *Nissin* to deliver growth opportunities



### Cost & efficiency

#### Underpinned by 2 year cost reduction programme

##### Logistics restructuring

- Combining warehousing and distribution solutions

##### SG&A re-sizing

- Removing complexity and duplication

##### Manufacturing & Procurement

- Ongoing cost savings



### Cash generation

#### Lower pension costs

- New agreement with £32m reduction in cash costs over 3 years

#### Maintain diversified sources of financing

- Extended maturity of capital structure

#### Tightly focused capital expenditure

- Maintain at approximately 3% of revenue

Targeting below 3.0x Net debt/EBITDA in the next 3–4 years



Generate value for our shareholders



## STRATEGIC REPORT

## Strategy in action

In the UK, growing ahead of our categories continues to be a core objective for us and our plans for International are for further strong growth. We are excited by our global strategic relationships with *Cadbury* and *Nissin* and our recently announced cost savings programme is expected to deliver £20m over the next two years.



## UK

Invest in innovation and marketing to drive growth ahead of category levels



We have a portfolio of great British brands which are leaders in their respective categories. We aim to deliver revenue growth of these brands ahead of category trends through advertising and marketing these brands and by introducing new branded products to the market.

We use our UK specific consumer insights to identify the key consumer trends relevant to our product categories through consumer usage and attitude studies and other consumer research. This helps us identify key consumer trends such as convenience, health & wellness and indulgence which in turn informs our product innovation strategy. Recent examples of new branded product ranges which illustrate this approach to innovation include *OXO Stock Pots*, *Cadbury Amaze Bites* and *Ambrosia Deluxe custard*.

6

out of our 8 largest brands grew market share in 2016/17

## International

Strong double-digit growth over the medium-term



Our International business currently accounts for nearly 6% of total Group revenue. Over the last two and a half years the International business unit has delivered revenue growth for ten consecutive quarters and this growth trend is expected to continue in the medium-term.

The Australian business has performed particularly strongly over the last two years. We are now the leading branded cake supplier in Australia with *Mr Kipling* and *Cadbury* cakes and *Sharwood's* sauces has grown its market share to 12% of the Indian Foods category.

In the USA we are extending distribution of *Sharwood's* to the West Coast and we have now launched a range of *Cadbury* cake in the United Arab Emirates.

18%

Increase in International revenue in 2016/17

## Strategic partnerships

Our partnership with *Nissin* has the potential to create significant long-term value for both organisations through strategic co-operation



In February 2017, we launched *Batchelors* Super Noodles in a new pot format. This is a great example of how we can combine the power of our leading British brand with *Nissin's* leading noodle technology and manufacturing expertise. The product is being distributed across the major retailers in the UK and initial results have been very encouraging.

In addition, we have taken on distribution of *Nissin's* Soba brand of noodles in the UK. And looking forward we are working with *Nissin* to leverage their international scale to accelerate the distribution of *Premier's* products in key overseas markets.

£1.15m

Retail sales value in first eight weeks of launch

## Cost &amp; efficiency

Combining warehousing & distribution solutions



The Group has previously operated a distinct central warehousing and distribution operating model for each of its Grocery and Sweet Treats business units. Following an in-depth review of its logistics operations, the Group has decided to consolidate its warehousing and distribution solutions into one location. This review has identified the optimal location for a central warehousing and distribution hub for the whole business which will help us serve customers more efficiently.

The Group expects to deliver significant financial benefits as a result of this re-organisation. The majority of these benefits are expected to be realised in 2018/19, while the restructuring costs associated with this re-organisation are predominantly planned to be incurred during the 2017/18 financial year.

15%

Reduction in transport miles

## STRATEGIC REPORT

## Key performance indicators

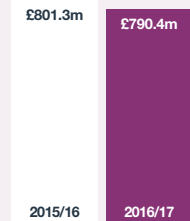
**We use a large number of performance indicators to monitor financial, operational and responsibility performance.**

These are reviewed on a regular basis by our senior management teams and the Board. Performance indicators are used to encourage focus and measure performance across a range of areas and to highlight areas for attention and corrective action, as well as recognising good performance and celebrating success.

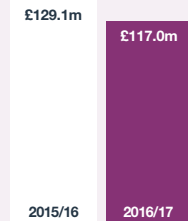
As set out in the Chief Executive's review (on page 05) we have rebalanced our strategy to focus on the delivery of revenue growth, driving cost and efficiency savings and cash generation. To support this we have replaced the previous recurring cash flow measure with free cash flow, as this reflects all cash outflows of the business and provides clarity on targeting absolute net debt reduction.

**Group underlying sales**

Year-on-year growth in sales.

**Underlying Trading profit**

Trading profit is defined in the Operating and Financial review on page 16.

**Net debt/EBITDA ratio**

The ratio measures the Group's overall level of debt. Net debt and EBITDA are defined in the Operating and Financial review on pages 16 and 17.

2016/17

**3.9x**  
(2015/16: 3.6x)

**Free cash flow**

Free cash flow is a measure of the cash generated by the Group to pay down debt and is defined in the Operating and Financial review on page 17.

2016/17

**£15.1m**  
(2015/16: £55.7m)

**Why is this important?**

Delivering sales growth is one of our strategic priorities. This captures both branded and non-branded performance across all channels we operate in.

**Why is this important?**

This measure reflects the revenues and costs associated with the operational performance of the business and is also a good proxy for the cash generative capacity of the business.

**Why is this important?**

The ratio is tied with the Group's priority to organically deleverage the business.

**Why is this important?**

Free cash flow is a good indicator of the underlying quality of earnings and the overall health of the business. It also identifies cash available to pay down debt.

**Progress we've made**

Overall Group underlying sales fell slightly to £790.4m in the period. Branded sales were impacted by changing retailer promotional activities and a period of unseasonally warm weather, both of which reduced category volumes. However, we grew market share in 6 of our 8 largest brands and there were strong performances from non-branded and International.

**Progress we've made**

Underlying Trading profit declined by 9.3% in the period. This was primarily driven by a time lag in the recovery of increased input cost inflation and changing retailer promotional strategies which reduced gross profit. In response to the changing commercial environment we have rebalanced our strategy, further details are set out in the Chief Executive's review on page 05.

**Progress we've made**

Net debt reduced by £11m from £534.2m in 2015/16 to £523.2m in 2016/17. The Net debt/ EBITDA ratio was adversely affected by weaker Trading profit in the period. Following the rebalancing of our strategy over the year we have announced a strategic target to reduce leverage to below 3.0x in 3-4 years time.

**Progress we've made**

Free cash flow reduced largely as a result of the £38.8m increase in pension contributions paid during the period. As part of the rebalancing of our strategy in the year cash generation has been highlighted as a strategic priority as we look to deleverage the business.

## How KPIs link to our strategy and business model



In addition, to reflect the importance of cost and efficiency savings we have introduced a new KPI based on SG&A costs (these are selling, general and administrative expenses) as a % of sales.

Our KPI on product testing has also been updated to align with our target to ensure that at least 75% of new products we launch each year across our Grocery portfolio provide 'better-for-you' choices. This is one of our Commitments to Healthier Choices which we launched in 2016. Environmental and Health & Safety performance is reported in more detail in the section on our responsibilities on pages 18 and 19 and governance on page 28.

### Branded market share

This is our branded retail sales expressed as a percentage of the retail sales of the categories in which we operate. (Based on IRI data 52 weeks ending 1 April 2017 and 2 April 2016).

Grocery		Sweet Treats	
25.0%	24.7%	23.6%	23.1%
2015/16	2016/17	2015/16	2016/17

### SG&A as a % of Group underlying sales\*

SG&A represents the selling, general and administration costs of the central functions together with that of the Grocery, Sweet Treats, International and Knighton operating segments.

2016/17

8.8%

(2015/16: 8.5%)

### % of products testing superior or at par with competitors

Consumer panel blind testing of our major branded products against their main competitor, whether branded or non-branded.

2016/17

93%

(2015/16: 95%)

### % of NPD to be 'better-for-you' choices

Sales value of new product launches with a claimable nutrition benefit, e.g. 'Source of fibre' as well as no red traffic light on front of pack within our Grocery portfolio.

2016/17

78%

(2015/16: 66%)

#### Why is this important?

Increasing market share indicates consumer preference for our products and performance versus our competitors. It also demonstrates successful partnerships with our customers to grow the overall categories in which we operate.

#### Why is this important?

As part of our cost and efficiency strategy we intend to maintain a lean organisational structure; ensuring complexity and duplication are kept to a minimum.

#### Why is this important?

This is an important measure of the quality of our product portfolio. It drives recipe improvements and ensures focus on consistent product quality.

#### Why is this important?

Aligns with our insights which highlight consumers' increasing focus on 'better-for-you' options. Further information on health and nutrition is set out in the section on our responsibilities on pages 18 and 19.

#### Progress we've made

Overall market share fell during the year. In Grocery good progress was made in Quick meals, soups and Flavourings & seasonings offset by a weaker performance in Cooking sauces & accompaniments. Within Sweet Treats a strong performance from *Cadbury* was offset by softer sales from *Mr Kipling*.

#### Progress we've made

Over the year SG&A costs rose slightly reflecting investment in sales, marketing and product development resource. In January 2017 we announced a new cost saving and efficiency programme which is focused on SG&A costs and further manufacturing and procurement efficiency savings. This is targeted to deliver savings of £20m over the next two years.

#### Progress we've made

Overall performance was broadly in line with prior year. The review covered 73% of our branded portfolio (by retail sales value) as part of a two year rolling programme. We will continue to focus on consumer quality benchmarking and reformulate any products testing below par.

#### Progress we've made

Over the course of the period 78% of new product launches within our Grocery portfolio delivered a claimable nutritional benefit and none of these products were high in fat, saturated fat, sugar or salt (no red traffic light on front of pack). As one of our Commitments to Healthier Choices we have set a three year target to ensure that at least 75% of new product launches each year across our Grocery portfolio will provide these kind of 'better-for-you' choices.

Note: Grocery has been restated to include the *Baking* category and *Sweet Treats* has been restated to include a broader definition of the *Ambient Packaged Cake* category, both of which provide a closer fit to our product portfolios.

\*A reconciliation of underlying numbers to reported numbers is set out on pages 16 and 17.

## STRATEGIC REPORT

## Operating and financial review

This financial year has been a challenging one for the industry, with the return of food inflation and changing retailer promotional strategies. Despite this, the Group grew market share in six of its eight largest brands, outperformed many of its peers in the latter part of the year and grew International sales by 18%. The Group has continued to invest in brand innovation and marketing, customer relationships remain strong and the Group recently agreed a £32m reduction in cash payments to its pension schemes over the next three years.

## Sales

Group underlying sales (£m)	Grocery	Sweet Treats	Group
Branded	482.0	177.5	659.5
Non-branded	81.1	49.8	130.9
<b>Total</b>	<b>563.1</b>	<b>227.3</b>	<b>790.4</b>
% change			
Branded	(4.5%)	(0.5%)	(3.5%)
Non-branded	10.7%	11.6%	11.1%
<b>Total</b>	<b>(2.6%)</b>	<b>1.9%</b>	<b>(1.4%)</b>
<b>Statutory revenue</b>			
2016/17	563.1	227.3	790.4
2015/16	548.6	223.1	771.7

Note: 2015/16 statutory revenue excludes Knighton Foods revenue of £29.6m, which is consolidated in the results for the Grocery business in 2016/17.

Group underlying sales for the 52 weeks ended 1 April 2017 were £790.4m, a decrease of (1.4%) on the prior year. Branded sales were (3.5%) lower in the year while Non-branded underlying sales increased by 11.1% to £130.9m.

On a statutory basis, revenue grew from £771.7m in the year to £790.4m, an increase of 2.4%, reflecting the inclusion of results from Knighton Foods in 2016/17.

In the fourth quarter of the year, Group underlying sales declined by (1.0%) to £191.0m compared to the equivalent quarter a year ago. While Branded sales were (2.9%) lower, six of the Group's eight largest brands gained value market share in the quarter, with *Batchelors* a particularly strong performer.

The Grocery business unit reported full year underlying sales of £563.1m, which were (2.6%) lower than a year ago. The year started strongly, with the first quarter of the year displaying both Branded and Non-branded sales growth, however a particularly warm end to the second quarter in the UK resulted in a sharp slowdown in some of the key Grocery categories such as gravy, stocks and soups, which resulted in lower sales.

Additionally, the Grocery business has been impacted by changing retailer promotional strategies during the course of the year, and particularly in the second half. A variety of different promotional deals for products sold in major retailers have long been a feature of the grocery landscape in the UK.

In 2016/17, the number of multi-buy promotional deals, by aggregate sales value, reduced by 24% across the Group's categories, according to Kantar Worldpanel. In categories which are considered to be expandable, this has resulted in lower sales volumes compared to the comparative period. The Group expects this effect to continue into the first half of 2017/18, and then stabilise thereafter. The Group is introducing multipack formats such as *Ambrosia* custard 4 packs to mitigate the adverse effect of this change in retailer promotional strategies.

The Group's strategy of bringing new innovative products to market continued during the course of the year, with *OXO* Stock Pots, *Ambrosia* Deluxe custard and *Batchelors* Super Noodles in a pot format all contributing to market share gains for their respective brands. In particular, *Batchelors* delivered volume growth in the year due to both the Super Noodles pot product launched in the fourth quarter and a refreshed range of Pasta 'n' Sauce products with new contemporary flavours such as Smoky Cheese and Pancetta.

The *Batchelors* Super Noodles Pot product, which launched to market earlier than expected, was the first product which demonstrates the benefits of working closely with the Group's strategic partner and major shareholder, Nissin. Specifically, the access to Nissin's research & development teams and their manufacturing base in Hungary was pivotal in launching this exciting, convenient new product which has already delivered over £1m retail sales value in a short period of time.

Grocery Non-branded underlying sales increased by £7.8m in the year to £81.1m. Business to business sales performance at Knighton Foods was a key contributor to this growth, with volumes increasing as this business transitioned through its recovery phase.

Sweet Treats delivered sales growth of 1.9% in the year to £227.3m, and grew sales in the first three quarters of the year. Branded sales were £1.0m or (0.5%) lower at £177.5m and Non-branded sales grew by 11.6% to £49.8m. *Cadbury* cake performed very strongly in the year, with volumes, sales and market share all ahead of the prior year, while *Mr Kipling* experienced lower sales due to lower levels of promotional activity. *Cadbury* Amaze Bites, a convenient tub of bite sized chocolate brownies is now worth approximately £5m in terms of retail sales value (Source: IRI, 31 December 2016).

Growth in Sweet Treats Non-branded sales reflected new contract wins across a broad range of retail customers and in both seasonal and all year round ranges. In particular, the business unit was successful in gaining some premium Mince Pie contracts for the first time.

The Group's International business unit continues to demonstrate excellent progress and has now delivered ten successive quarters of sales growth. In the year, sales were 18% ahead and up 11% on a constant currency basis<sup>12</sup>. This was largely due to a very strong performance in Australasia where sales increased nearly 70% reflecting growth in *Sharwood's* cooking sauces and *Mr Kipling* and *Cadbury* cakes. The Group launched a digital marketing campaign for *Sharwood's* cooking sauces in the year which has received over 21 million impressions and over 1 million video views to date.

### Underlying Trading profit

£m	2016/17	2015/16	Change
<b>Underlying Divisional contribution<sup>8</sup></b>			
Grocery	129.9	140.2	(10.3)
Sweet Treats	19.8	25.0	(5.2)
Total	149.7	165.2	(15.5)
Group & corporate costs	(32.7)	(36.1)	3.4
<b>Underlying Trading profit</b>	<b>117.0</b>	<b>129.1</b>	<b>(12.1)</b>

The Group's underlying Trading profit in 2016/17 was £117.0m compared to £129.1m in the prior year. Divisional contribution was £149.7m in the year, of which £129.9m was generated from the Grocery business and £19.8m from Sweet Treats.

Group & corporate costs were £3.4m lower in the year. Following a weaker trading performance by the Group during the year, no provisions were made for management incentive scheme payments to colleagues.

The decline in Underlying Trading profit performance was impacted by a time lag in recovering input cost inflation; the impact of changing retailer promotional strategies and category declines in the Grocery business following a warmer than usual second quarter. Partly offsetting these impacts were SG&A savings, manufacturing cost efficiencies and slightly lower marketing investment in the year.

The Group has experienced material input cost inflation in the past year, notably in commodities such as sugar, chocolate, dairy, wheat and palm oil. Input costs have also been driven up by currency devaluation. The Group takes a blended approach to managing these cost increases, managing its own efficiencies, adjusting promotional mechanics and formats where appropriate and finally looking at limited price increases where these cannot be avoided. The Group has worked collaboratively with customers to agree these changes and appropriate settlements were concluded. This collaborative approach, while the most beneficial approach in the long-term, took longer than originally foreseen.

During the course of the year, and particularly in the second half, the Group's Grocery categories have been affected by changing retailer promotional strategies, notably a reduction in multi-buy promotions which has the effect of reducing category volumes. In the short-term the Group offset this adverse volume impact by upweighting other promotional mechanics such as reduced price deals. However, these mechanics are more costly than multi-buys and resulted in reduced sales per unit.

In the second quarter of the year, a number of the Grocery business's categories were adversely impacted by warmer weather compared to the prior year. In this quarter, categories such as Gravy and Stocks and Soup declined in volume terms by (13.0%) and (16.3%) respectively, while Chilled Salads and Ice Cream, which the Group has no major presence in, grew by 13.7% and 17.3% respectively (Source: IRI, 12 weeks ended 24 September 2016). As a result, and after a strong first quarter when six Grocery brands grew sales, none of the major Grocery brands grew in the second quarter.

Manufacturing overhead costs were lower in the year following the completion of a programme to improve labour flexibility at some of the Group's Grocery manufacturing sites.

During the year, the Group announced a substantial two year cost reduction and efficiency programme. One part of this programme is a significant logistics restructuring which will combine the warehousing and distribution operations of both the Grocery and Sweet Treats businesses into one centralised location. This programme is expected to reduce transport miles by 15% and reduce pallet transfers by 43,000 per annum.

Additionally, the Group has concluded a process which will deliver significant cost savings across its SG&A cost base and has involved its Group Executive team reducing from ten to seven and over 50 roles removed from the Group's head office. This programme is expected to deliver incremental cost savings of £10m, of which approximately 60% relate directly to colleague headcount. The total restructuring costs associated with the logistics and SG&A programmes are expected to be £8-£10m in 2017/18.

## STRATEGIC REPORT

## Operating and financial review continued

## Operating profit

£m	2016/17	2015/16	Change
<b>Underlying adjusted EBITDA<sup>a</sup></b>	<b>133.2</b>	<b>146.5</b>	<b>(13.3)</b>
Depreciation	(16.2)	(17.4)	1.2
<b>Underlying Trading profit</b>	<b>117.0</b>	<b>129.1</b>	<b>(12.1)</b>
Less: Knighton	–	1.9	1.9
Add: Disposals	–	(2.2)	(2.2)
<b>Trading profit<sup>2</sup></b>	<b>117.0</b>	<b>128.8</b>	<b>(11.8)</b>
Amortisation of intangible assets	(37.9)	(37.6)	(0.3)
Fair value movements on foreign exchange and derivatives	(1.0)	2.6	(3.6)
Restructuring costs	(15.8)	(11.2)	(4.6)
Net interest on pensions and administrative expenses	(0.8)	(14.5)	13.7
Impairment	–	(13.6)	13.6
<b>Operating profit</b>	<b>61.5</b>	<b>54.5</b>	<b>7.0</b>

Underlying adjusted EBITDA for 2016/17 was £133.2m and depreciation in the year of £16.2m was £1.2m lower than the comparative period.

Operating profit was £61.5m in the year, an increase of £7.0m on the prior year. Amortisation of intangible assets was broadly in line with the comparative year at £37.9m. Intangible assets amortisation included £25.7m relating to brands, trademarks and licences and £12.2m relating to software. Restructuring costs in the year were £15.8m, £4.6m higher than 2015/16, and which relate to corporate activity costs in April 2016 and restructuring charges associated with the Group's logistics restructuring and overhead cost reduction programmes.

Net interest on pensions and administrative expenses were £0.8m in the year, a £13.7m reduction compared to the prior year. This was composed of administrative expenses incurred of £6.3m, partly

offset by a net interest credit of £5.6m owing to an opening combined pension schemes surplus. In the prior year an impairment charge of £13.6m due to the write down of associate investments was reported; there were no impairments in 2016/17.

## Finance costs

£m	2016/17	2015/16	Change
Senior secured notes interest	30.6	30.8	0.2
Bank debt interest	8.1	9.7	1.6
	38.7	40.5	1.8
Amortisation and deferred fees	4.1	4.4	0.3
<b>Net regular interest<sup>10</sup></b>	<b>42.8</b>	<b>44.9</b>	<b>2.1</b>
Fair value movements on interest rate financial instruments	(0.6)	(0.7)	(0.1)
Write-off of financing costs	0.1	0.4	0.3
Other interest	7.2	0.3	(6.9)
<b>Net finance cost</b>	<b>49.5</b>	<b>44.9</b>	<b>(4.6)</b>

Net regular interest for 2016/17 was £42.8m, a little ahead of the Group's expectations and £2.1m lower than the prior year. The largest component of net regular interest was £30.6m of interest due to holders of the Group's senior secured notes. Bank debt interest of £8.1m was £1.6m lower in the year due to lower levels of average debt and slightly lower LIBOR levels.

Net finance cost was £49.5m in the year, £4.6m higher than 2015/16. The main driver of the change was a decrease in the discount rate used to value long-term property provisions the Group holds, which is disclosed in Other interest, and increased from £0.3m in 2015/16 to £7.2m in the year. This increase in the discount unwind, which has no cash effect, is a result of changes in government gilts over the last twelve months.

## Associate investments

The Group holds a 49% interest in Hovis Limited ('Hovis'). In the prior year, the Group wrote down its investment in Hovis to £nil. On 1 April 2016, the Group gained control (as defined under IFRS 10) of Knighton, in which the Group already held 49% of the ordinary share capital and associated voting rights, and hence the results of Knighton were consolidated in the Group's financial statements for the period ended 2 April 2016. On 24 May 2016, the Group acquired the remaining 51% of the ordinary share capital of Knighton.

## Taxation

£m	2016/17	2015/16	Change
<b>Deferred tax</b>			
– Current period	(6.4)	51.9	(58.3)
– Prior periods	1.1	(4.5)	5.6
– Adjustment to restate opening deferred tax at 17.0%	(1.2)	(0.4)	(0.8)
<b>Income tax (charge)/ credit</b>	<b>(6.5)</b>	<b>47.0</b>	<b>(53.5)</b>

A tax charge of £6.5m in the year compared to a £47.0m credit in the prior period. The £6.5m charge included a current period charge of £6.4m, an adjustment to restate opening deferred tax of £1.2m, partly offset by a prior period credit of £1.1m. The current period charge comprised a tax charge at 20.0% on profit before tax of £2.4m, non-deductible items of £1.0m, an adjustment for share based payments of £0.9m and a credit due to a current period deferred tax adjustment of £0.3m.

Deferred tax assets at 1 April 2017 were £32.4m compared to £25.9m at 2 April 2016.

## Earnings per share

Continuing operations (£m)	2016/17	2015/16	Change
Operating profit	61.5	54.5	7.0
Net finance cost	(49.5)	(44.9)	(4.6)
Share of loss from associates	–	(22.6)	22.6
<b>Profit/(loss) before taxation</b>	<b>12.0</b>	<b>(13.0)</b>	<b>25.0</b>
Taxation (charge)/credit	(6.5)	47.0	(53.5)
Profit after taxation	5.5	34.0	(28.5)
Average shares in issue	830.1	826.0	(4.1)
<b>Basic earnings per share (pence)</b>	<b>0.7</b>	<b>4.1</b>	<b>(3.4)</b>

Profit before tax was £12.0m in the year, compared to a loss before tax in the comparative period of £13.0m. After a taxation charge of £6.5m in 2016/17, Profit after taxation was £5.5m, which resulted in basic earnings per share of 0.7 pence.

Adjusted earnings per share (£m)	2016/17	2015/16	Change
Underlying Trading profit	117.0	129.1	(12.1)
Less: Net regular interest	(42.8)	(44.9)	2.1
<b>Adjusted profit before tax<sup>a</sup></b>	<b>74.2</b>	<b>84.2</b>	<b>(10.0)</b>
Less: Notional tax @ 20.0%	(14.8)	(16.8)	2.0
Adjusted profit after tax	59.4	67.4	(8.0)
Average shares in issue (millions)	830.1	826.0	(4.1)
<b>Adjusted EPS (pence)<sup>11</sup></b>	<b>7.2</b>	<b>8.1</b>	<b>(0.9)</b>

Adjusted profit before tax was £74.2m in the year, compared to £84.2m in 2015/16. This reflects the Underlying Trading profit performance in the year, partly offset by a lower net regular interest charge compared to the prior year. Adjusted profit after tax was £59.4m after deducting a notional 20.0% tax charge, a decrease of £8.0m compared to the prior year. Based on average shares in issue of 830.1 million shares, adjusted earnings per share in the year was 7.2 pence, a 0.9 pence reduction on 2015/16.

## Free cash flow

£m	2016/17	2015/16
Underlying Trading profit	117.0	129.1
Depreciation	16.2	17.4
Other non-cash items	4.3	4.1
Interest	(39.8)	(41.7)
Pension contributions	(51.7)	(12.9)
Capital expenditure	(20.9)	(25.4)
Working capital & other	4.8	2.1
Restructuring costs	(13.7)	(7.5)
Purchase of own shares	(1.1)	(1.8)
Knighton	–	(7.7)
<b>Free cash flow<sup>14</sup></b>	<b>15.1</b>	<b>55.7</b>
<b>Statutory cash flow statement</b>		
Cash generated from operating activities	37.0	95.4
Cash used in investing activities	(20.9)	(30.1)
Cash used in financing activities	(42.0)	(79.2)
<b>Net decrease in cash &amp; cash equivalents</b>	<b>(25.9)</b>	<b>(13.9)</b>

Free cash flow in the year was an inflow of £15.1m. Depreciation, at £16.2m, was £1.2m lower than the prior year, and non-cash items of £4.3m principally comprised the addition of share based payments. Interest paid in the year was £39.8m; £1.9m lower than the comparative period due to lower average levels of debt. Capital expenditure was £4.5m lower at £20.9m and pension contributions (including pension administration costs) increased from £12.9m to £51.7m. An inflow of £4.8m from working capital was reported and restructuring costs increased from £7.5m to £13.7m. This was due to cash costs associated with corporate activity in April 2016 and redundancy costs relating to the cost reduction and efficiency programmes, the majority of which were incurred in the first half of the year.

On a statutory basis, cash generated from operations was £76.8m compared to £137.1m in the comparative period. This was largely due to increased pension deficit contributions, as identified in the table above, and lower Operating

profit before (non-cash) impairment charges. Cash generated from operating activities was £37.0m, after deducting net interest paid of £39.8m. Repayment of borrowings was £34.6m in the year, £33.0m of which related to lower drawings against the Group's revolving credit facility.

At 1 April 2017, the Group held cash and bank deposits of £3.1m and bank overdrafts of £21.2m.

## Net debt and sources of finance

	£m
<b>Net debt at 2 April 2016</b>	<b>534.2</b>
Free cash flow generation in period	(15.1)
Movement in debt issuance costs	4.1
<b>Net debt at 1 April 2017</b>	<b>523.2</b>
EBITDA	133.2
<b>Net debt / EBITDA</b>	<b>3.9x</b>

Net debt at 1 April 2017 was £523.2m; an £11.0m reduction in Net debt compared to the prior year. The movement in debt issuance costs was £4.1m.

The Group has extended the term of its revolving credit facility with its lending syndicate from March 2019 to December 2020. The £272m facility, which was £22m drawn at 1 April 2017, is expected to reduce by £55m to £217m, subject to the issue of new £210m Senior Secured floating rate notes outlined below. The facility will further reduce to approximately £184m in March 2019. The interest margin under the revolving credit facility is unchanged and covenants under the facility, which are tested bi-annually, have been updated to ensure appropriate headroom against future reporting periods.

The Group has also announced the issue of new five year £210m Senior Secured floating rate notes due 2022, to replace its £175m Senior Secured floating rate notes, due to mature March 2020. Pricing of the new £210m Senior Secured floating rate notes will be confirmed following completion of the transaction and the notes are expected to be callable at 101% after one year. The Group's £325m Senior Secured fixed notes which attract a coupon of 6.5%, mature in March 2021 and there are no immediate plans to call or refinance these notes.

## STRATEGIC REPORT

## Operating and financial review continued

## Pensions

IAS 19 Accounting Valuation (£m)	1 April 2017			2 April 2016		
	RHM	Premier Foods	Combined	RHM	Premier Foods	Combined
Assets	4,190.9	673.7	4,864.6	3,758.7	584.2	4,342.9
Liabilities	(3,597.0)	(1,162.8)	(4,759.8)	(3,207.8)	(1,004.2)	(4,212.0)
<b>Surplus/(Deficit)</b>	<b>593.9</b>	<b>(489.1)</b>	<b>104.8</b>	<b>550.9</b>	<b>(420.0)</b>	<b>130.9</b>
Net of deferred tax (17.0%/18.0%)	493.0	(406.0)	87.0	451.7	(344.4)	107.3

The IAS 19 pension schemes valuation reported a surplus for the combined RHM and Premier Foods' pension schemes at 1 April 2017 of £104.8m, equivalent to £87.0m net of a deferred tax charge of 17.0%. This compares to a combined RHM and Premier Foods' schemes surplus at 2 April 2016 of £130.9m and £107.3m net of deferred tax. A deferred tax rate of 17.0% (18.0%) is deducted from the IAS 19 retirement benefit valuation of the Group's schemes to reflect the fact that pension deficit contributions made to the Group's pension schemes are allowable for tax.

The valuation at 1 April 2017 comprised a £593.9m surplus in respect of the RHM scheme and a deficit of £489.1m in relation to the Premier Foods schemes. Assets in the combined schemes increased by £521.7m in the year from £4,342.9m to £4,864.6m. RHM scheme assets increased by £432.2m mainly due to an increase in interest rate swaps and equities, while the Premier Foods' schemes assets increased by £89.5m. The increase in asset movements in the year have been offset by an increase in the combined schemes liabilities of £547.8m. This is principally due to a reduction in the discount rate from 3.55% at 2 April 2016 to 2.65% at 1 April 2017.

Combined pensions schemes (£m)	1 April 2017	2 April 2016
<b>Assets</b>		
Equities	527.0	405.4
Government bonds	519.1	474.8
Corporate bonds	23.0	1.9
Property	357.4	292.3
Absolute return products	1,284.2	1,227.6
Cash	69.1	326.9
Infrastructure funds	242.6	228.0
Swaps	1,116.1	862.5
Private equity	321.7	259.4
Other	404.4	264.1
<b>Total Assets</b>	<b>4,864.6</b>	<b>4,342.9</b>
<b>Liabilities</b>		
Discount rate	2.65%	3.55%
Inflation rate (RPI/CPI)	3.3%/2.2%	3.0%/1.9%



The Accounting Standards Board under IFRIC 14, are currently reviewing the recognition of a pensions surplus in the financial statements of an entity. Dependent upon the final published standard, there is potential that any future defined benefit surplus may not be recognised in the financial statements of the Group and additionally, the deficit valuation methodology may also change.

During the year, the Group finalised the 2016 combined pension schemes' triennial actuarial valuation, displayed in the table below, which confirms a combined schemes' deficit of £421m. This is a £641m reduction compared to the previous triennial valuation in 2013.

£m	Actuarial valuation surplus/(deficit)		
	2016	2013	Change
RHM	135	(504)	639
Premier Foods	(551)	(538)	(13)
Irish schemes	(5)	(20)	15
<b>Total schemes</b>	<b>(421)</b>	<b>(1,062)</b>	<b>641</b>

On 28 March 2017, and following the finalisation of the triennial actuarial valuation, the Group announced it had agreed a revised schedule of pension payments with the Trustees of the pension schemes. Overall, the total cash payments for the three financial years from 2017/18 to 2019/20, to the RHM and Premier Foods Pension Schemes will be approximately £32m lower than outlined in our Interim Results on 15 November 2016. A full schedule of the scheduled payments for the next six financial years are set out in the table below.

As part of these overall reductions, the Group has also agreed with the Premier Foods schemes a mechanism (including limited changes to the existing dividend matching agreement) to allow the schemes limited further cash contributions in the event the Group outperforms certain agreed profit targets. These targets are materially ahead of current market expectations for the Group.

The net present value of future deficit payments, to the end of the respective recovery periods remains at c.£300–320m.

## Outlook

The industry in which the Group operates has undergone recent and rapid change. Reflecting these changes, the Board has updated the Group's strategy to give an equal focus to revenue growth, cost efficiencies and cash generation. In the UK, growing ahead of its categories continues to be a core objective for the Group and its plans for International are for further strong double-digit growth. The global strategic relationships presented by the Cadbury and Nissin partnerships are exciting and the recently announced cost savings programme is expected to deliver £20m over the next two years. The Group is focused on reducing its leverage ratio to below 3.0x in the next 3-4 years through profit improvement and debt reduction.

The 2017/18 financial year has started on a solid footing. The Group expects the effect of changing retailer promotional strategies to reduce through the first half of the year and then stabilise thereafter. Accordingly, quarter 2 sales are expected to deliver an improved year on year sales trend relative to quarter 1. In the full year, the Group plans to deliver progress which is expected to be weighted more to the second half.

**Alastair Murray**  
Chief Financial Officer

16 May 2017

£m	Future pension cash payments schedule					
	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
<b>New plan</b>						
Deficit contributions	35	35	37	38	38	38
Administration costs	4–6	4–6	4–6	6–8	6–8	6–8
<b>Total</b>	<b>39–41</b>	<b>39–41</b>	<b>41–43</b>	<b>44–46</b>	<b>44–46</b>	<b>44–46</b>
<b>Previous plan (November 2016)</b>						
Deficit contributions	49	44	40	33	33	35
Administration costs	6–8	6–8	6–8	6–8	6–8	6–8
<b>Total</b>	<b>55–57</b>	<b>50–52</b>	<b>46–48</b>	<b>39–41</b>	<b>39–41</b>	<b>41–43</b>
<b>Reduction/(Increase)<sup>1</sup></b>	<b>16</b>	<b>11</b>	<b>5</b>	<b>(5)</b>	<b>(5)</b>	<b>(3)</b>

1. Assumes mid-point of respective administration cost ranges

## STRATEGIC REPORT

## Operating and financial review continued

## Appendices

The Group's results are presented for the 52 weeks ended 1 April 2017 and the comparative period, 52 weeks ended 2 April 2016. All references to the 'year', unless otherwise stated, are for the 52 weeks ended 1 April 2017 and the comparative period, 52 weeks ended 2 April 2016. All references to the 'quarter', unless otherwise stated, are for the 13 weeks ended 1 April 2017 and the comparative period, 13 weeks ended 2 April 2016.

## Quarter 4 Underlying sales

Q4 Underlying sales (£m)	Grocery	Sweet Treats	Group
Branded	120.1	43.8	163.9
Non-branded	20.2	6.9	27.1
<b>Total</b>	<b>140.3</b>	<b>50.7</b>	<b>191.0</b>
% change			
Branded	(2.9%)	(2.8%)	(2.9%)
Non-branded	11.8%	14.6%	12.3%
<b>Total</b>	<b>(1.0%)</b>	<b>(0.7%)</b>	<b>(1.0%)</b>

## Notes and definitions of non-GAAP measures

The Group uses a number of non-GAAP measures to measure and assess the financial performance of the business. The Directors believe that these non-GAAP measures assist in providing additional useful information on the underlying trends, performance and position of the Group. These non-GAAP measures are used by the Group for reporting and planning purposes and it considers them to be helpful indicators for investors to assist them in assessing the strategic progress of the Group.

- Underlying results are defined as continuing operations excluding the results of previously disposed businesses and includes results of acquired businesses in comparative reporting periods.
- Trading profit is defined as profit/(loss) before tax before net finance costs, profits and losses from share of associates, amortisation of intangible assets, impairment, fair value movements on foreign exchange and other derivative contracts, restructuring costs, and net interest on pensions and administration expenses.
- Underlying Sales is revenue excluding the results of previously disposed businesses and includes results of acquired businesses in comparative reporting periods.
- Underlying Trading profit is Trading profit as defined in (2) above and excludes the results of previously disposed businesses and includes results of acquired businesses in comparative reporting periods.
- Divisional contribution refers to Gross Profit less selling, distribution and marketing expenses directly attributable to the relevant business unit.
- Underlying Divisional contribution is Divisional contribution as defined in (5) above and excludes the results of previously disposed businesses and includes results of acquired businesses in comparative reporting periods.
- Adjusted EBITDA is Trading profit as defined in (2) above excluding depreciation.
- Underlying adjusted EBITDA is adjusted EBITDA defined in (7) above and excludes the results of previously disposed businesses and includes results of acquired businesses in comparative reporting periods.
- Adjusted profit before tax is Underlying Trading profit as defined in (4) above less net regular interest.
- Net regular interest is defined as net finance cost after excluding write-off of financing costs, fair value movements on interest rate financial instruments and other interest.
- Adjusted earnings per share is Adjusted profit before tax as defined in (9) above less a notional tax charge of 20.0% (2015/16: 20.0%) divided by the weighted average of the number of shares of 830.1million (52 weeks ended 2 April 2016: 826.0million).

12. Constant currency sales are referred to with reference to the International business unit and remove the impact of foreign currency fluctuations when comparing sales between two reporting periods.
13. Net debt is defined as total borrowings, less cash and cash equivalents and less capitalised debt issuance costs.
14. Free cash flow is defined as the change in Net debt as defined in (13) above before the movement in debt issuance costs.

### Reconciliation of Continuing Operations to Underlying measures

£m	Continuing operations	Less: Disposals	Add: Knighton	'Underlying' business
<b>2016/17</b>				
Sales	790.4	–	–	790.4
Trading profit	117.0	–	–	117.0
EBITDA	133.2	–	–	133.2
<b>2015/16</b>				
Sales	771.7	0.0	29.6	801.3
Trading profit	128.8	2.2	1.9	129.1
EBITDA	144.9	2.2	0.6	146.5

Continuing operations Trading profit of £128.8m in 2015/16 above includes £2.2m of non-cash costs predominantly relating to the write off of legacy fixed assets in the year and is excluded from 'Underlying' Trading profit.

- Group & corporate costs refer to group and corporate expenses which are not directly attributable to a business unit and are reported at total Group level.
- The International business unit is currently too small for separate disclosure and in line with accounting standards is aggregated within the Grocery business unit for reporting purposes.

## STRATEGIC REPORT

# Our responsibilities

## Being responsible and sustainable underpins our business strategy and is crucial to how we drive growth, productivity and reputation in the longer-term interest of our shareholders, colleagues and all those who touch our business.

Over the past year we've developed a new theme for our sustainability agenda – Bringing Britain Together – to better reflect the values inherent in our brand portfolio and provide a stronger identity and focus for our activities. In the same way our brands bring people together, whether it's dinner with the family or cake with friends, we bring our colleagues, suppliers and stakeholders together to address issues important to the sustainability of our company, our communities and our country.

Building on our previous achievements we've developed five core commitments under our new theme of Bringing Britain Together:

- encourage healthier food choices for our consumers and our colleagues;
- develop the skills our industry needs for the future;
- collaborate with our suppliers to drive higher ethical and environmental standards;
- deliver environmental improvements across our operations; and
- support our communities on a local and national level.

### Encouraging healthier food choices

Health and nutrition continue to be important issues both for our consumers as they seek to make the right food choices and for society more broadly given the obesity challenge facing the UK. In 2016, we refreshed our nutrition strategy and developed ten new commitments to encourage healthier food choices for our consumers and colleagues. These included a commitment to remove 1,000 tonnes of sugar from our portfolio in the next three years, control portion sizes, provide informative labelling, launch additional healthy options and tighten our marketing codes.

During the year we removed more than 200 tonnes of sugar, primarily from our cake, desserts and cooking sauce brands. For example, we developed a new recipe for *Mr Kipling* Viennese Whirls which not only contains lower sugar, but lower saturated fat levels and calories too. As a result, we've removed 450 million calories, 50 tonnes of saturated fat and 50 tonnes of sugar from the market.

We also launched a number of healthy choices in the year, including *Batchelors* high protein and high veg pots and High Protein Cup a Soup. And we tightened our existing marketing to children policy to prohibit all marketing and advertising to children under 16 years of age.

On a broader level, we continue to work with others in our industry, our suppliers, our customers and the government on how we can best contribute to addressing the obesity issue, particularly amongst children. This includes supporting the government's Childhood Obesity Plan launched in 2016.

### Developing the skills our industry needs

The food industry is facing a serious skills shortage in the UK especially in the engineering, food science and technical areas. To make sure we have the skills needed to drive productivity, innovation and growth in the future we're continuing to invest in apprenticeships and supporting higher education initiatives as well as engaging with schools to encourage students to think about the world of work and a career in the food industry.

Over the last year, we continued our regular intake of new apprentices and additionally developed a plan to maximise the benefits of the government's new Apprenticeship Levy. The plan balances offering new recruits the opportunity to gain new skills and providing further development for existing colleagues. In total we expect to create around 100 new apprenticeships across the business in the coming year in a broad range of disciplines, from engineering to food science to information technology.

During the year we also continued our support for the Institute of Grocery Distribution's (IGD) Feeding Britain's Future schools campaign. Along

with others in the food manufacturing and retailing sector, we provided volunteers to support structured pre-employment skills training sessions for year 9 and year 12 students. In 2016/17 Premier Foods' volunteers took part in 75 training sessions in a variety of schools across the country. We also formed partnerships with local schools to provide CV writing, confidence building and interview skills, and importantly, introduce students to the many career opportunities in the food and drink sector.

### Collaborating with our suppliers to drive higher standards

Whatever we buy, it's important we understand the impact the product has on the environment, animal welfare and the people that produce it. Where it makes sense, we look for ingredients certified to meet recognised environmental and ethical standards whether this be palm oil from producers that meet the Roundtable for Sustainable Palm Oil (RSPO) criteria, egg products that are certified from cage-free hens or cardboard boxes and other paper products that meet the Forestry Stewardship Council requirements.

Last year we were again recognised by the World Wide Fund For Nature (WWF) for our positive action to support sustainable palm oil sourcing, scoring top marks in WWF's 2016 Palm Oil Buyers Scorecard. We were also commended for our approach to farm animal welfare, moving up to the third tier in the Business Benchmark on Farm Animal Welfare's annual rankings (from tier 5 two years before) in recognition of our commitments and 2025 goals to support improved animal welfare.

We also continued to champion high ethical standards at our own sites and through our supply chain. For the second year running all of our manufacturing sites have become Stronger Together 2017 business partners, meaning they've been recognised for addressing modern day slavery and third party exploitation in the workplace. We also ask all of our ingredient and packaging suppliers to become members of Sedex (the Supplier Ethical Data Exchange) supported by our own Sedex Member Ethical Data audits covering areas such as health & safety and labour rights. At year end, more than 94% of our direct spend was covered by Sedex registered suppliers (excludes Knighton Foods).



## Supporting our communities on a local and national level

Supporting the communities in which we operate locally and nationally is part of the DNA of our business and a powerful way to engage our colleagues. Since 2015, we've collectively raised more than £360,000 to support our corporate charity partner, Cancer Research UK (CRUK), far exceeding our original target of £250,000.

This has been achieved through numerous fund raising activities across the country and with the generous support of our suppliers. Last year's highlights included a company-wide charity challenge in the Brecon Beacons, which saw colleagues either trek 24 miles or cycle 100 miles raising an impressive £50,000 in the process and a Christmas in-store campaign to raise awareness of CRUK's life-saving work to beat cancer.

In addition, we won a significant number of awards for our *Bisto* social marketing campaign focused on bringing people together and combatting loneliness under the banner of the *Bisto* Together Project. This included the Spare Chair Sunday programme encouraging people to invite an elderly person to Sunday lunch which was expanded during the course of the year to the Open Door programme encouraging people to get to know their neighbours.

## Delivering environmental improvements across our operations

We're continually looking for ways to improve our environmental performance. All colleagues are encouraged to play their part through our 'Green Matters' initiative, an internal environmental campaign supported by 54 Environmental Champions across our sites.

During the year we successfully completed the certification of all our manufacturing sites (excluding Knighton Foods) to meet globally recognised standards of environmental management through ISO 14001. We also reduced our CO<sub>2</sub> emissions per tonne in eight out of our nine manufacturing sites achieving a 10.2% reduction in emissions overall compared to the previous year as a result of greater efficiency and focus.

Higher production volumes meant our non-ingredient water usage was higher in the period although overall usage intensity on a per tonne basis reduced by 3.6% through greater investment in leak prevention and improved clean down practices, particularly at our bakeries.

We also maintained our zero waste to landfill achievement and further reduced the amount of waste sent for incineration by 6.9% as a result of improved segregation and awareness.

The following charts set out our environmental performance for the financial period on both a per tonne basis and an absolute basis:

### Environmental performance 2016/17 vs 2015/16 (per tonne)

2016/17 Target <sup>1</sup>	2016/17 Performance
Reduce waste to incineration by 1.5%	-6.9%
Reduce energy consumption per tonne by 1.5%	-6.0%
Reduce non-ingredient water usage per tonne by 1.5%	-3.6%
Reduce carbon equivalent CO <sub>2</sub> emissions per tonne by 1.5%	-10.2%

### Total energy usage (Gigawatts)

2016/17	272
2015/16	275

### Total (non-ingredient) water usage (Megalitres)

2016/17	724
2015/16	704

### Total CO<sub>2</sub> (e) emissions (Metric tonnes)

2016/17	75,383
2015/16	79,611

Looking ahead, we will be moving from reporting against annual targets to reporting progress against longer-term goals aligned with the various commitments we've made to industry programmes such as the Food and Drink Federation's (FDF) 2025 Ambition and the Courtauld 2025 commitment on food waste. These also reflect our formal obligations under the Climate Change Agreement, Carbon Reduction Commitment and European Union Emissions Trading Scheme.

The table below outlines the longer term targets under the FDF's 2025 Ambition and the Courtauld 2025 commitment on food waste against which we will be tracking our own progress.

Area	Target
CO <sub>2</sub> emissions	Achieve a 55% absolute reduction in CO <sub>2</sub> emissions by 2025 against the 1990 baseline.
Food waste	Send zero food waste to landfill from direct operations and beyond and contribute to reducing food waste across the whole supply chain from farm to fork, including within our operations.
Packaging	Minimise the impact of used packaging associated with food and drink products and encourage innovation in packaging technology and design that contributes to overall product sustainability.
Water	Deliver continuous improvement in the use of water across the whole supply chain and take action to ensure sustainable water management and stewardship. Contribute to an industry-wide target to reduce water use by 25% by 2020 compared to 2007.
Transport	Reduce the environmental impact of our transport operations, whether from own fleet operations or third party hauliers, in terms of both carbon intensity and air quality aspects. Embed a fewer and friendlier food miles approach within food transport practices.

## STRATEGIC REPORT

# Managing our risks

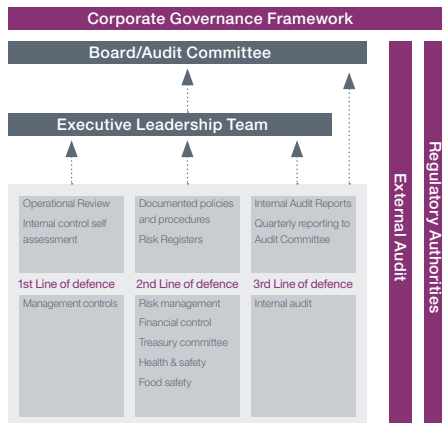
## Board accountability

The Board has ultimate responsibility for the effective risk management of the Group's strategic objectives. The Group has a well-established process which has operated throughout the year that identifies and monitors the key strategic and operational risks, ensures appropriate mitigating activities and reports on their effectiveness.

The Board has considered and approved the risk management policy, the risk appetite of the Group (discussed below) and has delegated the review of the risk management process to the Audit Committee. The Audit Committee receives regular reports from management and internal audit detailing the risks that are relevant to our business activity, the effectiveness of our internal controls in dealing with these risks and any required remedial actions along with an update on their implementation.

The Audit Committee reports to the Board on the effectiveness of the risk management process. Day-to-day risk management is the responsibility of senior management as part of their everyday business processes and is underpinned by the Group's policies and procedures to ensure this is fully embedded.

There is a structured business review process that operates across all business areas which management report to the Board and this, along with the corporate governance framework, further underpins the ongoing management of risk.



## Management controls

The internal control system provides senior management with an ongoing process for the management of the risks that could impact on the fulfilment of the Group's business objectives. The system is designed to manage rather than eliminate the risk of failure to achieve our business objectives and can only provide reasonable, not absolute, assurance against material misstatement. Our internal controls cover all areas of operations. The system also supports senior management's decision making processes improving the reliability of business performance.

## Corporate oversight

**Risk management** – The Group operates a formal risk management process designed to provide information to the Board, drive internal audit activities and support the executive and senior management in identifying and mitigating the key risks facing the business on an ongoing basis. Collective top down executive reviews are conducted, as a minimum twice per annum.

**Financial control** – The Group maintains a strong system of accounting and financial management controls. Our accounting controls ensure data in the Group's financial statements are reconciled to the underlying financial systems. A review of the data is undertaken to provide assurance that the position of the Group is fairly reflected, through compliance with approved accounting practices.

The Group has a dedicated team of finance managers aligned to business areas, supported by systems to provide the best available decision making information to management on an ongoing basis. This is reflected in an annual budgeting process, monthly management reporting and ongoing investment appraisal.

**Treasury risk management committee** – This Committee focuses on the commodities purchased by the Group, reviewing our policies and operational delivery with respect to forward trading and foreign exchange exposures.

**Health & Safety** – The Group maintains an ongoing programme of Health & Safety audits and has established internal Health & Safety compliance tours at all factory sites.

**Food safety** – The Group has developed and implemented corporate technical standards and established an ongoing food quality and safety compliance programme which audits all factory sites and major suppliers. This supplements internal testing facilities established as part of our internal control system which confirm food quality, safety and authenticity.

## Internal audit

The Audit Committee annually reviews and approves the internal audit programme for the year. The Committee reviews progress against the plan on a quarterly basis considering the adequacy of audit resource, the results of audit findings and any changes in business circumstances which may require additional audits.

The results of internal audits are reported to the Executive Leadership Team and senior management and where required corrective actions are agreed. The results of all audits are summarised for the Audit Committee along with progress against agreed actions.

## Risk appetite

The organisation's approach is to minimise exposure to reputational, financial and operational risk, whilst accepting and recognising a risk/reward trade-off in the pursuit of its strategic and commercial objectives.

As a food manufacturing company, with many well-known brands, the integrity of the business is crucial and cannot be put at risk. Consequently, it has a zero tolerance for risks relating to Health & Safety and food safety. The business, however, operates in a challenging and highly competitive market place and as a result it recognises that strategic, commercial and investment risks will be required to seize opportunities and deliver results at pace.

It is therefore prepared to make certain financial and operational investments in pursuit of growth objectives, accepting the risk that the anticipated benefits from these investments may not always be fully realised. Its acceptance of risk is subject to ensuring that potential benefits and risks are fully understood and sensible measures to mitigate risk are established.

## Changes since last year

The business has reviewed its strategy during the year to be more evenly balanced between delivering revenue growth, driving cost and efficiency savings and cash generation rather than being weighted to category and revenue growth. During the financial period Grocery revenue growth targets were not met largely due to weather impacts and changes in major customers' promotional strategies. However, we are confident that the latter is a short-term trend which will stabilise over the next 12 months. We aim to reduce weather impacts in the longer-term by prioritising product innovations which are less sensitive to, or benefit from, warmer weather.

The Group has experienced material input cost inflation in the past year. Input costs have also been driven up by currency devaluation. The Group takes a blended approach to managing these cost increases, managing its own efficiencies, adjusting promotional mechanics and formats where appropriate and finally looking at limited price increases where these cannot be avoided.

The focus on cost efficiency has led to an extensive cost and efficiency programme, including a streamlining of our organisational structure. Unfortunately this has also necessitated a number of redundancies across commercial and central functions. The business will need to manage process changes as well as challenges around staff engagement and retention in the short-term. A major logistics consolidation programme is underway which will provide significant cost savings but carries some operational risk during the transition.

Since the last report the UK has voted to exit the EU and seen a sharp devaluation of Sterling and cyclical cost inflation. This has adversely impacted commodity prices which makes our products more expensive to produce.

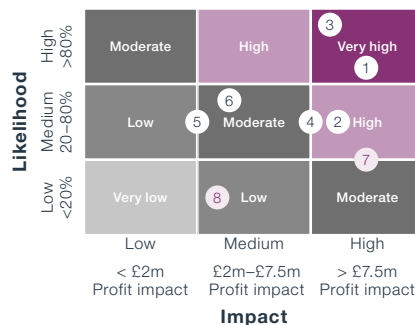
A number of risks highlighted in our previous report have reduced in likelihood and/or impact. We have recently signed a non-binding Heads of Terms to be a Strategic Global Partner with Mondelez for Cadbury cake. Trading performance at our Hovis Joint Venture has improved. Negotiations on the 2016 pension fund revaluations have been positive, resulting in reduced cash outflows until March

2020. We are also starting to see positive outcomes from our collaboration with Nissin, including the successful launch of our *Batchelors* Super Noodles product in a pot format.

In addition the Group has extended the term of its revolving credit facility with its lending syndicate from March 2019 to December 2020. The Group has also announced the proposed issue of a new five year £210m Senior Secured floating rate notes due 2022, to replace its £175m Senior Secured floating rate notes, due to mature March 2020.

## Summary of major strategic & operational risks

We have focused on six key strategic risks which pose the greatest threat to the delivery of our strategy. We have also highlighted a number of operational risks which we believe are common to all food manufacturers under the headings; Operational continuity and Legal compliance. These risks are identified on the heat map below and are described in more detail on pages 22 and 23, together with a discussion of the mitigating activities we are taking to reduce the likelihood or potential impact of these risks. Our website also contains a more detailed discussion of operational risks seven and eight below.



- |                        |                           |
|------------------------|---------------------------|
| ① Delivery of strategy | ⑤ Commercial arrangements |
| ② Corporate risks      | ⑥ Business restructuring  |
| ③ Commodity prices/FX  | ⑦ Operational continuity  |
| ④ Weather              | ⑧ Legal compliance        |

## STRATEGIC REPORT

## Managing our risks continued

## Strategic risks

**1. Delivery of Strategy**

Our revenue growth strategy is taking longer than anticipated to deliver and the business has reviewed its strategy with a more balanced focus on revenue, cost efficiency and cash generation. Marketing spend is targeted at certain key brands and consequently there will be parts of our portfolio that receive only modest marketing investment and support. We expect that some of the categories in which we operate will continue their current trend of decline and so the delivery of our growth strategy is dependent on us growing share in our markets and aligning our product portfolio with consumer trends. This needs to be delivered through effective innovation and marketing activity.

**2. Corporate risks**

During 2017 the Group has renegotiated elements of its debt capital structure. Capital availability may be impacted by market trends which are outside the Group's control e.g. US interest rate volatility and global political uncertainty. The Group's pension fund deficit also remains a significant risk due to the materiality of the liability on the balance sheet.

Deficit payments post 2019 are subject to the outcome of the 2019 actuarial revaluation and if the pension schemes underperform over this period there is a risk that requested contributions become unaffordable. In certain circumstances (such as significant corporate events or the disposal of certain businesses) the RHM Trustees have the capability to exercise enhanced powers (including in respect of funding).

**3. Commodity prices / Foreign exchange (FX)**

Commodity prices have undergone significant increases driven by Brexit, indirect FX impacts and cyclical cost inflation. There is a risk of further unbudgeted commodity inflation or sterling devaluation against the Euro. This could impact margins and/or our ability to invest in other areas of the business such as marketing or capital expenditure.

**4. Weather**

The business is subject to seasonal fluctuations and lacks a warm weather product portfolio. This, along with changes to customer promotional strategy, was a contributory factor to recent trading performance issues. Initiatives to de-seasonalise our portfolio will only have a material effect over the longer-term. Longer-term climate change patterns could also undermine our business model if the product portfolio does not evolve over this period.

## Mitigating activities

We are continuing to invest in our core brands. There are no changes to our investment strategy for International and the collaboration initiatives with Nissin, which are both delivering strong results. We have excellent relationships in place with the major retailers through our strategy of supporting customer growth, providing new shopper insights and exclusive customer ranges. As a result we have been able to outperform the market in many of our categories. The results of retailer range reviews have been positive and a number of de-listed products are now back in store. We also have strong non-branded offerings in place and are growing our convenience, online and international businesses which reduces our dependence on the major retailers.

We have strong relationships in place with our banking group and have now extended the maturity of our revolving credit facility and announced the proposed issue of a new 5 year floating rate note due 2022.

Our executive directors are actively engaged with the pension trustees on scheme funding and investment matters and we have engaged Mercer to assist in formal dialogue with the trustees over the risk profile of the RHM scheme. An integrated risk management review has been initiated with the major UK schemes following the 2016 valuation and the Premier Foods pension scheme has an agreed de-risking programme in place. We have negotiated reduced pension payment contributions until March 2020 and as a result total cash payments will be approximately £32m lower than outlined in our Interim Results on 15 November 2016 (see page 15 for a breakdown of scheduled payments).

Hedging activity and ongoing supplier risk management is in place to mitigate the impact of commodity price and FX driven inflation. Initiatives to mitigate inflation through price increases, cost efficiencies and supply chain optimisation are well advanced. We have also undertaken a restructuring of the business to significantly reduce our SG&A expenditure, effective from 2017/18.

We are continuing to preferentially invest in programmes to de-seasonalise our Grocery product portfolio. The Sweet Treats side of the business is also less sensitive to weather fluctuations. In the long-term, the growth of our International business will also help to reduce our dependence on cold weather focused categories in Grocery.



## Strategic risks

### 5. Commercial arrangements

The delivery of our strategic objectives is dependent on strong relationships with key customers, suppliers and distributors. A number of our brands are licensed; in respect of our use of the *Cadbury* brand our agreement is now operating on a rolling 12 month notice period and consequently we are in advanced discussions to secure a longer-term arrangement. In addition our licensing agreement with *Lloyd Grossman* includes performance targets.

The business is undergoing a major transformation of its logistics operations which will combine the existing Grocery and Sweet Treats warehousing and distribution activities under a single supplier. This is expected to deliver significant long-term cost savings but gives rise to some operational risks during the transition period and will result in dependence on a single supplier and site for operations.

### 6. Business restructuring

The business has recently restructured its commercial and central functions in order to deliver cost savings. This may result in loss of experience and capability in certain parts of the business, particularly at a senior level. There are also some short-term risks around our ability to maintain staff engagement and retain key talent. There may also be continuity and succession planning issues for certain roles, as individual responsibilities are combined and expanded.

## Operational risks

### 7. Operational continuity

Delivery of our strategy is dependent on the organisation's ability to minimise operational disruption from issues with facilities, IT and factory infrastructure, as well as procurement and logistics functions.

### 8. Legal compliance

The business is subject to a number of legal and regulatory compliance requirements and must continually monitor new and emerging legislation, in areas such as Health & Safety, the listing regime, competition law, food safety, labelling regulations and environmental standards.

## Mitigating activities

The Group has recently signed non-binding Heads of Terms to be a Strategic Global Partner with Mondelez for *Cadbury* cake. Once finalised, this agreement will extend the Group's long standing partnership for another five years with the option to the Group of extending this for an additional three years. Additionally, the licence will cover a total of 46 countries with the potential to use other brands in the *Cadbury* family. The *Lloyd Grossman* brand is well set for growth with a strong pipeline of NPD, including a new range of premium pouch sauces, Indian sauces and desserts.

The logistics consolidation programme is being managed through a strong project governance framework including transition planning and risk management activities. The supplier contract has been agreed following appropriate due diligence checks and effective contractual protections are in place.

The restructuring of roles has been completed swiftly to provide clarity to colleagues. Certain areas of the business such as International and the graduate teams, as well as operational sites, have not been impacted. The business will continue to invest in staff development and engagement initiatives on a focused basis. The new structure will also reduce 'silos' in the business and enable more cross-divisional activities and staff development opportunities.

## Mitigating activities

We have crisis management processes in place and business continuity plans are reviewed and refreshed on an ongoing basis. The financial impact of material site issues is mitigated by insurance cover. Operational control over sites has been consolidated with one senior manager providing a consistent level of discipline. Knighton Foods has been reintegrated into the business, providing stronger commercial and operational control. This has been further enhanced through the implementation of SAP in 2016/17. Systems resilience is built in through the deployment of dual data centres and has been enhanced following the completion of a re-hosting initiative in 2016. Greater operational efficiency will be introduced to our Logistics function through the warehousing and distribution consolidation programme over the next two years. Procurement category strategy plans are in place to monitor and mitigate risk around key suppliers.

Leading food industry processes are in place to manage Health & Safety and food safety issues, including an ongoing programme of internal and external audits. There are dedicated Legal and Regulatory teams in place to monitor changes in legislation, ensure compliance across the organisation and defend against litigation where necessary.

**GOVERNANCE**

# Chairman’s introduction

## Dear shareholder,

We believe that good corporate governance is essential for building a successful and sustainable business in the long-term interests of shareholders. An effective governance framework is also designed to ensure accountability, fairness and transparency in the Company’s relationships with all of its stakeholders whether customers, suppliers, employees, the government or the wider community.

## Areas of focus in the year

Over the year the Board has reviewed the Group’s three year strategic plan in light of the changing commercial environment. The Board has regularly reviewed new product development and customer relations.

In addition the Board undertook an external evaluation exercise, a detailed review of risks facing the business and has received regular updates on shareholder communication.

## Compliance with the UK Governance Code 2014

The Board supports the principles laid down by the UK Governance Code 2014 (the Code) as issued by the Financial Reporting Council which applies for the financial year ended 1 April 2017 (available at [www.frc.org.uk](http://www.frc.org.uk)). Subject to not all directors being able to attend the 2016 AGM (as outlined under Board Attendance) I am pleased to confirm that over the course of the year we complied with all the provisions of the Code.

## AGM

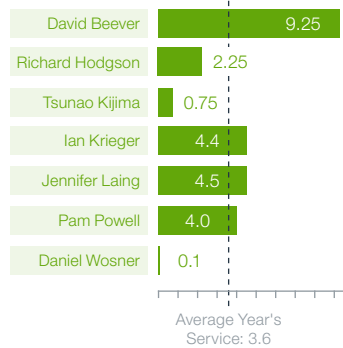
Our AGM will again be held at the offices of Gowling WLG (UK) LLP, 4 More London Riverside, London, SE1 2AU on Thursday 20 July 2017 at 11.00 am and I look forward to seeing you then.

**David Beever**  
**Chairman**

**16 May 2017**

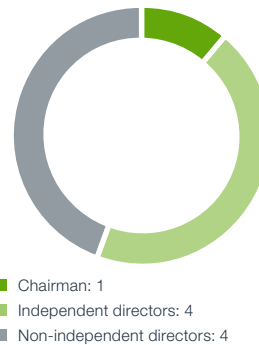
## Board tenure

The average appointment of our non-executive directors is 3.6 years. Tenure of individual appointments can be seen in the adjacent graph. Our Board evaluation determines if individual directors continue to be effective and considers if new appointments are needed to refresh the balance of skills on the Board.



## Board independence

Under the Code at least half the Board, excluding the Chairman, should comprise non-executive directors determined by the Board to be independent. The Chairman was considered independent on appointment. Tsunao Kijima and Daniel Wosner were both appointed pursuant to Relationship Agreements with our shareholders Nissin and Oasis, respectively and, whilst fully independent of management, are not considered independent under the Code.



## Board attendance

The Board held nine scheduled Board meetings during the year and a number of other meetings and calls were convened for specific business. In addition there were three meetings of the Audit, Remuneration and Nomination Committees during the year. All directors are expected to attend the AGM, scheduled Board meetings and relevant Committee meetings, unless they are prevented from doing so by prior commitments. Where a director is unable to attend a meeting they have the opportunity to read the papers and ask the Chairman to raise any comments. They are also updated on the key discussions and decisions which were taken at the meeting. Non-executive directors also have the opportunity to meet without management present.

Details of Board and Committee membership and attendance at scheduled Board and Committee meetings are set out in the table below. Tsunao Kijima was unable to attend two Board meetings and the AGM (held on the same day) for personal reasons and Pam Powell missed one meeting due to illness. David Beever absented himself from meetings of the Nomination Committee which discussed the Chairman succession process. All directors, except Tsunao Kijima, attended the 2016 AGM.

Executive directors	Board	Audit Committee	Remuneration Committee	Nomination Committee
Gavin Darby	9/9	-	-	-
Alastair Murray	9/9	-	-	-
Non-executive directors				
David Beever	9/9	-	3/3	1/1
Richard Hodgson	9/9	3/3	-	3/3
Tsunao Kijima <sup>1</sup>	4/6	-	-	-
Ian Krieger	9/9	3/3	3/3	3/3
Jennifer Laing	9/9	3/3	3/3	3/3
Pam Powell	8/9	3/3	3/3	3/3
Daniel Wosner <sup>2</sup>	1/1	-	1/1	-

1. Appointed to the Board on 21 July 2016 as a representative of Nissin.  
2. Appointed to the Board on 1 March 2017 as a representative of Oasis.

## GOVERNANCE

## Board of directors

## GAVIN DARBY

CHIEF EXECUTIVE OFFICER

**Appointed to the Board:** February 2013.

**Skills and experience:** Gavin has a strong consumer goods pedigree and extensive senior leadership experience. He spent 15 years at the Coca-Cola Company in various senior positions, including Division President roles for North West Europe and Central Europe. Prior to joining Premier Foods, Gavin served as CEO of Cable & Wireless Worldwide plc, leading a successful turnaround of the business before negotiating its eventual sale to Vodafone plc. Previously he worked at Vodafone plc for nine years, during which time he served as UK CEO and CEO of Americas, Africa, India and China. Gavin is President of The Food and Drink Federation.

## ALASTAIR MURRAY

CHIEF FINANCIAL OFFICER

**Appointed to the Board:** September 2013.

**Skills and experience:** Prior to joining Premier Foods, Alastair spent 10 years at Dairy Crest Group plc as Group Finance Director, where he helped lead a significant restructuring to simplify the business, creatively addressing its pension deficit and reinforcing its position as an industry leader. Previously he was the Group Finance Director at The Body Shop International plc. Earlier in his career Alastair was a Divisional Finance Director at Dalgety plc and spent 13 years in various finance and operations roles at Unilever plc. He is a Fellow of the Chartered Institute of Management Accountants.

## DAVID BEEVER

CHAIRMAN R N

**Appointed to the Board:** January 2008 and appointed Chairman in June 2012.

**Skills and experience:** After qualifying as a Chartered Engineer, David has spent most of his career in the financial sector. He was a Vice-Chairman of S. G. Warburg where he handled many corporate finance transactions for major UK and international companies. He was later a board member of KPMG and Chairman of Corporate Finance and has been Chairman of several major companies.

## RICHARD HODGSON

NON-EXECUTIVE DIRECTOR A N

**Appointed to the Board:** January 2015.

**Skills and experience:** Richard has been Chief Executive Officer of Pizza Express since 2013 and has over 20 years of experience in the food industry. In 2010 he was appointed Commercial Director at Morrisons, a newly created role, combining Trading and Marketing. Richard joined Waitrose in 2006 as Commercial Director and prior to that spent 10 years at Asda holding a number of senior roles culminating in his appointment as Marketing & Own Brand Director.

## TSUNAO KIJIMA

NON-EXECUTIVE DIRECTOR

**Appointed to the Board:** July 2016.

**Skills and experience:** Tsunao is Managing Executive Officer of Nissin, in charge of the USA and has had responsibility for Nissin's corporate functions including strategy and M&A, business process optimisation, corporate infrastructure and innovation. Prior to joining Nissin in 2012, Tsunao spent most of his career at Mitsubishi Corporation, where he served as Executive Vice President.

## IAN KRIEGER

SENIOR INDEPENDENT DIRECTOR (SID) A R N

**Appointed to the Board:** November 2012.

**Skills and experience:** Ian is the Senior Independent Director and Chairman of the Audit Committee at Safestore Holdings plc and also non-executive director and Chairman of the Audit Committee at Capital & Regional plc. He is also Vice Chairman of Anthony Nolan and a trustee and Chair of Finance at the Nuffield Trust. Ian is a Chartered Accountant and was a senior partner and Vice Chairman of Deloitte until his retirement in 2012.

## JENNIFER LAING

NON-EXECUTIVE DIRECTOR A R N

**Appointed to the Board:** October 2012.

**Skills and experience:** Jennifer has over 30 years experience in brand building and communications including 16 years with Saatchi & Saatchi, twice as Chairman of the London office, and culminating in her role as Chairman and CEO of Saatchi & Saatchi North America. In the early 1990s she led her own advertising agency, Laing Henry, which was subsequently sold to Saatchi & Saatchi. Jennifer is Chairman of the IHG Foundation UK Trust.

## PAM POWELL

NON-EXECUTIVE DIRECTOR A R N

**Appointed to the Board:** May 2013.

**Skills and experience:** Pam has more than 20 years marketing experience developing some of the world's leading consumer brands. Most recently, she was the Group Strategy and Innovation Director for SAB Miller, one of the world's leading brewers. Pam spent nine years at SAB Miller in senior management roles and prior to that held numerous marketing roles in the home and personal care sector during a 13 year career at Unilever plc, culminating in her role as global Vice-President of the Skin Care category. Pam is also a non-executive director at A.G. BARR p.l.c.

## DANIEL WOSNER

NON-EXECUTIVE DIRECTOR R

**Appointed to the Board:** March 2017

**Skills and experience:** Daniel is Managing Director & Head of Europe at Oasis Management Company Ltd., having joined Oasis in 2016, where he is also a member of the firm's Strategies Group and Corporate Governance Group. As Head of Europe, Daniel oversees the firm's UK and Continental European investments. Prior to joining Oasis, Daniel served as Head of the Asia Pacific Equity Syndicate team at Barclays in Hong Kong. Prior to moving to Hong Kong, Daniel worked with Barclays and Lehman Brothers based in London. Daniel, a UK national, received a Bachelor of Arts in Politics from Leeds University.



Biographies for the Executive Leadership Team can be found on our website [www.premierfoods.co.uk/about/leadership](http://www.premierfoods.co.uk/about/leadership)

## Committee Membership

A Audit Committee: A Committee Chair

R Remuneration Committee: R Committee Chair

N Nomination Committee: N Committee Chair

**GOVERNANCE**

# Governance

## Corporate governance

The UK Governance Code 2014 (the Code) states that the purpose of corporate governance is to facilitate effective, entrepreneurial and prudent management that can deliver the long-term success of the company. The Board of directors is responsible for the governance of the Company. The shareholders' role in governance is to appoint the directors and the auditor and to satisfy themselves that an appropriate governance structure is in place. The responsibilities of the Board include setting the Company's strategic aims, providing the leadership to put them into effect, supervising the management of the business, monitoring performance and reporting to shareholders on their stewardship.

## Board Committees

The Board delegates responsibility for the oversight of Board composition, financial performance, internal controls and remuneration strategy to its three Committees. Their terms of reference are available on the Company's website. Details of the work of the Nomination, Audit and Remuneration Committees are set out on pages 29, 30 and 35, respectively.

In addition the Board delegates day-to-day responsibility for managing the business to the Executive Leadership Team ("ELT") and its sub-committees. The ELT comprises the heads of the commercial businesses and key corporate functions. The ELT meets monthly and members regularly present to the Board. To read more about the work of these Committees go to governance section of our website [www.premierfoods.co.uk/about/governance](http://www.premierfoods.co.uk/about/governance)

## Board roles and responsibilities

The Chairman is responsible for the leadership of the Board and ensuring its effectiveness and promoting the highest standards of corporate governance. He chairs Board meetings ensuring timely and accurate distribution of information and full review and discussions of agenda items. The CEO is responsible for the day-to-day management of the Company working with the ELT to ensure the implementation of the agreed strategy. The Senior Independent Director (SID) supports the Chairman and leads the non-executive directors in the oversight of the Chairman and CEO. He is also available to shareholders if they have concerns that cannot be raised through normal channels. Further information on these roles can be found on our website.

## Director appointments

The Board has the power to appoint one or more additional directors. Under the Articles any such director holds office until the next AGM when they are eligible for election. Shareholders may appoint, re-appoint or remove, directors by an ordinary resolution. In accordance with the Code all our directors offer themselves for re-election every year. In addition, the appointments of Tsunao Kijima and Daniel Wosner are subject to the terms of shareholder Relationship Agreements (see Conflicts of interest below).

## Conflicts of interest

The Group has procedures in place for managing conflicts of interest and directors have continuing obligations to update the Board on any changes to these conflicts. This process includes relevant disclosure at the beginning of each Board meeting and also the Group's annual formal review of potential conflict situations which includes the use of a questionnaire.

Under our Relationship Agreement with Nissin they are entitled to nominate an individual for appointment to the Board so long as they retain an interest in shares in the Company representing 15% of issued share capital. Under our Relationship Agreement with Oasis they are entitled to nominate an individual for appointment to the Board so long as they retain an interest in shares in the Company representing 7% of issued share capital. During the period ended 1 April 2017 no other director had a material interest at any time in any contract of significance with the Company or Group other than their service contract.

## Induction

All directors receive a tailored induction on joining the Board covering their duties and responsibilities as directors. Non-executive directors also receive a full briefing document on all key areas of the Group's business and they may request further information as they consider necessary. A typical non-executive director induction would include meetings with the ELT and key management, site visits and an induction and governance pack.

## Board information

The main source of information is via the Board pack which is designed to keep directors up-to-date with all material business developments in advance of Board meetings. In addition training on specific issues is provided as and when required. Non-executive directors also meet with senior management outside of Board meetings to discuss specific areas of interest in more detail e.g. brand and marketing plans, customer strategy and pension investment strategy. The Board pack generally contains the following standing items:

- CEO introduction;
- H&S and employee issues;
- Commercial updates;
- New product development;
- Customer service levels;
- Operations
- Strategic projects;
- Capital expenditure;
- CFO report;
- Legal report;
- Investor Relations; and
- Treasury Report.

## Board and Committee Evaluation

During the financial period an externally facilitated board effectiveness review was undertaken by Springboard Associates (an independent consultancy firm with no other connection to the Group). Springboard had previously carried out an effectiveness review of the Board in 2013 and consequently were able to provide insights on how well Board and Committee practices had evolved since that time.

## Scope of the review

The scope of the review included a review of Board and Committee papers and individual meetings with directors and senior management which took place in confidence, with Springboard noting that all participants engaged willingly and expressed their views openly. Springboard then attended, as observers, a main Board meeting, plus an Audit and a Remuneration Committee meeting. A comprehensive report of their findings and resulting recommendations was presented at a subsequent Board meeting.

### Overview of findings

It was noted that the Company had been through a significant period of change since 2013 with some transformational events such as a major refinancing and disposal of the Hovis business into a Joint Venture. Good progress had been made in addressing the recommendations of the 2013 effectiveness review and subsequent internal evaluations in 2014 and 2015 had built further on some of the key findings and actions.

During this period there had been a strong focus on developing a well-defined and robust strategy, underpinned by detailed and comprehensive budget plans. Board papers were generally felt to be comprehensive and well prepared with increased focus on streamlining the process with clear executive summaries. The composition of the non-executive directors was considered satisfactory with a reasonable balance of skills and diversity.

During their individual meetings with directors Springboard questioned Board processes during the bid approach from McCormick & Company Inc. in March 2016 and noted that the Board had met regularly and it felt that it had been fully briefed throughout (including with their external advisory team), enabling it to respond quickly, decisively and proactively to events.

### Summary of actions for 2017/18 Strategy

It was noted that during the evaluation, the Board was actively looking to 'rebalance' its strategic focus in the light of significant currency depreciation follow the EU referendum result and the cyclical inflationary environment that was impacting the food industry.

### Board challenge and focus

There was consensus that time was frequently short and should be optimised for rigorous discussion of the key strategic challenges, priorities and choices facing the business. Board papers and presentations should continue to focus on the key issues with even greater use of precise executive summaries.

### Post evaluation reviews

Post evaluation investment reviews take place on an ad hoc basis and it was agreed that these reviews should be formalised and built into the annual Board agenda.

### Review of non-executive director performance

Over the course of the year, the Chairman reviewed the performance of the non-executive directors including: attendance; preparation for and contribution at meetings; their knowledge and understanding of the business; and any training and development requirements.

Following this review it was agreed that the Board has an appropriate balance of skills, experience, independence and knowledge of the Company to enable them to discharge their respective duties and responsibilities effectively. It was concluded that each non-executive director continued to make an effective contribution to the Board and consequently the Nomination Committee recommended the re-election of all directors at the 2017 AGM.

### Assessment of Chairman's performance

The Chairman's performance was reviewed as part of the external Board evaluation process. Following the review the Board concluded that David Beever continued to perform an effective role as Chairman, had no other significant external commitments and was able to dedicate sufficient time to the role.

### Shareholders and other stakeholders

#### Shareholders

An important role of the Board is to represent and promote the interests of its shareholders as well as being accountable to them for the performance and activities of the Group.

The Board believes it is very important to engage with its shareholders and does this in a number of ways through presentations, conference calls, investor road shows, face-to-face meetings and the AGM. Following the announcement of the Group's half year and year end results, presentations are made to analysts, banks and major shareholders to update them on the progress the Group has made towards its goals and invite them to ask questions. An Investor Relations report is prepared for each Board meeting to update the directors on feedback from shareholders and analysts and changes in the shareholder register. Currently around six equity research analysts publish research on the Group. Copies of press releases, investor presentations, webcasts, conference calls and Fact Sheets are available on the Group's website.

An Investor Day is held most years to provide investors and analysts with a more detailed insight into the business. This year the event was held at our *Ambrosia* Creamery in Lifton and was attended by the Chairman, CEO, CFO and senior management. This focused on the Grocery business; in particular the Desserts strategy, new product development and operational capability.

The Chairman, Senior Independent Director and Remuneration Committee chair each held meetings with a number of shareholders over the period to discuss governance and remuneration issues.

The main channels of communication with private shareholders are via this annual report, our website and the AGM. The AGM provides the Board with an opportunity to meet and speak with private shareholders to answer their questions. Directors meet with shareholders both before and after the meeting.

## GOVERNANCE

## Governance continued

## Other stakeholders

## Bondholders

Management hold conference calls with holders of the Group's Senior Secured Notes following the release of half year and full year results. Additionally, management attend bond investor conferences at least twice a year.

## Pensions

Premier management attend the Trustee and Investment Committee meetings for each of the pension schemes, at which funding and investment matters are monitored and discussed. The Company also regularly reports on the Group's trading performance. Additional ad hoc meetings have been held this year in order to finalise the funding arrangements following the 2016 actuarial valuations.

## Banks

Regular updates are provided to the Group's current banking syndicate on the Group's financial performance.

## Suppliers

The Group works with over 1,200 active suppliers and develops close partnerships with its key suppliers to deliver mutual benefit. 89% of products we purchase are from UK based suppliers and our top 250 suppliers now account for in excess of 90% of our total spend on the goods and services that we purchase.

We have an online supplier innovation portal which seeks to leverage our suppliers' unique capabilities and strengths to feed into our product development pipeline with the aim of creating new products which will drive growth in both our businesses. Since launching in September 2014 our suppliers have presented more than 318 ideas through the portal, of which a number have now been launched into the market place.

The Group conducts an annual 'Voice of the Supplier' survey with suppliers to help maintain and strengthen supplier relationships, listen to their feedback and benchmark progress. In 2016, our anonymous survey was sent to our top 500 suppliers representing over 96% of our total spend.

Of those suppliers who responded, 100% of strategic suppliers confirmed our relationship was 'Good' or 'Very Good', with 90% of suppliers who are SMEs (Small or Medium Sized Enterprises) saying Premier Foods was a 'Customer of Choice'. The outcome of this survey was discussed at our annual Supplier Conference, this forum being a key method to communicate with our suppliers and to update them on the Group's strategy and growth plans.

## Colleagues

The Group is committed to ensuring that the people who work for us are treated with respect, and that their health, safety and basic human rights are protected and promoted.

## Communication and engagement

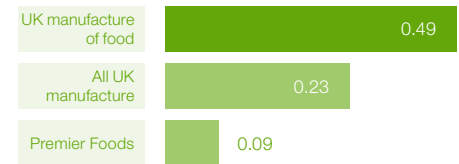
The Group recognises the value of good communication in engaging our colleagues to achieve common goals. Our suite of communications channels include large digital news screens at every site, our mobile-enabled intranet, monthly printed and digital newspaper, weekly news round-up email and posters. We also video stream our CEO-led monthly briefing sessions directly to all sites in addition to cascading through local briefings. We continued to encourage colleagues to engage with their local communities through supporting local charities and by fund-raising for our corporate charity partnership with Cancer Research UK. Senior management road shows were held at all sites. In addition, we consult colleagues where appropriate on major changes to the business, and with most colleagues being shareholders, we encourage them to vote in advance of our AGM.

## Health &amp; Safety

Health & Safety is taken extremely seriously by management at all levels in the Group, and we are proud to have one of the lowest accident rates in the food industry. Our unique, inclusive approach to hazard identification and control, our 'Total Observation Process', is a vital preventative tool in making our factories safer places to work and is a key ingredient of our industry leading performance as indicated by the chart below.

## Premier Foods Health &amp; Safety record (as at 1 April 2017)

## RIDDOR



All RIDDOR accidents per 100,000 hours worked

The Board reviews Health & Safety performance at every scheduled Board meeting, this includes two important measures; Lost Time Accidents (LTA), which represent accidents that result in a colleague having to take any time off work and Reporting of Injuries, Diseases and Dangerous Occurrences Regulations (RIDDOR) which is the standard regulatory measure of identifiable, unintended incidents, which cause physical injury.

## LTAs



Our Safety Leadership Plus programme has been successful in improving safety at sites and has increased engagement across our factories, which has helped to further reduce the LTA rate. In addition, our Behavioural Safety programme is now being rolled out at each site to ensure safety is embedded at all levels.

## GOVERNANCE

# Nomination Committee report

## Dear shareholder,

On behalf of your Board, I am pleased to present the Nomination Committee report for the period ended 1 April 2017. The Committee is responsible for:

- considering the size, structure and composition of the Board;
- leading the formal, rigorous and transparent process for the appointment of directors;
- making appointment recommendations so as to maintain an appropriate balance of skills, knowledge and experience on the Board; and
- ensuring a formal and rigorous Board and Committee evaluation is undertaken on an annual basis.

The Committee also reviews the succession requirements of the Board and senior management on a regular basis and makes recommendations to the Board as appropriate. Committee membership and meeting attendance is set out on page 24.

## Board evaluation

Details of the external Board and Committee evaluation that was carried out in the period and the review of non-executive performance is set out on pages 26 and 27.

## Board balance and diversity

When selecting a new director the Board considers a broad range of skills, backgrounds and experience reflecting both the type of industry and the geographical locations in which we operate. In 2011 the Board adopted a policy to have at least two female Board directors by 2015 and this target was successfully achieved in May 2013.

The Committee is also mindful of the benefits that an inclusive culture can bring to our organisation as a whole. We have strengthened our approach with the introduction of a new Diversity & Equality action plan which was approved by the Board in March 2017. In addition, a diversity working group has been established, which will formalise the Group's diversity reporting and KPIs and make sure we are fully prepared for the requirement to report on gender pay (which comes into force in 2018).

The Group's aim is to create a work environment that promotes equality, dignity and respect for all colleagues when it comes to promotion, progression, training and development and when we select candidates for employment.

Details of our gender diversity across the Board of directors, senior management, central functions and the Group as at 1 April 2017 are set out below.

**David Beever**  
**Nomination Committee Chairman**  
 16 May 2017

## Appointment process for new Chairman

Following David Beever's decision to step down as Chairman in 2017, I was appointed to lead the external search for his successor.

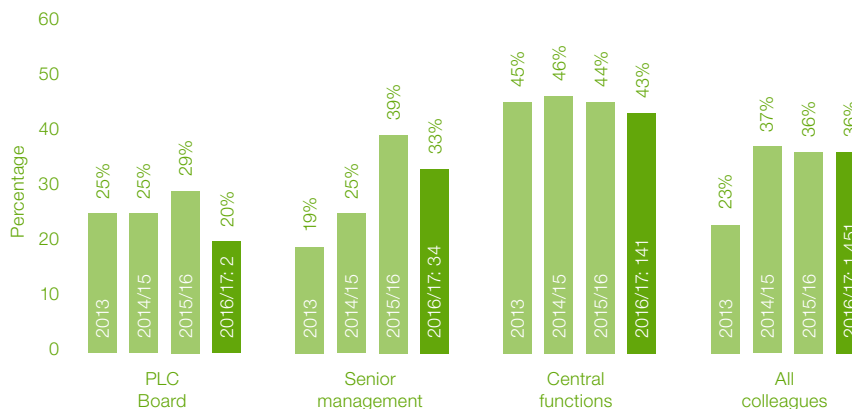
Following presentations from a number of leading search firms Russell Reynolds (who are periodically used by the Group for executive recruitment) were engaged to assist and advise Premier Foods on the search and appointment process.

Taking the findings from the 2016 board effectiveness review as a starting point, and in consultation with the Nomination Committee and the Chief Executive, Russell Reynolds designed a clear specification for the desired candidate.

With the process underway we will update shareholders on progress in due course.

**Ian Krieger**  
**Senior Independent Director**

## Gender Diversity (% female as at 1 April 2017)



## GOVERNANCE

# Audit Committee report

## Dear shareholder,

On behalf of your Board, I am pleased to present the Audit Committee report for the period ended 1 April 2017. The Committee has responsibility, on behalf of the Board, for reviewing the effectiveness of the Company's financial reporting systems and the internal control policies and procedures for the identification, assessment and reporting of risk.

The Committee also keeps under review the relationship with the external auditor, including the terms of their engagement and fees, their independence and expertise, resources and qualification, and the effectiveness of the audit process. The Committee met with the internal and external auditor on three occasions in the year without the presence of management. Committee membership and meeting attendance is set out on page 24.

I was appointed as Audit Committee Chairman in April 2013 following my retirement as a senior partner of Deloitte in 2012. All members of the Committee are considered to be independent, with a broad range of FMCG, commercial and marketing experience relevant to the Group's business. The qualifications of Committee members are set out on page 25. In addition to the Committee members the CEO, CFO, Director of Internal Audit and Risk and external audit lead partner are regularly invited to the Committee's meetings.

## Areas of review

During the financial period the Committee:

- Monitored financial reporting, including the annual report and the full year, half year and quarterly results announcements;
- Considered the viability statement for the Group which can be found on page 33;
- Approved a new policy on external auditor independence and non-audit services;
- Conducted a review of the external auditor's effectiveness;
- Received regular reports from the internal audit function, ensured it was adequately resourced, monitored its activities and effectiveness, and agreed the annual internal audit plan; and
- Received updates on calls received from the whistle blowing helpline and on the Group's Speaking Up policy.

## Auditor appointment, independence and non-audit services

KPMG were appointed as external auditor in September 2015 following a comprehensive tender process. During the period the Audit Committee reviewed and approved a new policy on external auditor independence and non-audit services. This was to bring the Group's current policy into line with the EU Regulation and Statutory Audit Directive which came into force in June 2016 and encompasses audit firm rotation and restrictions on non-audit services. The restrictions on non-audit services will not fully impact the Group until the financial period 2020/21, in the intervening period non-audit spend up to £100k must be approved by the Audit Committee chairman and spend in excess of £100k requires approval by the full Audit Committee. A copy of the policy is available to view on the Group's website: [www.premierfoods.co.uk/about/governance](http://www.premierfoods.co.uk/about/governance).

In accordance with our Auditor Independence Policy the Committee has continued to review the level of non-audit fees with management during the year. The Committee also received an update from KPMG's lead partner on the internal controls which they employ to safeguard their independence, integrity and objectivity.

The Group has undergone a very significant transformation over the last few years as management have implemented the turnaround of the business. This had resulted in the external auditor being engaged to perform a number of non-audit services. Now that the business has returned to a more stable footing I am pleased to see that the level of non-audit fees has reduced significantly. Non-audit fees for the period were £20,221 (2014/15: £120,032) representing 5% of the audit fee.

2016/2017	Audit Fee: £400,000 Non-audit fee: £20,221
2015/2016	Audit Fee: £460,000 Non-audit fee: £120,032
2014/2015	Audit Fee: £425,000 Non-audit fee: £567,000

## Committee effectiveness

An external Board and Committee evaluation was carried out in the period (see pages 26 and 27).

## External audit effectiveness

Given that KPMG were newly appointed during the period ended 2 April 2016, it was deemed appropriate to defer the review of their effectiveness until the completion of the 2015/16 audit cycle. Accordingly an effectiveness review was carried out in September 2016. This was conducted by way of a questionnaire sent to the Audit Committee members and management involved in the audit process. The review concluded that KPMG had performed well and delivered a highly effective service. A good working relationship had been established with clear communication and appropriate focus on material issues. A number of areas for development were identified and these were incorporated into the Audit plan for the period ended 1 April 2017. The Committee has therefore concluded that KPMG provide an effective audit service.

## Risk management

Details of our risk management process are set out in the risk management section on pages 20 to 21.

## Internal controls

In accordance with the FRC guidance on audit committees an annual review of internal controls is conducted. The Board has delegated authority to the Audit Committee to regularly monitor internal controls and conduct the full annual review. This review covers all material controls such as financial, operational and compliance, and also the overall risk management system in place throughout the year under review up to the date of this annual report. The Committee reports the results of this review to the Board for discussion and, when necessary, agreement on the actions required to address any material control weaknesses. The Committee confirms that it has not been advised of any failings or breaches which it considers to be significant during the financial period and found the internal controls to be effective.



### Internal Audit effectiveness

The effectiveness of the Group's internal audit function is reviewed on an annual basis. The review was conducted with the Committee and the ELT and covered the function's independence, resource, the scope of the annual audit plan, the reports issued and the identification of issues. In addition, feedback from post completion questionnaires for internal audits undertaken during the period were also reviewed. The Committee concluded that the internal audit function remained effective.

### Fair, balanced and understandable

The Board requested that the Audit Committee confirm whether the annual report and accounts taken as a whole were fair, balanced and understandable and whether it provided the necessary information for shareholders to assess the Group's performance, business model and strategy. The Audit Committee recommended that the Board make this statement which is set out on page 34.

In making this recommendation the Committee considered the process for preparing the annual report which included regular cross functional reviews from the teams responsible for preparing the different sections of the report, senior management review and verification of the factual contents. It also considered the balance and consistency of information, the disclosure of risk and the key messages presented in the report.

### Significant issues in relation to the financial statements

The Committee considered the following significant issues in relation to the financial statements with management and the internal and external auditor during the year:

#### Commercial arrangements

Commercial payments to customers in the form of rebates and discounts represent significant balances in the income statement and balance sheet. Calculations of these balances require management assumptions and estimates. In the previous financial period the Group introduced an integrated SAP solution to its commercial functions which helped reduce complexity and improve management of trade promotions. The Committee reviewed the assumptions and estimates and the level of

accruals and provisions in detail. The Committee also reviewed management's internal processes and controls. During the financial period internal audit conducted a review of trade promotions to assess planning, analysis of profitability, approval, data entry and post evaluation reviews. In addition commercial arrangements for the Knighton business were also reviewed by the internal audit team as a part of a wider review of financial controls following the acquisition of the business in the financial period. Further information is set out in note 3.3 on page 67.

#### Carrying value of goodwill and brands

Goodwill and brands represent a significant item on the balance sheet and their valuation is based on future business plans whose outcome is uncertain. The value of goodwill is reviewed annually by management and the Committee and brands are reviewed where there is an indicator of impairment. The impairment testing for goodwill and brands is based on a number of key assumptions which relies on management judgement.

The brands, trademarks and licences are deemed to be individual CGUs. For the purpose of goodwill, the Group has four CGUs - Grocery, Sweet Treats, International and Knighton. The Committee reviewed the results of impairment testing of the CGUs. The entire carrying value of goodwill in the Sweet Treats CGU was written off in a prior financial period and the International business has no goodwill or intangible assets. The results of the impairment testing included management's assumptions in respect of cash flows, long-term growth rates and discount rates. The Committee also considered sensitivities to changes in assumptions and related disclosure as required by IAS 36. This year's review concluded that whilst headroom had reduced, reflecting the fall in revenue and profit in the financial period, no impairment was required. Further information is set out in notes 12 and 13 on pages 77 to 79.

#### Defined benefit pension plans

The Group operates a number of defined benefit schemes. The main schemes are closed to future accrual but hold substantial assets and liabilities. Valuation of the scheme liabilities is based on a number of assumptions such as inflation, discount rates and mortality rates, each of which could have a material impact on the valuation under IAS 19

included in the balance sheet. The Group's RHM Pension Scheme also holds assets for which quoted prices are not available. On a combined basis the net IAS19 valuation reported a surplus of £104.8m as at 1 April 2017 (2015/16: surplus of £130.9m), largely driven by the fall in the discount rate on corporate bond yields. The Committee reviewed the basis for management's assumptions and the movements in the IAS 19 valuation in detail over the year. With the exception of the discount rate, the financial assumptions were based on the same methodology as last year. The change in the discount rate methodology was reviewed and it was concluded that it was appropriate and the assumptions were within the acceptable market range. Further information is set out in note 23 on pages 93 to 98.

#### Deferred tax assets

A deferred tax asset is an asset on a Group's balance sheet, which may be used to reduce future taxable income. Valuation of the asset involves a number of assumptions including forecasts of future taxable profits and growth rates and an assessment of historic forecasts. The current year asset of £32.4m was in line with £25.9m in 2015/16 as the Group continued to have a net pension surplus. The Committee will continue to keep under review any tax volatility between the income statement and other comprehensive income and management's policy relating to the order in which deferred tax assets are recognised. Further information is set out in note 8 on pages 72 to 74.

**Ian Krieger**

**Audit Committee Chairman**

**16 May 2017**

## GOVERNANCE

## Other statutory information

**Directors' report**

The directors' report consists of pages 02 to 52 and has been drawn up and presented in accordance with, and in reliance upon, applicable English company law and the liabilities of directors in connection with that report shall be subject to the limitations and restrictions provided by such law. In the directors' report references to the Company or Group are references to Premier Foods plc and its subsidiaries.

**Profit and dividends**

The profit before tax on continuing operations for the financial year was £12.0m (2015/16 loss: £13.0m). The directors do not recommend the payment of a dividend for the period ended 1 April 2017 (2015/16: £nil). Under the terms of our current financing arrangements dividends are permitted once the Group's Net debt/EBITDA ratio falls below 3.0x. The Group is committed to deleveraging the business and reducing the Net debt/EBITDA ratio (see our Strategy on page 06)

**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 costs; and to improve service to customers. Total research and development spend (including capitalised development costs) was £13.6m (2015/16: £12.1m).

**Share capital information**

The Company's issued share capital as at 1 April 2017 comprised 826,567,063 ordinary 10p shares. During the period 5,903,615 ordinary shares were allotted. 5,650,000 shares were allotted to satisfy the vesting of awards made to the management population under the Company's Restricted Stock Plan and 253,615 were allotted to satisfy the vesting of awards made to colleagues under the all-employee Sharesave Plan, details of the movements can be found in note 25 on page 99. All of the ordinary shares rank equally with respect to voting rights and the rights to receive dividends and distributions on a winding up. In accordance with the Articles there are no restrictions on share transfers, limitations on the holding of any class of shares or any requirement for prior approval of any transfer

with the exception of certain officers and employees who are required to seek prior approval to deal in the shares of the Company and are prohibited from any such dealing during certain periods under the requirements of the UK Listing Rules and EU Market Abuse Directive.

Colleagues who hold shares under the Premier Foods plc SIP may instruct the trustee to vote on their behalf in respect of any general meeting.

The directors were granted authority at the 2016 AGM to allot relevant securities representing approximately one-third of the Company's issued share capital. This authority will apply until the conclusion of the 2017 AGM. A similar authority will be sought from shareholders at the 2017 AGM. The Company does not currently have authority to purchase its own shares and no such authority is being sought at the 2017 AGM.

**Significant contracts – change of control**

The Company has various borrowing arrangements including a revolving credit facility and senior secured notes. These arrangements include customary provisions that may require any outstanding borrowings to be repaid and any outstanding notes to be repurchased upon a change of control of the Company. In addition, the *Cadbury* licensing agreement also includes a change of control provision, which could result in the agreement being terminated or renegotiated if the Company were to undergo a change of control in certain limited circumstances.

The Company's executive and all-employee share plans contain provisions as a result of which options and awards may vest and become exercisable on a change of control in accordance with the plan rules. Details of directors service contracts and the provisions relating to a change of control are set out on page 39.

**Articles of association**

The Company's Articles may only be amended by a special resolution at a general meeting. The Articles are available on our website. Subject to the provisions of the statutes, the Company's articles and any directions given by special resolution the directors may exercise all the powers of the Company.

**Substantial shareholdings**

Information provided to the Company pursuant to the Financial Conduct Authority's (FCA) disclosure and Transparency Rules (DTRs) is published on a Regulatory information Service and on the Company's website. As at 16 May 2017, the Company has been notified of the following interests of 3% or more in the Company:

Shareholder	Ordinary shares	% of share capital
Nissin Foods Holdings Co., Ltd.	164,486,846	19.76
Oasis Management Company Ltd <sup>1</sup>	69,224,966	8.31
Standard Life Investments (Holdings) Ltd	62,093,092	7.46
Paulson & Co. Inc. <sup>2</sup>	62,107,111	7.46
Brandes Investment Partners, L.P.	43,026,105	5.17
Dimensional Fund Advisors, L.P.	32,303,123	3.88

1. Held in the form of a total return swap.

2. 5.47% of which is held in the form of a total return swap.

NOTE: the information provided above was correct as at the date of notification.

**Powers of Directors**

The powers of the directors are set out in the Company's Articles of Association and may be amended by way of a special resolution of the Company.

**Directors' and officers' liability insurance**

This insurance covers the directors and officers against the costs of defending themselves in civil proceedings taken against them in their capacity as a director or officer of the Company and in respect of damages resulting from the unsuccessful defence of any proceedings.

## Access to external advice

Directors are allowed to take independent professional advice in the course of their duties. In addition, all directors have access to the advice and services of the Company Secretary. If any director were to have a concern over any unresolved business issue following professional advice, they are entitled to require the Company Secretary to minute that concern. Should they later resign over a concern, non-executive directors are asked to provide a written statement to the Chairman for circulation to the Board.

## Greenhouse gas (GHG) emissions reporting

The Companies Act 2006 (Strategic Report and directors' Reports) Regulations 2013 requires quoted companies to report on environmental matters to the extent it is necessary for an understanding of the company's business within their annual report, including where appropriate the use of key performance indicators (KPIs). In the table below we have detailed our scope 1 & 2 GHG emissions for the period 1 January 2015 to 31 December 2016 from a 2011 baseline year. While the financial year end of the Company has changed from 31 December, the regulations permit environmental reporting for a period outside of a company's financial year. The figures for both 2016 and 2015 include the performance of Knighton Foods and the 2015 figures have been restated accordingly. The intensity increases over the 2011 base year have arisen from the divestment of low energy use/high production tonnage sites, such as flour mills.

GHG Emissions	2016	2015	Base Year (2011)
Scope 1	51,114.90	49,907.73	158,164.71
Scope 2	38,008.96	42,112.46	133,046.62
Total annual net emissions	89,123.86	92,020.20	291,211.33
Overall Intensity (kgCO <sub>2</sub> e per tonne of product)	249.79	259.51	143.3

## Methodology

Premier Foods' GHG emissions were assessed and calculated using internal data and emission factors from Defra's Conversion Factors for Company Reporting 2016 for converting energy usage to carbon dioxide equivalent (CO<sub>2</sub>(e)) emissions. We have followed the methodology in the GHG Protocol Corporate Accounting and Reporting Standard (revised edition). The analysis has used an operational control approach. This assessment takes into account all of the emission sources required under the Companies Act 2006. The emissions data relates to all production sites within the control of the Company during the period.

## Employment of disabled persons

It's our policy to give full and fair consideration to applications for employment received from disabled persons, having regard to their particular aptitudes and abilities. Wherever possible we will continue the employment of, and 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 people as for other colleagues.

## Political donations

The Company's policy is not to make political donations and no such donations were made in the financial period.

## Financial Risk Management

Details relating to financial risk management in relation to the use of financial instruments by the Group can be found in note 21 of the financial statements.

## Going concern

The directors have a reasonable expectation that the Company and Group have adequate resources to continue in operational existence for the next 12 months and therefore continue to adopt the going concern basis in preparing the consolidated financial statements. Further information on the basis of preparation is set out in note 2.1 on pages 62 and 63.

## Viability Statement

In accordance with provision C2.2. of the 2014 revision of the Code, the directors have assessed the prospect of the Company over a longer period than the 12 months required by the 'Going Concern' provision. The Board conducted this review for a period of 3 years, which was selected for the following reasons:

- The Group's detailed strategic review covers a three year period.
- The Group's current financing arrangements are in place for the next 3 years and pension deficit cash contributions are largely fixed for this period.

The directors' assessment has been made with reference to the Group's current position and prospects, the Group's strategy, the Board's risk appetite and the Group's principal risks and how these are managed, as detailed in the annual report. The Group has reviewed its funding arrangements and underlying financial models, including short and long-term covenant and headroom positions. It has concluded that it would take a significant profit reduction to adversely impact funding availability. Based on the risk profile of the organisation this would require several high impact risks to materialise at the same time with minimal mitigation in response, which is considered very unlikely. Such an event could also be mitigated by reducing Capex and / or Consumer Marketing expenditure. The directors therefore confirm that they have reasonable expectation that the Group will continue to operate and meet its liabilities as they fall due, for the next three years.

## Related parties

Details relating to related parties can be found in note 30 of the financial statements.

## Post balance sheet events

Details relating to subsequent events can be found in note 31 of the financial statements.

## GOVERNANCE

## Other statutory information continued

**Statement of directors' responsibilities in respect of the Annual Report and the financial statements**

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

Company law requires the directors to prepare Group and parent company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the parent company financial statements in accordance with UK Accounting Standards, including FRS 101 *Reduced Disclosure Framework*.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent company and of their profit or loss for that period. In preparing each of the Group and parent company 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;
- for the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- for the parent company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the parent company financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the parent company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those regulations.

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

**Responsibility statement of the directors in respect of the annual financial report**

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the directors' report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

We consider the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

**Independent auditor**

KPMG LLP ('KPMG') have indicated their willingness to be re-appointed as auditor of the Company. Upon recommendation of the Audit Committee the re-appointment of KPMG and the setting of their remuneration will be proposed at the 2017 AGM.

**Auditor and the disclosure of information to the auditor**

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

- so far as the director is aware, there is no relevant audit information of which the Company's auditor are unaware; and
- he/she has taken all the steps that he ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditor are aware of that information.

The directors' report was approved by the Board on 16 May 2017 and signed on its behalf by:

**Andrew McDonald  
Company Secretary**

Company.Secretary@premierfoods.co.uk

## GOVERNANCE

# Directors' Remuneration report

## Committee Chairman's Letter

### Dear shareholder,

On behalf of your Board, I am pleased to present the Directors' Remuneration report for the period ended 1 April 2017.

### Overview of remuneration strategy

The focus of our remuneration strategy is on rewarding performance – the majority of executive remuneration (approximately 70% at maximum) is variable and only payable if demanding performance targets are met. The performance measures are firmly linked to our strategy and ultimately aligned with shareholders' interests to deliver earnings growth and improved shareholder value in the medium-term. The majority of variable pay is payable in the form of shares.

Further information on how executive remuneration links to our strategy is set out in the table on page 42.

### 2017 Remuneration Policy

The Committee's main focus over the year has been to approve the Company's new Remuneration Policy. During the design of the new policy, the Committee consulted with the major shareholders. As Chairman of the Committee, I wrote to the Company's largest shareholders, the Investment Association (IA) and Institutional Shareholder Services (ISS) in order to update them on the proposed changes and seek feedback.

The main principles applied to the review process were to simplify remuneration arrangements, ensure arrangements were in line with general market practice and to retain flexibility to respond to future requirements. No increases to overall quantum or opportunity have been proposed and as a result there are no material changes in remuneration arrangements.

### Annual bonus plan Structure

The current opportunity is 150% of salary for the CEO of which 25% is paid in shares (not subject to compulsory deferral) and a total of 105% of salary for the CFO which comprises 75% of salary under the annual bonus plan and 30% under the 2011 Deferred Share Bonus Plan ('DSBP') which is subject to the same performance conditions as the element under the annual bonus plan but deferred for two years.

To simplify the bonus structure, it is proposed that the annual bonus and DSBP are consolidated with no change in quantum so that the annual bonus opportunity is 150% of salary for the CEO and 105% for the CFO.

### Deferral

At the same time the Committee intends to introduce bonus deferral for all executive directors, with not less than 1/3rd of the total bonus awarded being deferred into Premier Foods' shares for three years. This will increase alignment between executive directors and shareholders and will increase the bonus payable in shares as a percentage of salary for both CEO and CFO (which is currently 25% and 28.5%, respectively). In order to facilitate this deferral the Company is seeking shareholder approval to introduce a new Deferred Bonus Plan (DBP) at the 2017 AGM.

The deferred amount will be subject to recovery provisions. Executive directors are required to retain 50% of post-tax shares from the vesting of LTIP awards until such time as their shareholding guidelines have been met. Shares from the DBP will be subject to the same retention requirement.

### Long-Term Incentive Plan ('LTIP') Structure

The current LTIP is comprised of performance shares and matching shares. There have been annual grants of performance shares under the current plan, however, matching shares have not been granted in recent years. Given matching shares are minority practice, to simplify the structure and align with market practice, matching shares will be removed from the plan under the new policy.

In addition, to further align with best practice, a two year post vesting holding period will apply and current recovery provisions will be extended to recovery and withholding provisions.

### Executive shareholdings and external directorships

Finally, the Company's guidelines on executive directors' shareholdings and external directorships have been incorporated into the Remuneration Policy.

### Performance outcome for 2016/17

The Committee reviewed the CEO's and CFO's performance over the financial period and assessed the extent to which their annual bonus targets had been achieved. Whilst significant progress was made in respect of key Strategic and Personal objectives, trading performance was below target. No bonus awards have been made for the financial period, details of the performance assessments are set out on pages 43 to 45.

### Arrangements for the coming period

Targets for the annual bonus and LTIP awards for 2017/18 are aligned with the Group's strategic priorities highlighted in the Chief Executive's review on page 05.

As part of the Company's cost reduction programme it was agreed that there would be no salary increase for colleagues not involved in collective bargaining for 2017/18 and consequently no salary increases are proposed for the CEO and CFO. The CEO's salary therefore remains unchanged since his appointment in 2013.

I look forward to your continuing support.

**Jennifer Laing**  
Remuneration Committee Chairman

16 May 2017

### How the Remuneration report is structured

- Directors' Remuneration Policy 2017 (for approval by shareholders): pages 36 to 41
- Remuneration of executive directors: pages 42 to 49
- Other disclosures: pages 50 to 51
- Remuneration of non-executive directors: page 51
- Work of the Remuneration Committee: page 52

## GOVERNANCE

## Directors' Remuneration report continued

## Remuneration Policy

Set out below is the Directors' Remuneration Policy which, if approved, will apply from the close of the AGM on 20 July 2017. Total remuneration is made up of fixed and performance-linked elements, with each element supporting different strategic objectives.

	Link to strategy	Operation	Maximum opportunity	Performance measures
<b>Base salary</b>	<p>Provides an appropriate level of fixed income.</p> <p>Set at levels to attract and retain talented individuals with reference to the Committee's assessment of:</p> <ul style="list-style-type: none"> <li>The specific needs of the Group by reference to the size and complexity of the business, acknowledging the Group is currently in a turnaround situation;</li> <li>The specific experience, skills and responsibilities of the individual; and</li> <li>The market rates for companies of comparable size and complexity and internal Company relativities.</li> </ul>	<p>Normally reviewed annually (currently with effect from 1 April) in conjunction with those of the wider workforce.</p>	<p>Salaries for the relevant year are detailed in the Annual Report on Remuneration.</p> <p>Whilst the Company does not have a cap on salaries, increases are normally expected to be in line with increases across the management grades, subject to particular circumstances such as a significant change in role, responsibilities or organisation. An explanation of differences in remuneration policy for executive directors compared with other employees is set out later in this Directors' Remuneration Policy.</p>	<p>Group performance is taken into consideration when determining an appropriate level of base salary increase for the Group as a whole and personal performance is taken into account when determining an appropriate level of base salary increase for the executive.</p> <p><b>Performance Period:</b> N/A.</p>
<b>Benefits</b>	<p>Help to recruit, retain and promote the efficient use of management time.</p>	<p>The Company typically provides the following benefits:</p> <ul style="list-style-type: none"> <li>Company car or cash allowance. The Company provides an executive driver service, as and when appropriate, to allow the CEO to work while commuting to business appointments;</li> <li>Private health insurance;</li> <li>Life insurance;</li> <li>Telecommunication services;</li> <li>Professional memberships;</li> <li>Allowance for personal tax and financial planning; and</li> <li>Other ancillary benefits, including relocation expenses (as required).</li> </ul>	<p>There is currently no maximum level, however, the provision and level of allowances and benefits are considered appropriate and in line with market practice.</p>	<p>N/A.</p> <p><b>Performance Period:</b> N/A.</p>
<b>Pension</b>	<p>To offer market competitive levels of benefit and help to recruit and retain and to recognise long-term commitment to the Group.</p>	<p>Executive directors receive an allowance in lieu of pension provision which is subject to periodic review or may participate in the Group's defined contribution scheme on the same basis as all other new employees. Executive directors may also salary sacrifice additional amounts into this scheme but will not receive any additional contribution from the Group. Only basic pay is pensionable.</p>	<p>The maximum contribution of allowance for executive directors is 20% of basic salary. The current level of contribution or allowance for the current executive directors is as follows:</p> <ul style="list-style-type: none"> <li>CEO: the allowance is 20% of basic salary.</li> <li>CFO: the Company contributes 7.5% of basic pay up to an Earnings Cap (currently £150,600, but increasing each April in line with the Retail Prices Index) and pays a salary supplement (currently £22,819, which increases each April in line with the Retail Prices Index).</li> </ul>	<p>N/A.</p> <p><b>Performance Period:</b> N/A.</p>

	Link to strategy	Operation	Maximum opportunity	Performance measures
<b>Annual Bonus</b>	Designed to incentivise delivery of annual financial and operational goals and directly linked to delivery of the Group strategy.	<p>An annual bonus is earned based on performance against a number of performance measures which are linked to the Group's strategy. Maximum of 2/3rds of the bonus is paid in cash and a minimum of 1/3rd deferred into shares under the Premier Foods Deferred Bonus Plan ('DBP') which are released after three years subject to continued employment.</p> <p>The rules of the DBP contain a dividend equivalent provision enabling payments to be made (in cash or shares) at the time of vesting, in an amount equivalent to the dividends that would have been paid on the participant's vested shares between the date of grant of the relevant award and the date of vesting.</p> <p>Recovery provisions apply for the cash and share elements.</p>	<p>Maximum (as a percentage of salary):</p> <ul style="list-style-type: none"> <li>CEO: 150%</li> <li>CFO: 105%</li> </ul>	<p>Performance conditions are designed to promote the delivery of the Group's strategy and can be made up of a range of:</p> <ul style="list-style-type: none"> <li>Financial targets (e.g. turnover, trading profit and cash flow) representing not less than 50% of the total bonus opportunity, subject to the delivery of a threshold level of trading profit;</li> <li>Short to medium-term strategic targets including financial and non-financial Key Performance Indicators, subject to the delivery of a threshold level of profitability; and</li> <li>Personal performance representing not more than 20% of the total bonus opportunity.</li> </ul> <p>No more than 20% of the bonus will vest for threshold performance with full vesting taking place for equalling or exceeding the maximum target.</p> <p>Specific details of the performance measures for the relevant year can be found in the Annual Report on Remuneration to the extent that they are not commercially sensitive.</p> <p><b>Performance Period:</b> One year</p>
<b>Long-Term Incentive Plan (LTIP)</b>	The Premier Foods Long-Term Incentive Plan ('LTIP') provides a clear link to our strategic goal of returning to profitable growth with sustainable share price growth over the long-term.	<p>Annual grant of Performance Share Awards.</p> <p>Performance Share Awards are the conditional award of shares or nil cost options which normally vest after three years subject to performance conditions.</p> <p>Awards under the LTIP, including the determination of any relevant performance conditions, will be considered and determined on an annual basis at the discretion of the Committee.</p> <p>The rules contain a dividend equivalent provision enabling payments to be made (in cash or shares) at the time of vesting, in an amount equivalent to the dividends that would have been paid on the participant's vested shares between the date of grant of the relevant award and the date of vesting. Recovery and withholding provisions apply</p>	<p>Maximum individual limit of 200% of salary.</p> <p>Currently award levels are (as a percentage of salary):</p> <ul style="list-style-type: none"> <li>CEO: 200%</li> <li>CFO: 150%</li> </ul>	<p>Performance conditions are based on a range of targets focused on the delivery of increased shareholder value over the medium to long-term. Currently these include a combination of total shareholder return and adjusted earnings per share.</p> <p>No more than 20% of the LTIP award will vest for threshold performance with full vesting taking place for equalling or exceeding the maximum target.</p> <p><b>Performance Period:</b> Three years</p> <p><b>Holding Period:</b> Two years (post vesting)</p>
<b>Sharesave Plan</b>	To offer all employees the opportunity to build a shareholding in a simple and tax-efficient manner.	The Company's Sharesave Plan is a HMRC compliant scheme which is usually offered annually to all employees. The key terms of the plan will only be changed to reflect HMRC changes.	Participants may save up to the statutory limit (currently £500 per month but subject to any lower limit set by the Committee) over a three year period, following which they have the opportunity to buy Company shares at a price set at the beginning of the savings period.	<p>None, other than continued employment</p> <p><b>Performance Period:</b> Three years.</p>

## GOVERNANCE

## Directors' Remuneration report continued

	Link to strategy	Operation	Maximum opportunity	Performance measures
<b>Shareholding Guidelines</b>	To align executives' interests with shareholders.	Executive directors are expected to retain 50% of shares from vested awards under the DBP and the LTIP (other than sales to settle any tax or NICs due) until they reach their guideline multiple of salary in shares. The Committee will review progress against the guidelines (which are set out in the Annual Report on Remuneration) on an annual basis.	N/A.	N/A. <b>Performance Period:</b> N/A.
<b>Non-executive director fees</b>	Provides an appropriate level of fixed fee to recruit and retain individuals with a broad range of experience and skill to support the Board in the delivery of its duties.  Fees are reviewed annually.	The remuneration of non-executive directors is determined by the Chairman and executive directors. The remuneration of the Chairman is determined by the Remuneration Committee.  Includes a Chairman's fee and standard non-executive fee. Additional fees are payable for additional responsibilities for example the roles of Committee Chairs and the Senior Independent Director.  Any reasonable business related expenses (including tax thereon) which are determined to be a taxable benefit can be reimbursed.	Increases are normally expected to be in line with the market, taking into account increases across the Group as a whole, subject to particular circumstances such as a significant change in role, responsibilities or organisation.  The current aggregate maximum under the Company's Articles of Association for the Chairman and the non-executive directors is £1,000,000.	N/A. <b>Performance Period:</b> N/A.

## 1. Notes to the policy table

For the avoidance of doubt, in approving this Directors' Remuneration policy, authority is given to the Company to honour any commitments entered into with current or former directors that have been disclosed to shareholders in previous remuneration reports. Details of any payments to former directors will be set out in the Annual Report on Remuneration as they arise as required under the Remuneration Regulations.

The Committee operates the Annual Bonus plan, DBP, and LTIP according to their respective rules which include flexibility in a number of areas. These include:

- the timing of awards and payments;
- the size of an award, within the maximum limits;
- the participants of the plan;
- the performance measures, targets and weightings to be used for the annual bonus plan and long-term incentive plans from year to year;
- the assessment of whether performance conditions have been met;
- the treatment to be applied for a change of control or significant restructuring of the Group;

- the determination of a good/bad leaver for incentive plan purposes and the treatment of awards thereof; and
- the adjustments, if any, required in certain circumstances (e.g. rights issues, corporate restructuring, corporate events and special dividends).

### Choice of performance measures and approach to target setting

The Committee reviews the performance measures used in the incentive arrangements on an annual basis to ensure that they remain appropriate and aligned to the delivery of the annual business plan and Group strategy. The majority of annual bonus measures will be focused on financial performance with the remainder linked to individual performance and/or strategic objectives. This approach is adopted in order to link pay to the delivery of overall Group performance measured across a balance of key strategic aims. The targets will be set by reference to internal budgeting and strategic plans for the financial and strategic measures and key objectives identified by the Committee for the personal performance measures.

Currently, the LTIP uses a combination of adjusted earnings per share and total shareholder return based measures to reflect both an internal measure of Group performance as well as the delivery of shareholder value. Targets are set taking into account both internal and external assessments of future performance and what constitutes good and superior returns for shareholders. The Committee also retains the discretion within the policy to adjust the targets and/or set different measures and/or alter weightings for future awards.

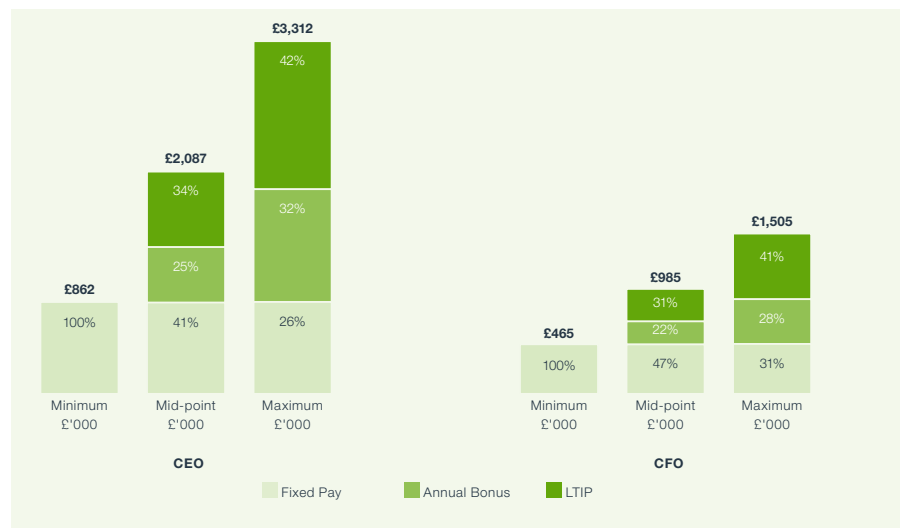
In addition, the Committee also retains the discretion within the policy to amend the existing performance conditions for the incentive plans if events happen that cause it to determine that the conditions are unable to fulfil their original intended purpose.

The Committee will consider the bonus outcomes against all of the pre-set targets following their calculation and in exceptional circumstances may moderate (up and down) these outcomes to take account of a range of factors including the Committee's view of overall Group performance for the year. No upward moderation would be undertaken without first consulting with major shareholders.



## 2. Remuneration scenarios & weighting

The chart below shows executive director remuneration at three different levels of performance (minimum, mid-point and maximum) as set out previously:



Footnotes:

- As the DBP is a portion of Annual Bonus it is included within this segment.
- The value of share awards does not include any assumptions on share price movements.
- The executive directors can participate in the Sharesave Plan on the same basis as other employees. For simplicity, the value that may be received from participating in the Sharesave Plan has been excluded from the scenario charts.
- Assumptions when compiling the charts are:  
 Minimum = fixed pay only (base salary, benefits and pension).  
 Mid-point = fixed pay plus 50% of Annual Bonus payable and 50% of LTIP vesting.  
 Maximum = fixed pay plus 100% of Annual Bonus payable and 100% of LTIP vesting

## 3. Service contracts

Executive directors have rolling service contracts. The current executive directors' service contracts contain the key terms shown in the below table. In the event that any additional executive directors are appointed, it is likely that their service contracts will contain broadly similar terms.

Provision	Detailed terms
Remuneration	Salary, bonus, share incentives, expenses and pension entitlements in line with the above Directors' Remuneration Policy Table.
Change of Control	The service agreements do not provide for any enhanced payments in the event of a change of control of the Company.
Notice Period	Standard notice periods are set at 12 months from the executive directors and Company.
Payment in lieu of notice	<p>The Company may, at its discretion, pay a sum equal to base salary, benefits, and pension contributions which would have been earned during the Notice Period as payment in lieu of notice. This payment is payable in two six monthly instalments or until such earlier date alternative employment is secured, subject to mitigation.</p> <p>In the event of the Company serving notice within 12 months following a change of control then employment will terminate immediately and the Company will make a payment in lieu of notice.</p> <p>There is no entitlement to a pro rata bonus payment in lieu of notice.</p>

The terms and conditions for the Chairman and non-executive directors are set out in their letters of appointment, which are available for inspection at the Company's registered office and will be available at the AGM, as are executive service contracts. The letters of appointment entitle the non-executive directors and the Chairman to receive fees but do not have provisions on payment for early termination. The appointment of non-executive directors is for a fixed term of three years which may be terminated by three months' notice from either party, with the exception of Tsunao Kijima and Daniel Wosner whose appointments are governed by the Relationship Agreements with Nissin Foods Holdings Co., Ltd and Oasis Management Company Limited, respectively.

## GOVERNANCE

## Directors' Remuneration report continued

**4. External directorships**

The Company recognises that its executive directors may be invited to become non-executive directors of companies outside the Company and exposure to such non-executive duties can broaden experience and knowledge, which would be of benefit to the Company. Any external appointments are subject to board approval (which would not be given if the proposed appointment was with a competing company, would lead to a material conflict of interest or could have a detrimental effect on a director's performance).

**5. Policy on payment for loss of office**

The Committee aims to deal fairly with cases of termination, while attempting to limit compensation and honour contractual remuneration entitlements. The principles that would be followed are:

- The executive directors have rolling contracts with 12 months' notice periods.
- The Company may elect to terminate employment immediately in circumstances where it considers it to be appropriate by making a payment in lieu of notice equivalent to the executive director's salary, pension and benefits for the notice period in two equal instalments (the first within 28 days of termination and the second six months following the date of termination). These payments are subject to the executive director's duty to mitigate his loss by finding alternative employment. If the executive director finds an alternative position, future payments will be reduced by the amount of remuneration received by the executive director pursuant to that alternative remunerated position.
- Salary, pensions and benefits will generally not be paid to a 'bad leaver' in lieu of notice. The Company may terminate an executive director's employment without notice (or payment in lieu) in certain circumstances including where he commits an act of dishonesty, is guilty of gross misconduct or a serious breach of his service agreement.
- A time pro-rated bonus (where relevant in respect of that bonus year) may be payable (and for the current CEO will be payable) for the period of active service from the start of the bonus year to the date on which the director's employment terminates for 'good leavers'. Any unpaid bonus for the preceding completed bonus year may also be payable (and for the current CEO will be payable) to a 'good leaver'. The amount of such bonus will be determined at the discretion of the Committee taking into account performance. Any bonus payable could at the discretion of the Remuneration Committee, be paid entirely in cash. There is no entitlement to any bonus (in respect of that or any previous bonus year) following notice of termination (or cessation of employment) for 'bad leavers' and they will not receive any bonus in such circumstances.
- Any share-based entitlements granted to an executive director under the Company's share plans will be determined based on the relevant plan rules or award agreement. The default treatment is that any outstanding awards lapse on cessation of employment. However, in certain prescribed circumstances, such as death, disability, injury, redundancy (not in respect of the DBP), transfer of the employing company or business out of the Group or other circumstances at the discretion of the Committee (taking into account the individual's performance and the reasons for their departure) 'good leaver' status can be applied. The 'good leaver' treatment under the various plans is as follows:
  - DBP and LTIP awards will vest on the normal vesting date (unless the Remuneration Committee decides that the awards should vest on the date of cessation) subject to, in the case of LTIP awards, performance conditions (measured over the original time period or a shorter period where the LTIP awards vest on cessation of employment) and are reduced pro-rata to reflect the proportion of the period from grant actually served. The Remuneration Committee has the discretion to disapply time pro-rating if it considers it appropriate to do so. However, it is envisaged that this would only be applied in exceptional circumstances. In determining whether an executive should be treated as a 'good leaver' or not, the Committee will take into account the performance of the individual and the reasons for their departure.
  - The Company may enable the provision of outplacement services to a departing executive director, where appropriate.
  - Where it is necessary to discharge an existing legal obligation (or by way of damages for breach of such an obligation) or by way of settlement or compromise of any claim arising in connection with the termination of a director's office or employment the Committee may make a payment to a departing executive director.
  - In the event of change of control of the Company, if the Company gives notice to terminate or the executive director is constructively dismissed, his employment shall terminate immediately and he will be entitled to a payment in lieu of notice equivalent to the executive director's salary, pension and benefits for the 12 month notice period. Any share based entitlements will be dealt with in accordance with the rules of the relevant schemes.

## 6. Recruitment policy

On the recruitment of an executive director the Committee will aim to align the executive's remuneration package with the approved Directors' Remuneration Policy. In arriving at a remuneration package the Committee will take into account the skills and experience of the individual and the market rate for a candidate. The details of the recruitment policy are set out below:

Reward Element	Detailed terms
Base Salary	In line with the above Directors' Remuneration Policy table. However, includes discretion to pay lower base salary with incremental increases as new appointee becomes established in the role.
Pension and benefits	In line with the above Directors' Remuneration Policy table.
Performance based pay	Executive directors are entitled to participate in the Company's Annual Bonus, DBP and Long-Term Incentive Plans in line with the above Directors' Remuneration Policy table. The maximum variable pay for the CEO will be 350% of the base salary and 255% of base salary for the CFO and other directors. In its discretion the Committee may set different performance measures to apply to awards made in year of appointment if it considers that to be appropriate.
Buy Outs	In order to facilitate external recruitment of executive directors, it may be necessary for the Committee to consider buying out existing incentive awards which would be forfeited on the individual leaving their current employment. The Committee would seek, where possible, to provide a buy-out structure which was consistent with the forfeited awards in terms of quantum, vesting period and performance conditions.  The buy out award may necessitate the use of the flexibility in the Listing Rules to make such awards outside the existing LTIP.

### Footnotes:

- Should an executive appointment be made for an internal candidate, such an individual would be allowed to retain any and all provisions of their current remuneration package.
- The Committee has discretion to authorise the payment of reasonable relocation costs (and tax thereon) which may be necessary to secure the appointment of an executive director.

## 7. Consideration of employees/wider Group

In line with current market practice, the Group does not actively consult with employees on executive remuneration. However, the Committee is kept updated during the year on salary increases within the Group, and the level of annual bonus awards, as well as overseeing participation in long-term incentives for below Board level senior management. As a result, the Committee is aware of how typical employee total remuneration compares to the potential total remuneration packages of executive directors. The Group HR Director is a regular attendee at meetings of the Remuneration Committee and is able to brief the Committee on meetings which have been held with employee representative bodies.

### Differences in Remuneration Policy for executive directors compared to other employees

The executive directors' remuneration policy is set within the wider context of the Group's remuneration policy for the wider workforce. The key differences of quantum and structure in pay arrangements across the Group reflect the different levels of responsibilities, skill and experience required for the role. Executive directors have a much greater emphasis on performance based pay through the annual bonus and the LTIP. Salaries for management grades are normally reviewed annually (currently in April each year) and take account of both business and personal performance. Specific arrangements are in place at each site and these may be annual arrangements or form part of a longer term arrangement linked to the delivery of efficiency targets.

The majority of management grades participate in the Annual Bonus plan to ensure alignment with the Group's strategic priorities. Senior management participate in long-term incentive arrangements reflecting their contribution to Group performance and enhancing shareholder value. All employees are encouraged to own shares in the Company via the Sharesave Plan and executive directors through the shareholding guideline.

## 8. Consideration of shareholders' views

The Remuneration Committee and the Board considers shareholder feedback received in relation to the AGM each year at a meeting immediately following the AGM and any action required is incorporated into the Remuneration Committee's action plan for the ensuing period. This, and any additional feedback received from shareholders from time to time, is then considered by the Committee and as part of their annual review of remuneration arrangements.

Specific engagement with major shareholders may be undertaken when a significant change in remuneration policy is proposed or if a specific item of remuneration is considered to be potentially contentious. During the design of the new policy, the Committee consulted with the major shareholders.

## GOVERNANCE

## Directors' Remuneration report continued

## Annual Report on Remuneration

An advisory vote on this Annual Report on Remuneration will be put to shareholders at the AGM on 20 July 2017.

## Single figure table for total remuneration (audited)

Single figure for the total remuneration received by each executive director for the periods ended 1 April 2017 (2016/17) and 2 April 2016 (2015/16).

Directors	Salary		Taxable Benefits		Pension		Annual bonus		Share based awards		Total	
	2016/17 £'000	2015/16 £'000	2016/17 £'000	2015/16 £'000	2016/17 £'000	2015/16 £'000	2016/17 £'000	2015/16 £'000	2016/17 £'000	2015/16 £'000	2016/17 £'000	2015/16 £'000
Gavin Darby	700	700	22	19	140	140	–	599	–	293	862	1,751
Alastair Murray	408	404	23	20	34	34	–	245	–	–	465	703

Benefits include those mentioned in the summary table in the Directors' Remuneration Policy report on page 36.

Gavin Darby received a basic salary for the period of £700,000 per annum and a salary supplement in lieu of pension of 20% of base salary.

Alastair Murray received a basic salary for the period of £408,040 per annum and an annualised salary supplement in lieu of pension of 7.5% of the Earnings Cap (£150,600 for the 2016/17 tax year) which equates to £11,295 for the period together with an additional RPI adjusted pensions supplement of £22,819 in respect of the financial period.

No bonus award has been made to executive directors in respect of the financial year, details of the performance assessments are set out on pages 43 to 45.

## How remuneration links with strategy

The following table summarises the performance measures for executive incentive arrangements and how they are aligned with our strategy (see our business model and strategy on pages 04 to 06).

Strategic priority	Objective	Measures for 2017/18	Incentive scheme
 Driving revenue growth, international opportunities and strategic partnerships.	Profitable growth/ increase in earnings	Trading profit Strategic objectives focused on commercial opportunities Adjusted EPS	Annual Bonus Annual Bonus Long-Term Incentive Plan
 Improving organisational efficiency and lowering our cost base/  Maintaining strong cash flow generation.	Debt reduction	Net debt & cash management	Annual Bonus
 Deleveraging the business to below 3.0x Net debt/EBITDA to deliver improved shareholder value over the medium-term.	Share price growth	Relative TSR	Long-Term Incentive Plan
 Being responsible and sustainable.	Development of key stakeholder relationships	Personal objectives focused on building stakeholder relationships	Annual Bonus

### Base salary and fees (executive directors) (audited)

The Committee sets base salary by reference to the size and complexity of the business based on factors such as revenue, market share, and total enterprise value rather than just market capitalisation, which can be volatile as a result of the Group's capital structure. Given the challenges facing the business in 2013, the Board felt it was important to appoint a CEO and CFO with significant experience to lead the Company through a period of significant change and consequently their salaries were set at the upper quartile for the FTSE 250. The business turnaround has involved the establishment of a joint venture for the Hovis bread business and the completion of a successful restructuring of our financial structure with the introduction of a new smaller lending group, an equity raise, the diversification of funding through a high yield bond and also the completion of a new agreement with the Group's pension trustees. In addition a new senior management team has been brought in to lead the business. The Committee is mindful of these salaries when considering pay increases and elements of variable pay which are based on multiples of salary.

In line with the salary increase to all employees not involved in collective bargaining the Committee approved a 1% salary increase for the CEO and CFO in 2016/17 (which took effect from 1 April 2016). Gavin Darby elected not to take a salary increase and therefore his salary remained unchanged from his appointment in 2013. As part of the Company's cost reduction programme it was agreed that there would be no salary increase for employees not involved in collective bargaining for 2017/18.

Executive director	1 April 2017	Change	2 April 2016	Change	4 April 2015
Gavin Darby	£700,000	–	£700,000	–	£700,000
Alastair Murray	£408,040	–	£408,040	+1%	£404,000

### Annual Bonus (executive directors) (audited)

Each year the Committee sets individual performance targets and bonus potentials for each of the executive directors. Annually the Committee reviews the level of achievement against the performance targets set and, based on the Committee's judgement, approves the bonus of each executive director. Annual bonus payments are not pensionable.

#### Performance assessment for 2016/17

The Committee undertook a full and detailed review of the performance of each executive director against the targets set at the start of the period. As well as the specific targets, the Committee also considered the financial performance of the business as a whole as well as an assessment of the market in which the Company operates.

As discussed in the Chairman's statement on page 03 the Company results for the period were below expectation due largely to a change in retailer promotional strategy which reduced category volumes, and significant input cost inflation. As a result Trading profit was below both our target level of profit and the financial underpin for the Annual Bonus plan. The additional financial measures of revenue growth and Net debt were also adversely effected. The Committee reviewed performance against each of the Strategic targets (also subject to a financial underpin) and the extent to which they were achieved. The Committee agreed that whilst significant progress had been made in the period in respect of Strategic measures the financial underpin had not been achieved and therefore no bonus was payable.

The Remuneration Committee agreed that both executive directors had achieved a significant proportion of their Personal objectives. As these are not financially underpinned, a bonus equivalent to 12.6% of maximum opportunity for the CEO, and 11.5% for the CFO, could have been paid. However the Remuneration Committee, together with both the CEO and CFO, have agreed that there will be no bonus payment in relation to the Personal objectives for 2016/17.

The Financial targets and performance assessment for Strategic and Personal targets are set out in the tables on pages 44 and 45 for information. Individual weightings have been provided for each Strategic objective.

## GOVERNANCE

## Directors' Remuneration report continued

## Gavin Darby (audited)

					Annual Bonus	
Performance measure	Target	Stretch	Performance outcome	Weighting	Performance (% of max bonus)	
<b>Financial objectives (subject to Trading profit underpin of £131.0m)</b>						
Trading profit	£134m	£136.2m	£117.0m	40%	–	
Sales growth	2%	4%	-1.4%	10%	–	
				50%	–	
Performance measure	Performance outcome			Weighting	Performance (% of max bonus)	
<b>Short to medium-term Strategic objectives (subject to Trading profit underpin of £131m)</b>						
Commercial growth opportunities	The Committee determined that the commercial project was close to completion but as negotiations had yet to be finalised it would be fully assessed next year.			10.0%	–	
	Creation of strategic relationship board with Nissin. Growth opportunities starting to be delivered with the launch of new <i>Batchelors</i> Super Noodles in a pot and the addition of Soba noodles distribution in the UK, as well as the establishment of a US broker agreement.			8.0%	6.5%	
	Strong +18% growth of International business.			4.0%	4.0%	
Shareholder value	Knighton Foods business integrated and stabilised.			4.0%	2.0%	
	Recovery of trading performance and EBITDA at the Hovis joint venture. New three year plan approved with financing in place.			2.3%	1.0%	
Corporate Development	Good progress noted, with strategic options sent to the Board. Following review it had been agreed not to progress with the project.			5.0%	2.0%	
				33.3%	–	
<b>Personal objectives</b>						
Customer relationships	Strong development of relationships with major customers through direct engagement of the CEO. Progress recognised through the enhanced score achieved in the 2016 Grocery Advantage Survey results.					
Diversity strategy	Introduction of new Equality & Diversity action plan which was approved by the Board in March 2017.					
Stakeholder engagement	Leading role with Food and Drink Federation (FDF) culminating in election as President in 2017. Award of President's Cup from the Institute of Grocery Distribution (IGD) in October 2016. Pro-actively launched the Group's 10 point plan to encourage healthy eating in advance of the government's Childhood Obesity Plan.					
				16.7%	12.6%	
				<b>Final outcome</b>	100%	
					–	

## Alastair Murray (audited)

					Annual Bonus
Performance measure	Target	Stretch	Performance outcome	Weighting	Performance (% of max bonus)
<b>Financial objectives (subject to Trading profit underpin of £131.0m)</b>					
Trading profit	£134m	£136.2m	£117.0m	30%	–
Net debt	£510.9m	£499.0m	£523.0m	20%	–
				50%	–
Performance measure	Performance outcome			Weighting	Performance (% of max bonus)
<b>Short to medium-term Strategic objectives (subject to Trading profit underpin of £131m)</b>					
Commercial	Knighton Foods business integrated and stabilised; development of three year plan and financing in place.			4.0%	3.0%
	The Committee agreed that certain commercial projects had progressed well but remained ongoing.			8.0%	–
Cost and efficiency	Completion of major restructuring of the Group's warehousing and distribution network which exceeded cost savings objectives.			3.3%	3.3%
	Discussions in regard to financial synergies with Nissin ongoing with senior management.			4.0%	–
Pensions	2016 Actuarial Valuation completed, new amended Framework Agreement signed with revised schedule of contributions which significantly reduce the Group's cash outflows over the next three years.			7.0%	7.0%
Corporate Development	Good progress noted, with strategic options sent to the Board. Following review it was agreed not to progress with the project.			7.0%	3.0%
				33.3%	–
<b>Personal objectives</b>					
Shared service centre and operational efficiency	The Committee reviewed progress against a number of efficiency KPIs and it was agreed that 4 out of 6 had been successfully delivered in the period.				
	Improvement in focus on resolving priority internal audit issues.				
Investor relations	Strong engagement with shareholders and a successful capital markets day. However, overall the objective had not been achieved.				
Business systems	Successful completion of business systems integration with delivery of agreed annual savings. Improvements in ways of working have delivered a significant reduction in major system issues across the Group.				
				16.7%	11.5%
				<b>Final outcome</b>	100%
					–

## GOVERNANCE

## Directors' Remuneration report continued

## Annual bonus measures for 2017/18

The Committee has determined that the weightings for the annual bonus performance measures will remain broadly the same as last year split between Financial, Strategic and Personal objectives representing 50%, 35% and 15% of opportunity, respectively.

The performance measures are linked to the Group's strategy to focus on revenue growth, cost efficiency and cash generation with the aim to deleverage the business. Trading profit and Net debt are both Group KPIs (see page 08). Strategic objectives are focused on commercial opportunities to drive sales, generate cost savings and improve free cash flow. The Board considers the Financial targets and certain of the Strategic and Personal objectives to be commercially sensitive but has agreed that the targets will be disclosed as part of the performance assessment in next year's annual report. The Financial and Strategic targets contain a Trading profit underpin.

If the Company's new Remuneration Policy and the Deferred Bonus Plan (DBP) are approved by shareholders in July 2017, 1/3rd of any annual bonus awarded in respect of the 2017/18 financial year will be deferred in shares for 3 years under the new DBP.

	CEO	CFO
Maximum opportunity as a % of salary	150%	105%
<b>Performance measure</b>		
	Weighting	Weighting
<b>Financial objectives (subject to a Trading profit underpin)</b>		
Trading profit	40%	30%
Net debt	10%	20%
	50%	50%
<b>Short to medium-term Strategic objectives (subject to a Trading profit underpin)</b>		
<b>CEO</b>	35%	
<ul style="list-style-type: none"> <li>• Delivery of incremental growth and value creation initiatives through relationships with our strategic partners.</li> <li>• Corporate development opportunities.</li> </ul>		
<b>CFO</b>		35%
<ul style="list-style-type: none"> <li>• Corporate development opportunities.</li> <li>• Delivery of incremental growth and value creation initiatives.</li> <li>• Strategic cash flow and efficiency opportunities.</li> <li>• Review of pension risk management.</li> </ul>		
<b>Personal objectives</b>		
<b>CEO</b>	15%	
Organisational development/ Customer relationships/ Stakeholder management		
<b>CFO</b>		15%
Delivery of cost efficiency KPIs/ Improved efficiency within audit and control/ IT transition project		
	100%	100%



### Deferred Share Bonus Plan (DSBP)

Alastair Murray participated in the DSBP which operated alongside the Annual Bonus plan with a maximum opportunity of 30% of salary. The CEO does not participate in the DSBP. Awards can be based on the achievement of a range of Company-wide financial and strategic targets which are set at the start of each financial period. If the objective is met, the bonus earned will be converted into shares following the announcement of the results for the financial period and deferred for a period of up to two years. These shares are subject to forfeiture over the period of deferral and the shares for these awards are sourced in the market.

As set out in the Chairman's letter on page 35 in order to simplify remuneration arrangements it is proposed that Alastair Murray's entitlement under the DSBP is combined with his annual bonus going forward and therefore, if the new Remuneration Policy is approved by shareholders in July 2017 no further awards will be made under this plan.

#### DSBP award for 2016/17 (audited)

For the 2016/17 award, the Committee determined that the performance targets for the DSBP would be aligned with those of the Annual Bonus plan (excluding personal objectives). The two performance conditions were split 50:50 between Financial and Strategic measures subject to a Trading profit underpin. As set out in the assessment of the 2016/17 annual bonus on page 43 the underpin was not met and consequently no award will be made under the DSBP in respect of 2016/17.

Deferred Share Bonus Plan	CFO
Maximum opportunity as a % of salary	30%

Performance Measures (subject to a Trading profit underpin of £131.0m)	Weighting	Outcome
Financial	50%	-
Short to medium-term strategic objectives	50%	-
	100%	-

### Long-Term Incentive Plan (LTIP)

The current LTIP was approved by shareholders in 2011; awards have two elements, performance shares and matching shares. The Committee reviewed the use of the matching shares element of the LTIP and it was concluded that matching shares were no longer common practice in the market and it is therefore proposed that this element of the LTIP be removed from the Remuneration Policy going forward.

#### LTIP award for 2016/17 (audited)

Details of the LTIP award granted on 3 June 2016 are set out below.

	Basis of award	Value on award date	Performance period
Gavin Darby	200%	£1,400,000	03.04.16 – 31.03.19
Alastair Murray	150%	£612,000	03.04.16 – 31.03.19

Performance measure	Weighting	Targets		
		Below threshold	Threshold	Stretch
Relative TSR <sup>1</sup>	2/3	< Median	Median	Upper quartile
Adjusted EPS <sup>2</sup>	1/3	< 9.2p	9.2p	10.2p
% of relevant portion of award vesting <sup>3</sup>		0%	20%	100%

1. Measured against the constituents of the FTSE All Share Index (excluding investment trusts) around the start of the period.
2. 2015/16 base year EPS was 8.3p.
3. Straight line vesting between threshold and stretch.

#### LTIP award for 2017/18

For the 2017/18 award the Committee proposes to use the same measures as the 2016/17 LTIP award, i.e. a relative TSR condition (comprising 2/3rds of the award) and an adjusted EPS condition (comprising 1/3rd of the award), which is aligned with the Company's focus on revenue, cost efficiency and cash generation in order to reduce net debt and improve shareholder return over the medium-term. The Committee believes that these measures are fully aligned with the interests of shareholders and that awards will only vest following the achievement of stretching performance targets.

The TSR condition requires at least a median ranking to be achieved for 20% of this part of the award to vest, with full vesting taking place for an upper quartile ranking against the constituents of the FTSE All Share Index (excluding investment trusts). The Committee considers that the FTSE All Share Index is an appropriate index to use as it includes a wide range of companies, including the members of the FTSE Small Cap Index. The Compound Annual Growth Rate (CAGR) for the adjusted EPS target ranges from 2.7% to 6.5%. The Committee considers the targets to be challenging, particularly in the context of current growth levels in the markets in which we operate. Further details of all outstanding LTIP awards are provided in the table on page 49.

## GOVERNANCE

## Directors' Remuneration report continued

## LTIP award for 2017/18 continued

	Basis of award	Value on award date	Performance period
Gavin Darby	200%	£1,400,000	03.04.17 – 31.03.20
Alastair Murray	150%	£612,000	03.04.17 – 31.03.20

Performance measure	Weighting	Targets		
		Below threshold	Threshold	Stretch
Relative TSR <sup>1</sup>	2/3	< Median	Median	Upper quartile
Adjusted EPS <sup>2</sup>	1/3	< 7.8p	7.8p	8.7p
% of relevant portion of award vesting <sup>3</sup>		0%	20%	100%

1. Measured against the constituents of the FTSE All Share Index (excluding investment trusts) around the start of the period.
2. 2016/17 base year adjusted EPS was 7.2p.
3. Straight line vesting between threshold and stretch.

## Anticipated vesting of 2014 LTIP Award

The performance conditions for the 2014 LTIP award were based on a relative TSR condition (comprising 2/3rds of the award) and an adjusted EPS condition (comprising 1/3rd of the award). The Committee assessed the two performance conditions in May 2017 and concluded that the targets had not been met and consequently the 2014 LTIP award has lapsed in full.

## Co-Investment Award

The Co-Investment Award, which was specific to Gavin Darby, was awarded following his appointment as CEO in 2013 and designed to align the CEO with shareholders and the delivery of share price growth. On appointment Gavin Darby purchased shares worth 100% of annual base salary in the Company. In return the Company made an award of shares worth 200% of salary which vested in thirds on 1 May 2014, 2015 and 2016. The vesting of each tranche of the award was subject to a bonus having been paid for the relevant financial year and continued employment. The final tranche of the Co-Investment Award vested on 1 May 2016 and Gavin Darby exercised the award on 5 August 2016. 354,062 shares were sold at 51.375p to cover tax and employee national insurance with the remaining shares being retained. The final tranche of his Co-Investment Award was included in the single figure table for the period 2015/16, details of which are set out on page 42.

## Dilution limits

Awards under certain executive and all-employee share plans may be satisfied using either newly issued shares or shares purchased in the market and held in the Group's Employment Benefit Trust (which held 250,420 shares as at 1 April 2017). The Group complies with the Investment Association guidelines in respect of the dilutive effect of newly issued shares. The current dilutive impact of share awards over a 10 year period is approximately 1%.

## Pension payments

The table below provides details of the executive directors' pension benefits:

	Total contributions to DC-type pension plan £'000	Cash in lieu of contributions to DC-type pension plan £'000
Gavin Darby	–	140
Alastair Murray	11	23

Executive directors have the right to participate in the Group's defined contribution ('DC') pension plan or elect to be paid some or all of their contributions in cash. Gavin Darby is paid a cash contribution of 20% of salary whilst Alastair Murray participates in the Group's DC pension scheme and receives a cash supplement.

### Share ownership guidelines and share interest table (audited)

To align executive directors' interests with those of shareholders they are expected to retain 50% of shares from vested awards under the DSBP and the LTIP (other than sales to settle any tax or NICs due) until they reach a value at least equal to their annual salary (valued at the time of purchase or vesting). The following table shows executive directors' interests in Company shares. Awards under the LTIP are subject to a three year vesting period and will only vest if stretching performance conditions are met. The figures shown represent the maximum number of shares a director could receive following the end of the vesting period if all performance targets were achieved in full.

	Shares owned as at 1 April 2017	Shares owned as at 2 April 2016	Extent to which share ownership guidelines met	Unvested share interests under the LTIP	Unvested share interests under the DSBP	Sharesave Plan	Total
Gavin Darby	5,213,336	4,153,526	449%	9,217,341	–	38,350	14,469,027
Alastair Murray	309,522	309,522	61%	4,349,253	157,560	24,732	4,841,067

### Executive share awards

	Date of grant	Balance as at 2 April 2016	Shares awarded in the year	Shares exercised in the year	Shares lapsed in the year	Balance as at 1 April 2017	Option price	Share price on date of grant	Share price on date of exercise	Exercise period/ vesting date
<b>Gavin Darby</b>										
Co-Investment Award	22.02.13	751,814	–	751,814	–	–	–	62.07p	51.37p	01.05.16
LTIP <sup>1</sup>	22.02.13	2,255,442	–	–	2,255,442	–	–	62.07p	–	31.03.16
	25.06.14	2,629,107	–	–	–	2,629,107	–	53.25p	–	31.03.17
	11.06.15	3,294,117	–	–	–	3,294,117	–	42.50p	–	31.03.18
	03.06.16	–	3,294,117	–	–	3,294,117	–	42.50p	–	31.03.19
Sharesave Plan <sup>2</sup>	11.10.13	3,214	–	–	–	3,214	72.79p	–	–	01.12.16
	26.09.14	10,404	–	–	–	10,404	34.60p	–	–	01.12.17
	15.12.15	16,906	–	–	–	16,906	31.94p	–	–	01.02.19
	20.12.16	–	7,826	–	–	7,826	34.50p	–	–	01.02.20
		8,961,004	3,301,943	751,814	2,255,442	9,255,691				
<b>Alastair Murray</b>										
LTIP <sup>1</sup>	25.06.14	1,126,760	–	–	–	1,126,760	–	53.25p	–	31.03.17
	11.06.15	1,782,352	–	–	–	1,782,352	–	42.50p	–	31.03.18
	03.06.16	–	1,440,141	–	–	1,440,141	–	42.50p	–	31.03.19
DSBP	03.06.16	–	157,560	–	–	157,560	–	42.50p	–	02.06.18
Sharesave Plan <sup>2</sup>	15.12.15	16,906	–	–	–	16,906	31.94p	–	–	01.02.19
	20.12.16	–	7,826	–	–	7,826	34.50p	–	–	01.02.20
		2,926,018	1,782,352	–	–	4,531,545				

1. All LTIP awards are in the form of performance shares. Details of the vesting of the 2014 LTIP Award are set out on page 48.

2. The Sharesave Plan is an HMRC tax advantaged scheme under which option prices for awards may be set at up to a 20% discount to the market value of shares immediately prior to the date the offer is made. Executive directors are eligible to participate in the Group's Sharesave Plan on the same basis as all other eligible employees.

## GOVERNANCE

## Directors' Remuneration report continued

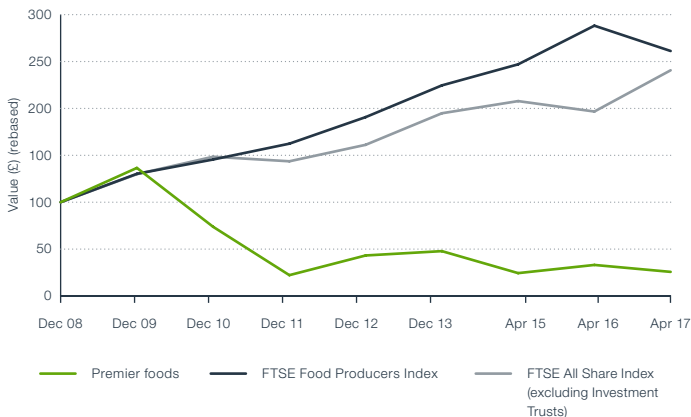
## Share ownership for the wider Group

The Committee recognises the importance of aligning colleagues across the business with those of shareholders and encourages share ownership in order to increase focus on the delivery of shareholder return. All members of the ELT participate in the LTIP. In 2014 all colleagues (excluding the ELT) were given an award of 500 free shares under the Share Incentive Plan and each year colleagues are invited to join the Company's all employee Sharesave Plan. Participation in the Sharesave Plan currently represents 30% of the workforce.

## Total shareholder return

The market price of a share in the Company on 31 March 2017 (the last trading day before the end of the financial period) was 44.0 pence; the range during the financial period was 37.0 pence to 59.50 pence.

This graph shows the value, by 1 April 2017, of £100 invested in Premier Foods plc on 31 December 2008, compared with the value of £100 invested in the FTSE Food Producers Index and FTSE All Share Index (excluding Investment Trusts) on the same date. The Committee considers these to be the most appropriate comparator indices to assess the performance of the Group. The other points plotted are the values at intervening financial year-ends.



## Chief Executive's single figure for total remuneration

The table below shows the single figure for total remuneration and the annual bonus and LTIP vesting as a percentage of maximum opportunity for the financial period and the previous seven financial periods. The figures for 2014/15 represents a 15 month period.

Year	CEO	Single Figure for total remuneration	Annual bonus as a % of maximum	LTIP vesting as a % of maximum
2016/17	Gavin Darby <sup>1</sup>	£862,455	–	–
2015/16	Gavin Darby	£1,750,933	57.0%	–
2014/15	Gavin Darby	£1,736,749	23.4%	–
2013	Gavin Darby	£1,405,753	16%	–
	Michael Clarke	£1,122,795	–	–
2012	Michael Clarke	£1,699,575	66%	–
2011	Michael Clarke	£2,277,070	–	–
	Robert Schofield	£895,485	–	–
2010	Robert Schofield	£715,052	10%	–
2009	Robert Schofield	£929,967	29%	–

1. Details of the single figure for total remuneration are set out on page 42.

## Percentage change in CEO pay

For the purpose of this table pay is defined as salary, benefits and annual bonus. There has been no increase to the CEO's salary since his appointment in 2013. The average pay of management grades (approximately 400 employees) is used for the purposes of comparison as they are members of the Group's Annual Bonus plan. No bonus was paid to the CEO in 2016/17.

	CEO		Management grades	
	% Change 2016/17	% Change 2015/16	% Change 2016/17	% Change 2015/16
Base salary	–	–	–	+1%
Benefits	+16%	–23%	–	–
Annual bonus	–100%	+144%	–23%	+160%

## Relative importance of spend on pay

The following table sets out the amounts and percentage change in total employee costs. The terms of our current banking facility contain restrictions on the payment of dividends. Free cash flow and Net debt have therefore been included as additional indicators. Cash flow demonstrates the cash available to reinvest in the business and service debt payments and net debt highlights the importance of organically deleveraging the business to a point at which dividend payments can be resumed under the Group's banking arrangements (see KPIs on pages 08 and 09).

	2016/17	2015/16	Change
Total employee costs	£157.9m	£147.6m	+7.0%
Free cash flow	£15.1m	£55.7m	-72.9%
Net debt	£523.2m	£534.2m	-2.1%

## Non-executive directors (audited)

Single figure for the total remuneration received by each non-executive director for the financial periods ended 1 April 2017 and 2 April 2016.

	Basic Fee	Committee Chair Fee	SID Fee	Total Fees 2016/17	Total Fees 2015/16
David Beever	£265,000	–	–	£265,000	£265,000
Richard Hodgson	£57,000	–	–	£57,000	£57,000
Tsunao Kijima <sup>1</sup>	–	–	–	–	–
Ian Krieger	£57,000	£13,000	£10,000	£80,000	£79,167
Jennifer Laing	£57,000	£10,500	–	£67,500	£67,500
Pam Powell	£57,000	–	–	£57,000	£57,000
Daniel Wosner <sup>2</sup>	£57,000	–	–	£4,750	–

- Mr Kijima was appointed a non-executive director on 21 July 2016 as a representative of Nissin, he does not receive a fee or other remuneration for this role.
- Mr Wosner was appointed a non-executive director on 1 March 2017 as a representative of Oasis.

## Non-executive directors' fees

The fees of our non-executive directors (NEDs) are set out below. A review of non-executive fees was undertaken in May 2017 and no increase to fees was recommended.

NED Fees	1 April 2017	Change	2 April 2016
Chairman fee	£265,000	–	£265,000
Basic NED fee	£57,000	–	£57,000
Additional remuneration:			
Audit Committee Chairman fee	£13,000	–	£13,000
Remuneration Committee Chairman fee	£10,500	–	£10,500
Senior Independent Director fee	£10,000	–	£10,000

## Non-executive directors' terms of appointment

All non-executive directors have entered into letters of appointment/amendment as detailed in the table below. The appointments are subject to the provisions of the Companies Act 2006 and the Company's Articles. Terms of appointment are normally for three years or the date of the AGM immediately preceding the third anniversary of appointment. Non-executive directors' continued appointments are evaluated annually, based on their contributions and satisfactory performance. Following the expiry of a term of appointment, non-executives may be re-appointed for a further three year period. Mr Kijima's and Mr Wosner's appointments are governed by the terms of the Relationship Agreements with Nissin and Oasis, respectively.

NED	Date of original appointment	Expiry of current appointment/ amendment letter	Notice period
David Beever	22 January 2008	AGM 2017	3 months
Richard Hodgson	6 January 2015	AGM 2017	3 months
Tsunao Kijima	21 July 2016	–	–
Ian Krieger	1 November 2012	AGM 2018	3 months
Jennifer Laing	1 October 2012	AGM 2018	3 months
Pam Powell	7 May 2013	AGM 2016	3 months
Daniel Wosner	1 March 2017	AGM 2019	–

## Non-executive directors' interests in shares (audited)

NED	Ordinary shares owned as at 1 April 2017	Ordinary shares owned as at 2 April 2016
David Beever	304,881	304,881
Richard Hodgson	–	–
Tsunao Kijima <sup>1</sup>	–	–
Ian Krieger	504,000	504,000
Jennifer Laing	54,802	54,802
Pam Powell	160,366	160,366
Daniel Wosner <sup>2</sup>	72,850	–

- Mr Kijima is Managing Director of our largest shareholder, Nissin. It was agreed on appointment that he would not hold shares in the Company.
- Mr Wosner was appointed a non-executive director on 1 March 2017 as a representative of Oasis.

## GOVERNANCE

## Directors' Remuneration report continued

**The Committee**

The table on page 24 identifies the Committee members and meeting attendance. Both the Committee Chairman and a majority of the Committee are independent. Daniel Wosner was appointed as a member of the Committee following his appointment to the Board in March 2017. Whilst normally only independent non-executive directors may become members of the Committee it was felt that his input, as a representative of a major shareholder, would be helpful when considering remuneration arrangements. In addition, the CEO, HR Director and Aon Hewitt regularly attend by invitation. In accordance with the Committee's terms of reference, no one attending a Committee meeting may participate in discussions relating to his/her own terms and conditions of service or remuneration. Over the course of the year the Committee held three scheduled meetings.

**Advisers**

Aon Hewitt Limited ('Aon') has been appointed as advisers to the Committee. During the year Aon provided advice in connection with executive remuneration arrangements, the Company's new Remuneration Policy and the introduction of a new Annual Bonus plan for management operating below Board level. Aon are signatories of the Remuneration Consultants Company Code of Conduct. The trustees of the Company's pension schemes have appointed Aon to act as Administrators and Actuary to the schemes and, in the case of the RHM pension scheme, to act as Investment Advisers. Aon operates independently of the pension teams and the Committee is satisfied there is no conflict of interest. Aon received fees of £65,715 (2015/16: £57,512) in respect of their advice to the Committee during the financial period.

**Role of the Remuneration Committee**

The Committee has been delegated authority by the Board to approve the overall design of the Remuneration Policy for executive directors and senior management, to agree the terms of employment including recruitment and termination terms of executive directors, approve the design of all share incentive plans and recommend appropriate performance measures and targets for the variable element of remuneration packages and determine the extent to which performance targets have been achieved. The Committee's terms of reference are available on the Company's website.

What the Committee discussed during the financial period:

- Reviewed the voting results for the 2016 Directors' Remuneration report at the AGM;
- Approved the Company's 2017 Remuneration Policy for approval by shareholders;
- Approved a new management Annual Bonus plan for management at below Board level;
- Reviewed and recommended executive directors' and senior managers' annual bonuses in respect of the financial period and set the targets for the 2017/18 annual bonus in accordance with the strategic objectives of the Company;
- Granted the 2016 awards under the Company's all-employee and executive share plans and agreed the targets for awards due to be made in 2017; and
- Discussed developments in best practice with regard to remuneration policy and disclosure.

**External appointments**

The Board is open to executive directors who wish to take on a non-executive directorship with a publicly quoted company in order to broaden their experience and they may be entitled to retain any fees they receive. However, any such appointment would be reviewed by the Board on a case by case basis. The current executive directors do not have any external appointments with publicly quoted companies. Gavin Darby is currently President of the Food and Drink Federation.

**Statement of voting at Annual General Meeting**

Whilst overall the Directors' Remuneration report received strong support at the AGM in 2016, there was a 15% vote against (full details are set out below). The reasons for this vote were discussed by the Committee and it was concluded that this was primarily the result of a vote from a certain shareholder. As a result the Chairman of the Remuneration Committee and Senior Independent Director met with this shareholder to discuss their concerns.

	Approval of Directors' Remuneration Report 2015/16	% of votes cast	Approval of the current Remuneration Policy	% of votes cast
Date of AGM	21 July 2016		29 April 2014	
Votes for	436,369,922	85.41%	593,707,405	99.05%
Votes against	74,559,365	14.59%	5,714,208	0.95%
Total votes cast	510,929,287	100%	599,421,613	100%
Votes withheld	25,572,566		3,168,444	

The Directors' Remuneration report was approved by the Board on 16 May 2017 and signed on its behalf by:

**Jennifer Laing**

**Chairman of the Remuneration Committee**

# Independent auditor's report

to the members of Premier Foods plc only

Opinions and conclusions arising from our audit

## 1. Our opinion on the financial statements is unmodified

We have audited the financial statements of Premier Foods plc for the 52 weeks ended 1 April 2017 set out on pages 58 to 112. In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 1 April 2017 and of the Group's profit for the 52 weeks then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with UK Accounting Standards, including FRS 101 Reduced Disclosure Framework; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006; and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Overview		
<b>Materiality:</b> Group financial statements as a whole	£4.5m (2015/16: £5.25m) 0.57% (2015/16: 0.68%) of Group revenue	
<b>Coverage</b>	95% (2015/16: 100%) of Group revenue	
Risks of material misstatement		vs 2015/16
<b>Recurring risks</b>	Revenue recognition relating to commercial arrangements	◀▶
	Carrying value of goodwill and Mr Kipling brand	◀▶
	Valuation of defined benefit pension plans	◀▶
	Recoverability of deferred tax assets	◀▶

## Independent auditor's report continued

### 2. Our assessment of risks of material misstatement

In arriving at our audit opinion above on the financial statements, the risks of material misstatement that had the greatest effect on our audit, in decreasing order of audit significance, were those risks noted below. Following the completion of the acquisition of Knighton Foods Limited ('Knighton') in 2016/17, we have not assessed 'accounting for investments' as one of the risks that had the greatest effect on our audit and, therefore, it is not separately identified in our report this year.

The risk	Our response
<p><b>Revenue recognition relating to commercial arrangements</b></p> <p><b>Commercial accruals</b> (£38.6) million; 2015/16: £(35.9) million)</p> <p><i>Refer to page 31 (Audit Committee Report), page 67 (accounting policy) and page 82 (financial disclosures).</i></p> <p><b>Revenue</b> (£790.4 million; 2015/16: £771.7 million)</p> <p><i>Refer to page 31 (Audit Committee Report), page 67 (accounting policy) and page 68 (financial disclosures).</i></p>	<p><b>Estimation uncertainty impacting revenue</b></p> <p>The Group enters into commercial arrangements with its customers on a regular basis to offer product promotions and discounts. The Group measures revenue taking into consideration estimated rebates and discounts.</p> <p>Due to the nature of some arrangements and the number of different arrangements in place, there is a risk that these arrangements are not appropriately accounted for and as a result revenue is misstated.</p> <p>The Group also focuses on revenue as a key performance measure which could create an incentive for revenue to be overstated through manipulation of rebates and discounts, resulting from the pressure management may feel to achieve performance targets.</p> <p>The most significant areas of estimation uncertainty are:</p> <ul style="list-style-type: none"> <li>estimating the sales volumes attributable to each arrangement; and</li> <li>determining the period which the arrangements cover and hence the correct period for recognition.</li> </ul> <p>Our procedures included:</p> <ul style="list-style-type: none"> <li><b>Accounting policies:</b> Assessing the appropriateness of the revenue recognition accounting policies, in particular those relating to volume rebates and discounts and assessing compliance with the applicable accounting standards;</li> <li><b>Tests of details:</b> Comparing a sample of promotions recorded during the period to supporting evidence such as customer acceptance, electronic point of sale data and customer debit notes to assess the accuracy of the estimate;</li> <li>Testing credit notes issued after the period end to assess the completeness of the commercial accruals recorded and existence of revenue;</li> <li>Inspecting supporting documentation for a sample of manual journals posted to revenue accounts;</li> <li>Visiting a selection of customer stores before the period end, identifying product promotions and assessing whether those promotions were appropriately included within the commercial accrual; and</li> <li><b>Assessing disclosures:</b> Considering the adequacy of the Group's disclosures relating to the critical accounting policies, estimates and judgements in respect of volume rebates and discounts.</li> </ul>



## 2. Our assessment of risks of material misstatement continued

	The risk	Our response
<p><b>Carrying value of goodwill and Mr Kipling brand</b> (£692.5 million; 2015/16: £694.8 million)</p> <p>Refer to page 31 (Audit Committee Report), page 67 (accounting policy) and pages 77 to 79 (financial disclosures).</p>	<p><b>Forecast-based valuation</b></p> <p>Goodwill and brand asset values are dependent on the achievement of future business plans which are inherently uncertain.</p> <p>The business operates in an environment of significant retailer pressure on price, competitor activity and increasing commodity prices. In light of these trading challenges, there is a risk that the Group's goodwill and brand asset values, in particular the goodwill attributed to the Grocery cash generating unit and the Mr Kipling brand, may not be recoverable.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> <li>• <b>Assessing cash generating units:</b> Assessing the appropriateness of the cash generating units identified;</li> <li>• <b>Assessing principles:</b> Assessing the principles of the cash flow models for the Grocery cash generating unit and Mr Kipling brand;</li> <li>• <b>Benchmarking assumptions:</b> Evaluating assumptions used, in particular those relating to: i) the short and long-term revenue growth rates; ii) future changes in profitability; iii) the discount rates used; and iv) the royalty rate used in the Mr Kipling brand assessment, comparing these with externally derived data and using our own valuation specialists where applicable;</li> <li>• <b>Sensitivity analysis:</b> Performing sensitivity analysis of key assumptions including discount rates, short and long-term revenue growth rates, profitability and royalty rate; and</li> <li>• <b>Assessing disclosures:</b> Assessing whether the Group's disclosures relating to the sensitivity of the outcome of the impairment assessments to changes in key assumptions reflect the risks inherent in the valuation of goodwill and brands.</li> </ul>
<p><b>Valuation of defined benefit pension plans</b> (£104.8 million; 2015/16: £130.9 million)</p> <p>Refer to page 31 (Audit Committee Report), pages 66 to 67 (accounting policy) and pages 93 to 98 (financial disclosures).</p>	<p><b>Subjective valuation</b></p> <p>Small changes in the assumptions used to determine the liabilities of the RHM Pension Scheme, Premier Foods Pensions Scheme and Premier Grocery Products Pension Scheme, in particular those relating to inflation, mortality and discount rates, can have a significant impact on the valuation of the liabilities.</p> <p>The Group's RHM Pension Scheme holds assets for which quoted prices are not available. The valuation of these assets can have a significant impact on the surplus. Valuations are prepared based on most recent information available and are updated where appropriate, applying judgement and estimation.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> <li>• <b>Benchmarking assumptions:</b> Challenging, with the support of our own actuarial specialists, the key assumptions applied, being the inflation, mortality and discount rate assumptions, against externally derived data;</li> <li>• <b>Asset confirmations:</b> Obtaining asset statements in respect of the schemes' investments directly from fund managers;</li> <li>• <b>Re-performing valuations:</b> Re-performing valuations for a sample of scheme assets and comparing those valuations to the asset statements received; and</li> <li>• <b>Assessing disclosures:</b> Considering the adequacy of the Group's disclosures relating to the sensitivity of the surplus to the key assumptions.</li> </ul>
<p><b>Recoverability of deferred tax assets</b> (£32.4 million; 2015/16: £25.9 million)</p> <p>Refer to page 31 (Audit Committee Report), page 67 (accounting policy) and pages 71 to 74 (financial disclosures).</p>	<p><b>Forecast-based valuation</b></p> <p>As the Group has a history of recent losses, there is judgement in determining whether deferred tax assets should be recognised.</p> <p>The Group utilises forecasts of future taxable profits to determine the extent to which deferred tax assets can be recognised, which is inherently uncertain due to the level of judgement and estimation contained in forecasts.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> <li>• <b>Assessing recognition:</b> Reviewing historical taxable profits and considering if there is convincing evidence that sufficient future taxable profits will be available;</li> <li>• <b>Evaluating assumptions:</b> Evaluating assumptions used, in particular those relating to: i) the short and long-term revenue growth rates; ii) future changes in profitability; and iii) adjustments to profit before tax to determine taxable profits, using our own tax specialists where applicable; and</li> <li>• <b>Assessing transparency:</b> Assessing the adequacy of the Group's disclosures relating to the sensitivity of the recognition of deferred tax assets to changes in key assumptions reflected in the inherent risk.</li> </ul>

## Independent auditor's report continued

### 3. Our application of materiality and an overview of the scope of our audit

The materiality for the Group financial statements as a whole was set at £4.5 million (2015/16: £5.25m), determined with reference to a benchmark of Group revenue of which it represents 0.57% (2015/16: 0.68%). We consider Group revenue to be the most appropriate benchmark as it is a key performance indicator.

We do not consider the pre-tax result an appropriate benchmark as it is not currently a key measure of the performance of the Group. We have given consideration to other profit metrics such as trading profit in determining materiality.

We reported to the Audit Committee any corrected or uncorrected identified misstatements exceeding £0.22 million (2015/16: £0.25m), in addition to other identified misstatements that warranted reporting on qualitative grounds.

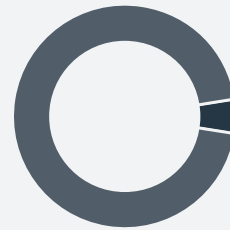
Of the Group's 33 (2015/16: 40) reporting components, we subjected 5 (2015/16: 6) to full scope audits for Group purposes.

For the remaining components, we performed analysis at an aggregated Group level to re-examine our assessment that there were no significant risks of material misstatement within these.

The component materialities ranged from £0.6 million to £4.25 million (2015/16: £0.6m to £4.0m), having regard to the mix of size and risk profile of the Group across the components. All full scope components are managed from the central locations in the UK and the work on all components subject to audit was performed by the Group team.

#### Group revenue

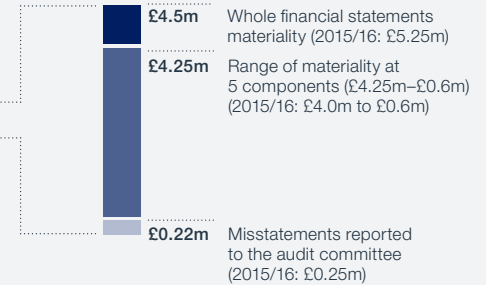
£790.4m (2015/16: £771.7m)



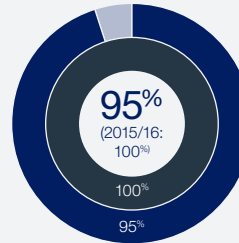
- Group revenue
- Group materiality

#### Materiality

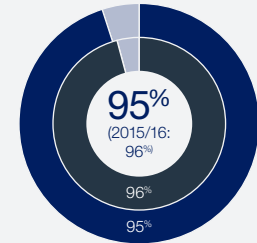
£4.5m (2015/16: £5.25m)



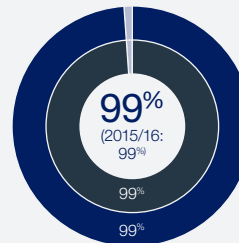
#### Group Revenue



#### Group profit/loss before tax



#### Group total assets



- Full scope for Group audit purposes 2016/17
- Full scope for Group audit purposes 2015/16
- Residual components

#### 4. Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

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 Strategic Report and the Directors' Report for the financial year is consistent with the financial statements.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic Report and the Directors' Report:

- we have not identified material misstatements in those reports; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

#### 5. We have nothing to report on the disclosures of principal risks

Based on the knowledge we acquired during our audit, we have nothing material to add or draw attention to in relation to:

- the Directors' statement of viability on page 33, concerning the principal risks, their management, and, based on that, the Directors' assessment and expectations of the Group's continuing in operation over the three years to 4 April 2020; or
- the disclosures in note 2 of the financial statements concerning the use of the going concern basis of accounting.

#### 6. We have nothing to report in respect of the matters on which we are required to report by exception

Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the Annual Report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our audit and the Directors' statement that they consider that the Annual Report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy; or
- the Audit Committee Report does not appropriately address matters communicated by us to the Audit Committee.

Under the Companies Act 2006 we are required 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.

Under the Listing Rules we are required to review:

- the directors' statements, set out on pages 62 to 63 and 33, in relation to going concern and longer-term viability; and
- the part of the Corporate Governance Statement on page 24 relating to the company's compliance with the eleven provisions of the 2014 UK Corporate Governance Code specified for our review.

We have nothing to report in respect of the above responsibilities.

#### Scope and responsibilities

As explained more fully in the Directors' Responsibilities Statement set out on page 34, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at [www.frc.org.uk/auditscopeukprivate](http://www.frc.org.uk/auditscopeukprivate). This report is made solely to the Company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at [www.kpmg.com/uk/auditscopeukco2014a](http://www.kpmg.com/uk/auditscopeukco2014a), which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

#### Richard Pinckard (Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor  
Chartered Accountants

15 Canada Square  
London  
E14 5GL

16 May 2017

## Consolidated statement of profit or loss

	Note	52 weeks ended 1 Apr 2017 £m	52 weeks ended 2 Apr 2016 £m
<b>Continuing operations</b>			
Revenue	4	790.4	771.7
Cost of sales		(513.5)	(476.2)
<b>Gross profit</b>		276.9	295.5
Selling, marketing and distribution costs		(127.2)	(128.4)
Administrative costs		(88.2)	(112.6)
<b>Operating profit</b>	5	61.5	54.5
Operating profit before impairment		61.5	68.1
Impairment of investments in associates	12, 14	–	(13.6)
Finance cost	7	(51.6)	(48.1)
Finance income	7	1.5	2.5
Net movement on fair valuation of interest rate financial instruments	7	0.6	0.7
Share of loss from associates	14	–	(22.6)
<b>Profit/(loss) before taxation from continuing operations</b>		12.0	(13.0)
Taxation (charge)/credit	8	(6.5)	47.0
<b>Profit after taxation from continuing operations</b>		5.5	34.0
Loss from discontinued operations	10	–	(4.8)
<b>Profit for the period attributable to owners of the parent</b>		5.5	29.2
<b>Basic and diluted earnings per share</b>			
From continuing operations (pence)	9	0.7	4.1
From discontinued operations (pence)	9	–	(0.6)
From profit for the period		0.7	3.5
<b>Adjusted earnings per share<sup>1</sup></b>			
From continuing operations (pence)	9	7.2	8.1

1. Adjusted earnings per share is defined as trading profit less net regular interest, less a notional tax charge at 20.0% (2015/16: 20.0%) divided by the weighted average number of ordinary shares of the Company.

## Consolidated statement of comprehensive income

	Note	52 weeks ended 1 Apr 2017 £m	52 weeks ended 2 Apr 2016 £m
Profit for the period		5.5	29.2
<b>Other comprehensive income, net of tax</b>			
<b>Items that will never be reclassified to profit or loss</b>			
Remeasurements of defined benefit schemes	23	(76.6)	344.8
Deferred tax credit/(charge)	8	14.9	(65.9)
<b>Items that are or may be reclassified to profit or loss</b>			
Exchange differences on translation		(1.1)	(0.4)
<b>Other comprehensive (loss)/income, net of tax</b>		(62.8)	278.5
<b>Total comprehensive (loss)/income attributable to owners of the parent</b>		(57.3)	307.7

The notes on pages 62 to 107 form an integral part of the consolidated financial statements.

# Consolidated balance sheet

	Note	As at 1 Apr 2017 £m	As at 2 Apr 2016 £m
<b>ASSETS:</b>			
<b>Non-current assets</b>			
Property, plant and equipment	11	187.5	187.8
Goodwill	12	650.3	649.8
Other intangible assets	13	464.0	496.0
Net retirement benefit assets	23	593.9	550.9
Deferred tax assets	8	32.4	25.9
		1,928.1	1,910.4
<b>Current assets</b>			
Inventories	17	71.3	63.2
Trade and other receivables	18	65.1	100.5
Cash and cash equivalents	26	3.1	8.0
Derivative financial instruments	21	0.1	1.6
		139.6	173.3
<b>Total assets</b>		<b>2,067.7</b>	<b>2,083.7</b>
<b>LIABILITIES:</b>			
<b>Current liabilities</b>			
Trade and other payables	19	(191.7)	(204.7)
Financial liabilities			
– short-term borrowings	20	(21.3)	(0.4)
– derivative financial instruments	21	(2.9)	(2.0)
Provisions for liabilities and charges	22	(10.0)	(6.3)
Current income tax liabilities		(0.7)	(0.7)
		(226.6)	(214.1)
<b>Non-current liabilities</b>			
Financial liabilities – long-term borrowings	20	(505.0)	(541.8)
Net retirement benefit obligations	23	(489.1)	(420.0)
Provisions for liabilities and charges	22	(43.1)	(47.3)
Other liabilities	24	(11.1)	(12.0)
		(1,048.3)	(1,021.1)
<b>Total liabilities</b>		<b>(1,274.9)</b>	<b>(1,235.2)</b>
<b>Net assets</b>		<b>792.8</b>	<b>848.5</b>
<b>EQUITY:</b>			
<b>Capital and reserves</b>			
Share capital	25	83.3	82.7
Share premium	25	1,406.7	1,406.6
Merger reserve	25	351.7	351.7
Other reserves	25	(9.3)	(9.3)
Profit and loss reserve	25	(1,039.6)	(979.3)
<b>Capital and reserves attributable to owners of the parent</b>		<b>792.8</b>	<b>852.4</b>
Non-controlling interest	16	–	(3.9)
<b>Total equity</b>		<b>792.8</b>	<b>848.5</b>

The notes on pages 62 to 107 form an integral part of the consolidated financial statements.

The financial statements on pages 58 to 61 were approved by the Board of directors on 16 May 2017 and signed on its behalf by:

**Gavin Darby**  
Chief Executive Officer

**Alastair Murray**  
Chief Financial Officer

# Consolidated statement of cash flows

	Note	52 weeks ended 1 Apr 2017 £m	52 weeks ended 2 Apr 2016 £m
Cash generated from operations	26	76.8	137.1
Interest paid		(41.3)	(44.2)
Interest received		1.5	2.5
<b>Cash generated from operating activities</b>		<b>37.0</b>	<b>95.4</b>
Cash outflow on business combination		–	(0.2)
Purchases of property, plant and equipment		(15.1)	(23.0)
Purchases of intangible assets		(5.8)	(6.9)
<b>Cash used in investing activities</b>		<b>(20.9)</b>	<b>(30.1)</b>
Repayment of borrowings		(34.6)	(58.0)
Movement in securitisation funding programme		(6.4)	(19.7)
Proceeds from share issue		0.1	0.3
Purchase of shares to satisfy share awards		(1.1)	(1.8)
<b>Cash used in financing activities</b>		<b>(42.0)</b>	<b>(79.2)</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(25.9)</b>	<b>(13.9)</b>
Cash, cash equivalents and bank overdrafts at beginning of period		7.8	21.7
<b>Cash, cash equivalents and bank overdrafts at end of period</b>	26	<b>(18.1)</b>	<b>7.8</b>

The notes on pages 62 to 107 form an integral part of the consolidated financial statements.

# Consolidated statement of changes in equity

	Note	Share capital £m	Share premium £m	Merger reserve £m	Other reserves £m	Profit and loss reserve £m	Non-controlling interest £m	Total equity £m
<b>At 5 April 2015</b>		82.6	1,406.4	351.7	(9.3)	(1,291.2)	–	540.2
Profit for the period		–	–	–	–	29.2	–	29.2
Remeasurements of defined benefit schemes	23	–	–	–	–	344.8	–	344.8
Deferred tax charge	8	–	–	–	–	(65.9)	–	(65.9)
Exchange differences on translation		–	–	–	–	(0.4)	–	(0.4)
Other comprehensive income		–	–	–	–	278.5	–	278.5
<b>Total comprehensive income</b>		–	–	–	–	307.7	–	307.7
Shares issued		0.1	0.2	–	–	–	–	0.3
Share-based payments		–	–	–	–	4.1	–	4.1
Purchase of shares to satisfy share awards		–	–	–	–	(1.8)	–	(1.8)
Deferred tax movements on share based payments		–	–	–	–	1.9	–	1.9
Non-controlling interest on change of ownership		–	–	–	–	–	(3.9)	(3.9)
<b>At 2 April 2016</b>		82.7	1,406.6	351.7	(9.3)	(979.3)	(3.9)	848.5
<b>At 3 April 2016</b>		82.7	1,406.6	351.7	(9.3)	(979.3)	(3.9)	848.5
Profit for the period		–	–	–	–	5.5	–	5.5
Remeasurements of defined benefit schemes	23	–	–	–	–	(76.6)	–	(76.6)
Deferred tax credit	8	–	–	–	–	14.9	–	14.9
Exchange differences on translation		–	–	–	–	(1.1)	–	(1.1)
Other comprehensive income		–	–	–	–	(62.8)	–	(62.8)
<b>Total comprehensive income</b>		–	–	–	–	(57.3)	–	(57.3)
Shares issued		0.6	0.1	–	–	–	–	0.7
Share-based payments	25	–	–	–	–	4.5	–	4.5
Purchase of shares to satisfy share awards		–	–	–	–	(1.1)	–	(1.1)
Adjustment for issue of share options		–	–	–	–	(0.6)	–	(0.6)
Deferred tax movements on share based payments		–	–	–	–	(1.9)	–	(1.9)
Movement in non-controlling interest		–	–	–	–	(3.9)	3.9	–
<b>At 1 April 2017</b>		83.3	1,406.7	351.7	(9.3)	(1,039.6)	–	792.8

The notes on pages 62 to 107 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 and domiciled 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 activity of the Company and its subsidiaries (the 'Group') is the manufacture and distribution of branded and own label food products. Copies of the annual report and accounts are available on our website: <http://www.premierfoods.co.uk/investors/results-centre>.

These Group consolidated financial statements were authorised for issue by the Board of directors on 16 May 2017.

## 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 periods presented, unless otherwise stated.

### 2.1 Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union (EU) ('adopted IFRS') in response to IAS regulation (EC1606/2002), related 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 which are incorporated using fair value. Amounts are presented to the nearest £0.1m.

The statutory accounting period is the 52 weeks from 3 April 2016 to 1 April 2017 and comparative results are for the 52 weeks from 5 April 2015 to 2 April 2016. All references to the 'period', unless otherwise stated, are for the 52 weeks ended 1 April 2017 and the comparative period, 52 weeks ended 2 April 2016.

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

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

### International Financial Reporting Standards

Amendments to IFRS 5	Non-current assets held for sale and discontinued operations
Amendments to IFRS 7	Financial instruments
Amendments to IFRS 10, 11, 12	Transition guidance
Amendments to IFRS 11	Accounting for Acquisitions of Interests in Joint Operations
Amendments to IFRS 20 & 12, IAS 38	Investment entities: Applying the Consolidation Exception

Amendments to IAS 1  
Amendments to IAS 16 & 38

Amendments to IAS 16 & 41  
Amendments to IAS 19  
Amendments to IAS 27

Amendments to IAS 34

Disclosure Initiative  
Clarification of Acceptable Methods of Depreciation and Amortisation  
Bearer Plants  
Employee benefits  
Equity Method in Separate Financial Statements  
Interim Financial Reporting

There has been no material impact on the Group's results, net assets, cash flows and disclosures on adoption of new or revised standards in the period.

The following amendments to published standards, effective for periods on or after 1 January 2017, have been endorsed by the EU:

### International Financial Reporting Standards

IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers
Amendments to IFRS 15	Revenue from Contracts with Customers

The following standards and amendments to published standards, effective for periods on or after 1 January 2017, have not been endorsed by the EU:

### International Financial Reporting Standards

Amendments to IAS 7	Disclosure Initiative
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to IAS 28	Investments in Associates and Joint Ventures
Amendments to IAS 40	Investment Property
Amendments to IFRS 1	First-time Adoption of IFRS
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
Amendments to IFRS 12	Disclosure of Interests in Other Entities
IFRS 16	Leases

During 2016/17 the Group completed a detailed review of the requirements of IFRS 15 against current accounting policies. As a result of the review it has been concluded that current accounting policies are in line with the new standard. As the business evolves the Group will continue to review transactions with customers to ensure compliance with IFRS 15 on adoption.

The Group is currently assessing the impact of the other above new standards that are not yet effective and is yet to quantify the potential impact.

### Basis for preparation of financial statements on a going concern basis

The Group's revolving credit facility includes net debt/EBITDA and EBITDA/interest covenants. In the event these covenants are not met then the Group would be in breach of its financing agreement and, as would be the case in



any covenant breach, the banking syndicate could withdraw funding to the Group. The Group was in compliance with its covenant tests as at 1 October 2016 and 1 April 2017. The Group's forecasts, taking into account reasonably possible changes in trading performance, show that the Group expects to be able to operate within the level of its current facilities including covenant tests. Notwithstanding the net current liabilities position of the Group, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the next 12 months. The Group therefore continues to adopt the going concern basis in preparing its consolidated financial statements.

## 2.2 Basis of consolidation

### (i) Subsidiaries

The consolidated financial statements include the financial statements of Premier Foods plc and entities controlled by the Company (its subsidiaries). Control is achieved where the Company is exposed to or has rights to variable returns from involvement with an investee and has the ability to affect those returns through its power over the investee.

The results of subsidiaries acquired or disposed of during the period are included in the consolidated statement of profit or loss from the effective date of acquisition or up to the effective date of disposal, as appropriate. In addition, comparatives are also restated to reclassify material disposed businesses into discontinued operations where appropriate.

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

## 2.3 Revenue

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

### (i) Sale of goods

Sales of goods are recognised as revenue on transfer of the risks and rewards of ownership, which typically coincides with the time when the merchandise is delivered to customers and title passes.

### (ii) Sales rebates and discounts

Sales related discounts comprise:

- Long-term discounts and rebates, which are sales incentives to customers to encourage them to purchase increased volumes and are related to total volumes purchased and sales growth.
- Short-term promotional discounts, which are directly related to promotions run by customers.

Sales rebates and discount accruals are established at the time of sale 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. Accruals are made for each individual promotion or rebate arrangement and are based on the type and length of promotion and nature of customer agreement. At the time an accrual is made the nature and timing of the promotion is typically known. Estimation is required for sales volumes/activity, phasing and the amount of product sold on promotion.

### (iii) Commercial income

Commercial income received from suppliers through rebates and discounts are recognised within cost of sales over the period(s) to which the underlying contract or agreement relates. Accrued income is recognised for rebates on contracts covering the current period, for which no cash was received at the balance sheet date. Deferred income is recognised for rebates that were received from suppliers at the balance sheet date but relate to contracts covering future periods.

## 2.4 Segmental reporting

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

## 2.5 Share-based payments

The Company operates a number of equity-settled and share-based compensation plans. The fair value of the employee services received in exchange for the grant of shares or options is recognised as an expense over the vesting period. The total amount to be expensed over the vesting period is determined by reference to the fair value of shares or options granted, excluding the impact of any non-market vesting conditions (for example, EPS targets). Non-market vesting conditions are included in assumptions about the number of shares or options that are expected to vest. At each balance sheet date, the Group revises its estimates of the number of shares or options that are expected to vest and recognises the impact of the revision to original estimates, if any, in the statement of profit or loss, with a corresponding adjustment to equity.

## 2.6 Foreign currency translation

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency of the subsidiaries at rates of exchange ruling at the end of the financial period.

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 period. The balance sheets of overseas subsidiaries are translated into sterling at the closing rate. Exchange differences arising from retranslation at the period end exchange rates of the net investment in foreign subsidiaries are recorded as a separate component of equity in reserves. When a foreign operation is sold, exchange differences previously taken to equity are recognised in the statement of profit or loss as part of the gain or loss on sale.

## Notes to the financial statements continued

### 2.6 Foreign currency translation continued

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 statement of profit or loss.

### 2.7 Property, plant and equipment ('PPE')

Property, plant and equipment is stated at historical cost less accumulated depreciation and impairment.

PPE is initially recorded at cost. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. 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 estimated 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 15 to 50 years for buildings, 5 to 30 years for plant and equipment and 10 years for vehicles. All items of PPE are reviewed for impairment when there are indications that the carrying value may not be fully recoverable.

Assets under construction represent the amount of expenditure recognised in the course of its construction. Directly attributable costs that are capitalised as part of the PPE include the employee costs and an appropriate portion of relevant overheads. When the item of PPE is available for use, it is depreciated.

The carrying value relating to disposed assets is written off to profit or loss on disposal of PPE.

### 2.8 Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the acquisition date fair values of assets given, liabilities incurred or assumed and equity instruments issued by the Group in exchange for control of the acquiree. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. Acquisition related costs are recognised in profit or loss as incurred.

Where the measurement of the fair value of identifiable net assets is incomplete at the end of the reporting period in which a business combination occurs, the Group will report provisional fair values. The recognised assets and liabilities are measured at fair values that reflect the conditions at the date of the acquisition. These provisional fair values may be updated for information not known at the reporting date.

The Group has applied IFRS 3 (Revised) *Business Combinations* to business combinations after 1 July 2009. The accounting for business combinations transacted prior to this date have not been restated.

### 2.9 Intangible assets

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

#### **Acquired intangible assets**

Acquired brands, trademarks and licences 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. All of these assets are considered to have finite lives and are amortised on a straight-line basis over their estimated useful economic lives that range from 20 to 40 years for brands and trademarks and 10 years for licences.

#### **Software**

Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognised as intangible assets when the project or process is technically and commercially feasible. Directly attributable costs that are capitalised as part of the software product include the software development employee costs and an appropriate portion of relevant overheads.

Software development costs are amortised over their estimated useful lives on a straight-line basis over a range of 3 to 10 years.

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. Reviews of the estimated remaining useful lives and residual values of individual intangible assets are performed annually.

#### **Research**

Research expenditure is charged to the statement of profit or loss in the period in which it is incurred.

### 2.10 Impairment

The carrying value of non-financial assets, other than goodwill and inventories, are reviewed at least annually to determine whether there is an indication of impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Non-financial assets, other than goodwill, that have suffered an impairment loss are reviewed for possible reversal of the impairment at each reporting date.

Where an indication of impairment exists, the recoverable amount is estimated based on the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows, adjusted for the risks specific to each asset, are discounted to their present value using a discount rate that reflects current market assessment of the time value of money and the general risks affecting the food manufacturing industry.

Impairment losses are recognised in the statement of profit or loss in the period in which they occur.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash flows of other assets.

## 2.11 Finance cost and income

### **Finance cost**

Borrowing costs are accounted for on an accruals basis in the statement of profit or loss using the effective interest method.

### **Finance income**

Finance 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.

## 2.12 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 present value of future 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.

Leases in which a significant portion of risks and rewards of ownership are retained by the lessor are classified as operating leases. Rental costs under operating leases, net of any incentives received from the lessor, are charged to the statement of profit or loss on a straight-line basis over the lease period.

## 2.13 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. Net realisable value is the estimated selling price in the ordinary course of business less estimated costs of completion and the estimated costs necessary to make the sale.

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

A provision is made for slow moving, obsolete and defective inventory where appropriate.

## 2.14 Taxation

Income tax on the profit or loss for the period comprises current and deferred tax.

### **Current tax**

Income tax is recognised in the statement of profit or loss except to the extent that it relates to items recognised directly in other comprehensive income ('OCI') in which case it is recognised in equity. Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous periods.

### **Deferred tax**

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 statement of profit or loss except when it relates to items credited or charged directly to OCI, in which case the deferred tax is also recognised 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.

## 2.15 Employee benefits

Group companies provide a number of long-term employee benefit arrangements, primarily through pension schemes. The Group has both defined benefit and defined contribution plans.

### **Defined benefit plans**

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

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for remeasurement and past service costs. Defined benefit obligations are calculated using assumptions determined by the Group with the assistance of 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.

Remeasurement arising from experience adjustments and changes in actuarial assumptions are charged or credited to the statement of comprehensive income in the period in which they arise. Past service costs, administration costs, and the net interest on the net defined benefit surplus are recognised immediately in the statement of profit or loss.

# Notes to the financial statements continued

## **Defined benefit plans** continued

Curtailements are recognised as a past service cost when the Group makes an significant reduction in the number of employees covered by a plan or amends the terms of a defined benefit plan so that a significant element of future service by current employees no longer qualifies or qualify for amended benefits.

Plan assets of the defined benefit schemes include a number of assets for which quoted prices are not available. At each reporting date, the group determines the fair value of these assets with reference to most recently available information.

## **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. 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 statement of profit or loss as they fall due. Differences between contributions payable in the period and contributions actually paid are recognised as either accruals or prepayments in the balance sheet.

## **2.16 Provisions**

Provisions (for example restructuring or property exit costs) 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. In the case of where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset when the reimbursement is virtually certain. Where material, the Group discounts its provisions using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance expense.

## **2.17 Financial instruments**

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

### **Trade and other receivables**

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

### **Cash and cash equivalents**

Cash and cash equivalents, with original maturities at inception of less than 90 days, comprise cash in 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 also include bank overdrafts.

### **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 amount of 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 statement of profit or loss. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. Movements in fair value of foreign exchange derivatives are recognised within operating profit and those relating to interest rate swaps are recorded within the net movement on fair valuation of interest rate financial instruments.

## **2.18 Deferred income**

Deferred income is recognised and released over the period to which the relevant agreement relates.

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

The following are areas of particular significance to the Group's financial statements and include the use of estimates and the application of judgement, which is fundamental to the compilation of a set of financial statements. Results may differ from actual amounts.

### **3.1 Employee benefits**

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

At each reporting date, and on a continuous basis, the Group reviews the macro-economic, Company and scheme specific factors influencing each of these assumptions, using professional advice, in order to record the Group's ongoing commitment and obligation to defined benefit schemes in accordance with IAS 19 (Revised). Key assumptions used are mortality rates, discount rates and inflation set with reference to bond yields. Each of the underlying assumptions is set out in more detail in note 23.

Plan assets of the defined benefit schemes include a number of assets for which quoted prices are not available. At each reporting date, the group determines the fair value of these assets with reference to most recently available asset statements from fund managers.

To the extent a surplus arises under IAS 19, the Group ensures that it can recognise the associated asset in line with IFRIC 14.

### 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. In performing its impairment analysis, the Group takes into consideration these indicators including the difference between its market capitalisation and net assets.

The Group reviews its identified Cash Generating Units ('CGUs') for the purpose of testing goodwill on an annual basis, taking into consideration whether assets generate independent cash inflows. The recoverable amounts of CGUs are determined based on the higher of net 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 value in use calculations of the CGUs carrying values for the purpose of testing goodwill. See note 12 for further details.

Acquired brands, trademarks and licences are considered to have finite lives that range from 20 to 40 years for brands and trademarks and 10 years for licences. 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. The brands, trademarks and licences are deemed to be individual CGUs. For further details see note 13.

### 3.3 Advertising and promotion costs

Sales rebates and discounts are accrued on each relevant promotion or customer agreement and are charged to the statement of profit or loss at the time of the relevant promotional buy-in as a deduction from revenue. Accruals for each individual promotion or rebate arrangement are based on the type and length of promotion and nature of customer agreement. At the time an accrual is made the nature and timing of the promotion is typically known. Areas of estimation are sales volume/activity, phasing and the amount of product sold on promotion.

For short-term promotions, the Group performs a true up of estimates where necessary on a monthly basis, using real time sales information where possible and finally on receipt of a customer claim which typically follows 1–2 months after the end of a promotion. For longer term discounts and rebates the Group uses actual and forecast sales to estimate the level of rebate. These accruals are updated monthly based on latest actual and forecast sales.

Expenditure on advertising is charged to the statement of profit or loss 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 Deferred tax assets

When assessing whether the recognition of a deferred tax asset can be justified, and if so at what level, the directors take into account the following:

- Historic business performance
- Projected profits or losses included in the latest board approved forecast and other relevant information that allow profits chargeable to corporation tax to be derived
- The total level of recognised and unrecognised losses that can be used to reduce future forecast taxable profits
- The period over which there is sufficient certainty that profits can be made that would support the recognition of an asset

Further disclosures of the amounts recognised (and unrecognised) are contained within note 8.

## 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 Executive Leadership Team as it is primarily responsible for the allocation of resources to segments and the assessment of performance of the segments.

The Group's operating segments are defined as 'Grocery', 'Sweet Treats', 'International' and 'Knighton'. The Grocery segment primarily sells savoury ambient food products and the Sweet Treats segment sells sweet ambient food products. The International and Knighton segments have been aggregated within the Grocery segment for reporting purposes as revenue is below 10 percent of the Group's total revenue and the segments are considered to have similar characteristics to that of Grocery. This is in accordance with the criteria set out in IFRS 8.

The CODM uses Divisional contribution as the key measure of the segments' results. Divisional contribution is defined as gross profit after selling, marketing and distribution costs. Divisional contribution is a consistent measure within the Group and reflects the segments' underlying trading performance for the period under evaluation.

The Group uses trading profit to review overall group profitability. Trading profit is defined as operating profit/(loss) before taxation before net finance costs, amortisation of intangible assets, impairment, fair value movements on foreign exchange and other derivative contracts, restructuring costs, profits and losses associated with divestment activity and net interest on pensions and administrative costs.

## Notes to the financial statements continued

### 4. Segmental analysis continued

The segment results for the period ended 1 April 2017 and for the period ended 2 April 2016 and the reconciliation of the segment measures to the respective statutory items included in the consolidated financial statements are as follows:

	Period ended 1 Apr 2017			Period ended 2 Apr 2016		
	Grocery £m	Sweet Treats £m	Total £m	Grocery £m	Sweet Treats £m	Continuing operations £m
Revenue	563.1	227.3	790.4	548.6	223.1	771.7
<b>Divisional contribution</b>	129.9	19.8	149.7	142.1	25.0	167.1
Group and corporate costs			(32.7)			(38.3)
<b>Trading profit</b>			117.0			128.8
Amortisation of intangible assets			(37.9)			(37.6)
Fair value movements on foreign exchange and other derivative contracts			(1.0)			2.6
Restructuring costs			(15.8)			(11.2)
Net interest on pensions and administrative expenses			(0.8)			(14.5)
<b>Operating profit before impairment</b>			61.5			68.1
Impairment of investments in associates			–			(13.6)
<b>Operating profit</b>			61.5			54.5
Finance cost			(51.6)			(48.1)
Finance income			1.5			2.5
Net movement on fair valuation of interest rate financial			0.6			0.7
Share of loss from associates			–			(22.6)
<b>Profit/(loss) before taxation</b>			12.0			(13.0)
Depreciation	(7.7)	(8.5)	(16.2)	(8.2)	(7.9)	(16.1)

Revenues in the period ended 1 April 2017, on a continuing basis, from the Group's four principal customers, which individually represent over 10% of total revenue, are £172.7m, £115.4m, £95.2m and £84.6m (Period ended 2 April 2016: £164.7m, £124.1m, £92.8m and £92.4m).

Inter-segment transfers or transactions are entered into under the same terms and conditions that would be available to unrelated third parties.

The Group primarily supplies the UK market, although it also supplies certain products to other countries in Europe and the rest of the world. The following table provides an analysis of the Group's revenue, which is allocated on the basis of geographical market destination, and an analysis of the Group's non-current assets by geographical location.

#### Revenue

	Period ended 1 Apr 2017 £m	Period ended 2 Apr 2016 £m
United Kingdom	745.7	735.5
Other Europe	21.9	18.8
Rest of world	22.8	17.4
<b>Total</b>	<b>790.4</b>	<b>771.7</b>

**Non-current assets**

	As at 1 Apr 2017 £m	As at 2 Apr 2016 £m
United Kingdom	1,928.1	1,910.4

**5. Operating profit****5.1 Analysis of costs by nature**

	Period ended 1 Apr 2017 £m	Period ended 2 Apr 2016 £m
Employee benefits expense (note 6)	(157.9)	(147.6)
Depreciation of property, plant and equipment (note 11)	(16.2)	(16.1)
Amortisation of intangible assets (note 13)	(37.9)	(37.6)
Impairment of investment in associates (note 12, 14)	–	(13.6)
Loss on disposal of non-current assets	(0.8)	(1.8)
Operating lease rental expenditure	(4.0)	(4.0)
Repairs and maintenance expenditure	(25.9)	(23.7)
Research and development costs	(7.7)	(6.9)
Restructuring costs	(15.8)	(11.2)
Auditor remuneration (note 5.2)	(0.4)	(0.6)

Operating lease commitments are further disclosed in note 27.

**5.2 Auditor remuneration**

	Period ended 1 Apr 2017 £m	Period ended 2 Apr 2016 £m
Fees payable to the Group's auditor for the audit of the consolidated and parent company accounts of Premier Foods plc	(0.3)	(0.4)
<b>Fees payable to the Group's auditor and its associates for other services:</b>		
- The audit of the Group's subsidiaries, pursuant to legislation	(0.1)	(0.1)
- Services relating to corporate finance transactions	–	(0.1)
<b>Total auditor remuneration</b>	<b>(0.4)</b>	<b>(0.6)</b>

The total operating profit charge for auditor remuneration was £0.4m (2015/16: £0.6m).

## Notes to the financial statements continued

### 6. Employees

	Period ended 1 Apr 2017 £m	Period ended 2 Apr 2016 £m
<b>Employee benefits expense</b>		
Wages and salaries	(131.3)	(124.7)
Social security costs	(12.7)	(11.9)
Termination benefits	(3.9)	(1.5)
Share options granted to directors and employees <sup>1</sup>	(3.9)	(4.1)
Contributions to defined contribution schemes (note 23)	(6.1)	(5.4)
<b>Total</b>	<b>(157.9)</b>	<b>(147.6)</b>

1. This excludes £0.6m of accelerated share based payment charges which have been charged to restructuring costs. The total expense for share options granted to directors and employees is £4.5m.

Average monthly number of people employed (including executive and non executive directors):

	2016/17 Number	2015/16 Number
<b>Average monthly number of people employed</b>		
Management	632	611
Administration	463	419
Production, distribution and other	3,037	2,842
<b>Total</b>	<b>4,132</b>	<b>3,872</b>

Directors' remuneration is disclosed in the audited section of the Directors Remuneration Report on pages 35 to 52, which form part of these consolidated financial statements.



## 7. Finance income and costs

	Period ended 1 Apr 2017 £m	Period ended 2 Apr 2016 £m
Interest payable on bank loans and overdrafts	(5.3)	(5.1)
Interest payable on senior secured notes	(30.6)	(30.8)
Interest payable on revolving facility	(3.4)	(5.9)
Interest payable on interest rate derivatives	(0.9)	(1.2)
Other interest payable <sup>1</sup>	(7.2)	(0.3)
Amortisation of debt issuance costs	(4.1)	(4.4)
	(51.5)	(47.7)
Write off of financing costs <sup>2</sup>	(0.1)	(0.4)
<b>Total finance cost</b>	<b>(51.6)</b>	<b>(48.1)</b>
Interest receivable on bank deposits	1.5	2.5
<b>Total finance income</b>	<b>1.5</b>	<b>2.5</b>
Movement on fair valuation of interest rate derivative financial instruments	0.6	0.7
<b>Net finance cost</b>	<b>(49.5)</b>	<b>(44.9)</b>

1. Included in other interest payable is £5.6m (2015/16: £0.1m) relating to the unwind of the discount on certain of the Group's long-term provisions.

2. Relates to the securitisation facility in the period ended 2 April 2016, which terminated in January 2016.

The net movement on fair valuation of interest rate financial instruments relates to a £0.6m favourable movement on interest rate swaps held (2015/16: £0.7m favourable).

## 8. Taxation

### Current tax

	2016/17		2015/16	
	Total £m	Continuing operations £m	Discontinued operations £m	Total £m
Deferred tax				
– Current period	(6.4)	51.9	1.0	52.9
– Prior periods	1.1	(4.5)	-	(4.5)
– Adjustment to restate opening deferred tax at 17.0%	(1.2)	(0.4)	-	(0.4)
<b>Income tax (charge)/credit</b>	<b>(6.5)</b>	<b>47.0</b>	<b>1.0</b>	<b>48.0</b>

Reductions in the UK corporation tax rate from 20.0% to 19.0% (effective from 1 April 2017) and to 18.0% (effective 1 April 2020) were substantively enacted on 26 October 2015.

An additional reduction to 17.0% (effective from 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the Company's future current tax charge accordingly.

# Notes to the financial statements continued

## Current tax continued

Tax relating to items recorded in other comprehensive income included:

	Period ended 1 Apr 2017 £m	Period ended 2 Apr 2016 £m
Deferred tax credit/(charge) on reduction of corporate tax rate	1.6	(3.7)
Deferred tax credit on losses	8.4	–
Deferred tax credit/(charge) on pension movements	4.9	(62.2)
	14.9	(65.9)

The tax (charge)/credit for the period differs from the standard rate of corporation tax in the United Kingdom of 20.0% (2015/16: 20.0%). The reasons for this are explained below:

	Period ended 1 Apr 2017 £m	Period ended 2 Apr 2016 £m
Profit/(loss) before taxation	12.0	(13.0)
Tax (charge)/credit at the domestic income tax rate of 20.0% (2015/16: 20.0%)	(2.4)	2.6
Tax effect of:		
Non-deductible items	(1.0)	(1.0)
Share of loss from associates	–	(4.6)
Adjustment for share-based payments	(0.9)	(0.9)
Previously unrecognised losses utilised	–	0.1
Adjustment due to current period deferred tax being provided at 17.0% (2015/16: 18.0%)	0.3	0.4
Movements in losses recognised	(2.5)	55.3
Adjustment to restate opening deferred tax at 17.0% (2015/16: 18.0%)	(1.1)	(0.4)
Adjustments to prior periods	1.1	(4.5)
<b>Income tax (charge)/credit</b>	<b>(6.5)</b>	<b>47.0</b>

The movements in losses recognised for the period ended 1 April 2017 of £(2.5m) relates to the derecognition of corporation tax losses, the future recoverability of which is not certain. In the prior period, the £55.3m movement relates to the recognition of deferred tax assets to offset an increase in deferred tax liabilities.

The adjustments to prior periods of £1.1m relates to correction of prior period accelerated capital allowances following a change to the capital allowances claimed in submitted returns. In the prior period, the £(4.5m) adjustment to prior periods related to the utilisation of losses in prior periods which arose following verification of losses noted in submitted returns.

## 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 17.0% (2015/16: 18.0%) except for an asset of £48.4m (2015/16: £70.5m) relating to corporation tax losses where a rate of 17.7% has been used.

	2016/17 £m	2015/16 £m
At 3 April 2016 / 5 April 2015	25.9	41.9
(Charged)/credited to the statement of profit or loss	(6.5)	48.0
Credited/(charged) to other comprehensive income	14.9	(65.9)
(Charged)/credited to equity	(1.9)	1.9
<b>At 1 April 2017 / 2 April 2016</b>	<b>32.4</b>	<b>25.9</b>

The Group has recognised a deferred tax asset based on future taxable profits, derived from the latest Board approved forecasts.

The Group has not recognised deferred tax assets of £2.6m (2015/16: £nil) relating to UK corporation tax losses as the future recoverability of these losses is not certain. In addition the Group has not recognised a tax asset of £34.8m (2015/16: £34.8m) relating to ACT and £46.2m (2015/16: £48.9m) relating to capital losses. Under current legislation these can generally be carried forward indefinitely.

	Intangibles £m	Retirement benefit obligation £m	Other £m	Total £m
<b>Deferred tax liabilities</b>				
<b>At 5 April 2015</b>	(69.8)	–	(4.0)	(73.8)
Prior year restatement of opening balances				
– To statement of profit or loss	7.0	–	0.4	7.4
Current period credit	2.1	–	–	2.1
Prior period (charge)/credit	(0.7)	–	3.4	2.7
Charged to other comprehensive income	–	(23.8)	–	(23.8)
<b>At 2 April 2016</b>	(61.4)	(23.8)	(0.2)	(85.4)
<b>At 3 April 2016</b>	(61.4)	(23.8)	(0.2)	(85.4)
Prior period restatement of opening balances				
– To statement of profit or loss	3.4	(0.3)	–	3.1
– To other comprehensive income	–	1.6	–	1.6
Current period credit/(charge)	1.8	(0.3)	–	1.5
Credited to other comprehensive income	–	4.9	–	4.9
<b>At 1 April 2017</b>	(56.2)	(17.9)	(0.2)	(74.3)

	Accelerated tax depreciation £m	Retirement benefit obligation £m	Share based payments £m	Financial instruments £m	Losses £m	Other £m	Total £m
<b>Deferred tax assets</b>							
<b>At 5 April 2015</b>	22.8	43.0	0.8	2.9	41.9	4.3	115.7
Prior period restatement of opening balances							
– To statement of profit or loss	(2.2)	(0.5)	(0.1)	(0.3)	(4.2)	(0.4)	(7.7)
– To equity	–	(3.7)	–	–	–	–	(3.7)
Current period credit/(charge)	14.2	0.8	0.3	(0.6)	36.3	(0.2)	50.8
Prior year charge							
– To statement of profit or loss	(1.2)	(1.2)	(0.1)	–	(4.5)	(1.3)	(8.3)
Charged to other comprehensive income	–	(38.4)	–	–	–	–	(38.4)
Credited to equity	–	–	1.9	–	–	–	1.9
Deferred tax credit on discontinued activities	–	–	–	–	1.0	–	1.0
<b>At 2 April 2016</b>	33.6	–	2.8	2.0	70.5	2.4	111.3
<b>At 3 April 2016</b>	33.6	–	2.8	2.0	70.5	2.4	111.3
Prior period restatement of opening balances							
– To statement of profit or loss	(1.8)	–	(0.1)	(0.2)	(2.1)	(0.1)	(4.3)
– To equity	–	–	(0.1)	–	–	–	(0.1)
Current period credit/(charge)	4.7	–	0.6	(1.8)	(10.2)	(1.2)	(7.9)
Credited to other comprehensive income	–	–	–	–	8.4	–	8.4
Prior period credit/(charge)							
– To statement of profit or loss	10.9	–	–	–	(9.8)	–	1.1
Charged to equity	–	–	(1.8)	–	–	–	(1.8)
<b>At 1 April 2017</b>	47.4	–	1.4	–	56.8	1.1	106.7

## Notes to the financial statements continued

### Deferred tax continued

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.

### 9. Earnings/(loss) per share

Basic earnings/(loss) per share has been calculated by dividing the profits attributable to owners of the parent of £5.5m (2015/16: £29.2m profit) by the weighted average number of ordinary shares of the Company.

#### Weighted average shares

	2016/17 Number (000s)	2015/16 Number (000s)
Weighted average number of ordinary shares for the purpose of basic earnings/(loss) per share	830,059	826,017
Effect of dilutive potential ordinary shares:		
– Share options	9,875	1,005
<b>Weighted average number of ordinary shares for the purpose of diluted earnings/(loss) per share</b>	<b>839,934</b>	<b>827,022</b>

#### Earnings per share calculation

	Period ended 1 Apr 2017			Period ended 2 Apr 2016		
	Basic	Dilutive effect of share options	Diluted	Basic	Dilutive effect of share options	Diluted
<b>Continuing operations</b>						
Earnings after tax (£m)	5.5		5.5	34.0		34.0
<b>Earnings per share (pence)</b>	<b>0.7</b>	<b>0.0</b>	<b>0.7</b>	<b>4.1</b>	<b>0.0</b>	<b>4.1</b>
<b>Discontinued operations</b>						
Loss after tax (£m)	–		–	(4.8)		(4.8)
<b>Loss per share (pence)</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>(0.6)</b>	<b>0.0</b>	<b>(0.6)</b>
<b>Total</b>						
Earnings after tax (£m)	5.5		5.5	29.2		29.2
<b>Earnings per share (pence)</b>	<b>0.7</b>	<b>0.0</b>	<b>0.7</b>	<b>3.5</b>	<b>0.0</b>	<b>3.5</b>

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

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

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

Adjusted earnings per share is defined as trading profit less net regular interest, less a notional tax charge at 20.0% (2015/16: 20.0%) divided by the weighted average number of ordinary shares of the Company.

Net regular interest is defined as net finance costs after excluding write-off of financing costs, fair value movements on interest rate financial instruments and other interest.

Trading profit and Adjusted EPS have been reported as the directors believe these assist in providing additional useful information on the underlying trends, performance and position of the Group.

	Period ended 1 Apr 2017 £m	Period ended 2 Apr 2016 £m
<b>Trading profit</b>	117.0	128.8
Less net regular interest	(42.8)	(44.9)
<b>Adjusted profit before tax</b>	74.2	83.9
Notional tax at 20.0%	(14.8)	(16.8)
<b>Adjusted profit after tax</b>	59.4	67.1
Average shares in issue (m)	830.1	826.0
<b>Adjusted EPS (pence)</b>	7.2	8.1
<b>Net regular interest</b>		
Net finance cost	(49.5)	(44.9)
Exclude fair value movements on interest rate financial instruments	(0.6)	(0.7)
Exclude write-off of financing costs	0.1	0.4
Exclude other interest	7.2	0.3
<b>Net regular interest</b>	(42.8)	(44.9)

## 10. Discontinued operations

Income and expenditure incurred on discontinued operations during the period ended 2 April 2016 comprised costs relating to the Bread business which was disposed of during the period ended 4 April 2015.

	Period ended 1 Apr 2017 £m	Period ended 2 Apr 2016 £m
Revenue	–	–
Operating expenses	–	(4.3)
<b>Operating loss before impairment</b>	–	(4.3)
Impairment	–	–
<b>Operating loss</b>	–	(4.3)
Finance cost	–	(1.5)
<b>Loss before taxation</b>	–	(5.8)
Taxation credit	–	1.0
<b>Loss after taxation from discontinued operations</b>	–	(4.8)

During the period, discontinued operations contributed to a net outflow of £nil (2015/16: £3.7m outflow) to the Group's operating cash flows, a net inflow of £nil (2015/16: £nil) to investing activities and £nil (2015/16: £nil) to financing activities.

## Notes to the financial statements continued

### 11. Property, plant and equipment

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

	Land and buildings £m	Vehicles, plant and equipment £m	Assets under construction £m	Total £m
<b>Cost</b>				
At 5 April 2015	98.3	240.7	29.1	368.1
Additions	0.2	14.6	5.5	20.3
Disposals	–	(4.9)	–	(4.9)
Acquisition of subsidiary	2.4	–	–	2.4
Transferred into use	0.8	24.2	(25.0)	–
<b>At 2 April 2016</b>	<b>101.7</b>	<b>274.6</b>	<b>9.6</b>	<b>385.9</b>
Additions	0.7	6.3	9.7	16.7
Disposals	(0.9)	(1.3)	–	(2.2)
Transferred into use	0.5	5.0	(5.5)	–
<b>At 1 April 2017</b>	<b>102.0</b>	<b>284.6</b>	<b>13.8</b>	<b>400.4</b>
<b>Aggregate depreciation and impairment</b>				
At 5 April 2015	(35.6)	(146.4)	(2.8)	(184.8)
Depreciation charge	(1.9)	(14.2)	–	(16.1)
Disposals	–	2.8	–	2.8
<b>At 2 April 2016</b>	<b>(37.5)</b>	<b>(157.8)</b>	<b>(2.8)</b>	<b>(198.1)</b>
Depreciation charge	(1.9)	(14.3)	–	(16.2)
Disposals	0.4	1.0	–	1.4
<b>At 1 April 2017</b>	<b>(39.0)</b>	<b>(171.1)</b>	<b>(2.8)</b>	<b>(212.9)</b>
<b>Net book value</b>				
At 2 April 2016	64.2	116.8	6.8	187.8
<b>At 1 April 2017</b>	<b>63.0</b>	<b>113.5</b>	<b>11.0</b>	<b>187.5</b>

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

## 12. Goodwill

	As at 1 Apr 2017 £m	As at 2 Apr 2016 £m
<b>Carrying value</b>		
Opening balance	649.8	646.0
Acquisition of subsidiary	–	3.8
Fair value adjustments on acquisition of subsidiary	0.5	–
<b>Closing balance</b>	<b>650.3</b>	<b>649.8</b>

Goodwill attached to each of the Group's CGUs is as follows:

	As at 1 Apr 2017 £m	As at 2 Apr 2016 £m
Grocery	646.0	646.0
Knighton	4.3	3.8
<b>Net carrying value of goodwill</b>	<b>650.3</b>	<b>649.8</b>

### Key assumptions

The key assumptions for calculating value in use are 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 Board approved budget for the first year and the latest Board approved forecasts in respect of the following two years. An estimate of capital expenditure required to maintain these cash flows is also made.

The key assumptions when forecasting cash flows are revenue growth and divisional contribution margin.

Revenue growth is forecast based on known or forecast customer sales initiatives, including, to the extent agreed, customer business plans or agreements for the next period, current and forecast new product development, promotional and marketing strategy, and specific category or geographical growth. External factors, including the consumer environment, are also taken into account in the more short-term forecasts. The compound annual growth rate over the three year forecast period is 0.5% (2015/16: 2.2%).

Divisional contribution margin is forecast based on the projected mix of branded and non-branded sales, supply chain costs, raw material input costs, purchasing initiatives and selling costs.

### Long-term growth rate assumptions

For the purposes of impairment testing, the three year Board approved forecasts are extrapolated into perpetuity using growth assumptions relevant for the business sector. The growth rate applied of 2.00% (2015/16: 2.50%) is based on the long-term growth in UK GDP as the directors expect food consumption to follow GDP growth. This is not considered to be higher than the average long-term industry growth rate. The long-term growth rate is common to all CGUs.

### Discount rate assumptions

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 1 April 2017, the pre-tax rate used to discount the forecasted cash flows has been determined to be 9.8% (2015/16: 9.5%).

# Notes to the financial statements continued

## Sensitivity analysis

An illustration of the sensitivity to reasonably possible changes in key assumptions in the impairment test for the Grocery CGU is as follows:

	Reasonably possible change in assumption	Impact on value in use
Revenue growth	Increase/decrease by 2.0%	Increase/decrease by £139.6m/£144.8m
Divisional contribution margin	Increase/decrease by 2.0%	Increase/decrease by £124.0m/£123.4m
Long-term growth rate	Increase/decrease by 0.4%	Increase/decrease by £71.9m/£63.4m
Discount rate	Increase/decrease by 0.5%	Decrease/increase by £91.1m/£106.5m

Under each of the above sensitivities no individual scenario would trigger an impairment for the Grocery CGU.

## Impairment charge

There has been no goodwill or intangible asset impairment recognised in 2016/17 (2015/16: £nil). A total impairment charge of £13.6m was recognised in 2015/16 relating to the Group's investments in Hovis Holdings Limited ('Hovis') (£9.3m) and Knighton Foods Investments Limited ('Knighton') (£4.3m). The impairment related to Hovis reflected the highly competitive bread industry and the significant losses made in that period. The impairment related to Knighton reflected the challenging market conditions faced by the Knighton business.

## 13. Other intangible assets

	Software £m	Brands/ trademarks/ licences £m	Customer relationships £m	Assets under construction £m	Total £m
<b>Cost</b>					
At 5 April 2015	114.8	693.2	134.8	11.1	953.9
Additions	2.9	–	–	2.3	5.2
Transferred into use	10.6	–	–	(10.6)	–
<b>At 2 April 2016</b>	<b>128.3</b>	<b>693.2</b>	<b>134.8</b>	<b>2.8</b>	<b>959.1</b>
Additions	2.1	–	–	3.8	5.9
Transferred into use	2.5	–	–	(2.5)	–
<b>At 1 April 2017</b>	<b>132.9</b>	<b>693.2</b>	<b>134.8</b>	<b>4.1</b>	<b>965.0</b>
<b>Accumulated amortisation and impairment</b>					
At 5 April 2015	(71.7)	(219.0)	(134.8)	–	(425.5)
Amortisation charge	(11.6)	(26.0)	–	–	(37.6)
<b>At 2 April 2016</b>	<b>(83.3)</b>	<b>(245.0)</b>	<b>(134.8)</b>	<b>–</b>	<b>(463.1)</b>
Amortisation charge	(12.2)	(25.7)	–	–	(37.9)
<b>At 1 April 2017</b>	<b>(95.5)</b>	<b>(270.7)</b>	<b>(134.8)</b>	<b>–</b>	<b>(501.0)</b>
<b>Net book value</b>					
At 2 April 2016	45.0	448.2	–	2.8	496.0
<b>At 1 April 2017</b>	<b>37.4</b>	<b>422.5</b>	<b>–</b>	<b>4.1</b>	<b>464.0</b>

All amortisation is recognised within administrative costs. Included in the assets under construction additions for the period are £1.3m (2015/16: £0.8m) of internal costs. The Group's borrowings are secured on the assets of the Group including other intangible assets.



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

	Carrying value at 1 Apr 2017 £m	Estimated useful life remaining Years
<i>Bisto</i>	119.8	20
<i>O XO</i>	80.7	30
<i>Batchelors</i>	62.5	20
<i>Sharwood's</i>	56.6	20
<i>Mr Kipling</i>	46.5	20

#### 14. Associates

In the 52 weeks ended 2 April 2016, a total impairment charge of £13.6m was recognised relating to the Group's investments in Hovis and Knighton.

At 2 April 2016, the Group owned 49% of the ordinary share capital of Knighton. On 24 May 2016, the Group acquired the remaining 51% of the ordinary share capital of Knighton.

	Hovis £m	Knighton £m	Total £m
At 5 April 2015	22.6	12.6	35.2
Interest receivable	0.8	0.2	1.0
Share of loss from associates	(14.1)	(8.5)	(22.6)
Impairment charge	(9.3)	(4.3)	(13.6)
<b>At 2 April 2016 and 1 April 2017</b>	<b>-</b>	<b>-</b>	<b>-</b>

## Notes to the financial statements continued

### 15. Investments

In accordance with Section 409 of the Companies Act 2006 and The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, as amended by The Companies, Partnerships and Groups (Accounts and Reports) Regulations 2015, a full list of subsidiary undertakings, associate undertakings and joint operations (showing the country of incorporation, registered address and effective percentage of equity shares held) as at 1 April 2017 is disclosed below.

Company	% Held by Parent Company of the Group	% held by Group companies, if different	Share Class	Country	Registered Address
Premier Foods Investments No.1 Limited	100%	N/A	£1.00 Ordinary shares	England & Wales	Premier House, Griffiths Way, St Albans, Hertfordshire, AL1 2RE
Premier Foods Investments Limited	0%	100%	£1.00 Ordinary shares		
Premier Foods Finance plc	0%	100%	£1.00 Ordinary shares		
RHM Limited	0%	100%	£0.001 Ordinary-a shares		
RHM Group Holding Limited	0%	100%	£0.10 Ordinary shares		
RHM Group Two Limited	0%	100%	£0.01 Ordinary shares		
RHM Group Three Limited	0%	100%	£0.01 Ordinary shares		
Premier Foods Group Services Limited	0%	100%	£0.01 Ordinary shares		
Premier Foods Group Limited	0%	100%	£0.25 Ordinary shares		
Centura Foods Limited	0%	100%	£1.20 Ordinary shares		
Premier Foods (Holdings) Limited	0%	100%	£1.00 Ordinary shares		
H.L. Foods Limited	0%	100%	£1.00 Ordinary shares		
Hillsdown Europe Limited	0%	100%	£2.90 Ordinary shares		
Premier Financing Limited	0%	100%	£1.00 Ordinary shares		
CH Old Co Limited	0%	100%	£1.00 Ordinary shares		
Hillsdown International Limited	0%	100%	£1.00 Ordinary shares		
Premier International Foods UK Limited	0%	100%	£1.00 Ordinary shares		
RH Oldco Limited	0%	100%	£1.00 Ordinary shares		
Alpha Cereals Unlimited	0%	100%	£0.05 Ordinary shares		
RHM Frozen Foods Limited	0%	100%	£1.00 Ordinary shares		
RHM Overseas Limited	0%	100%	£1.00 Ordinary shares		
Knighton Foods Investments Limited	0%	100%	£1.00 Ordinary shares		
Knighton Foods Limited	0%	100%	£1.00 Ordinary shares		
Knighton Foods Properties Limited	0%	100%	£1.00 Ordinary shares		
Hovis Holdings Limited	0%	49%	£0.01 Ordinary shares		
Hovis Limited	0%	49%	£0.01 Ordinary shares		
Citadel Insurance Company Limited	0%	100%	£1.00 Ordinary Shares	Isle of Man	Ioma House, Hope Street, Douglas, Isle of Man, IM1 1AP
Diamond Foods Lebensmittelhandel GmbH	0%	100%	€0.5113 Ordinary shares	Germany	Cecilienallee 6, Dusseldorf, 40474, Germany
Premier Brands Limited	0%	100%	£1.00 Ordinary shares	Scotland	Summit House, 4-5 Mitchell Street, Edinburgh, Scotland, EH6 7BD
Premier Foods, Inc.	0%	100%	USD\$0.01 Common Stock shares	United States	The Corporation, Trust Company, Corporation Trust Centre, 1209 Orange Street, DE 19801, USA
Premier Grocery Products Ireland Limited	0%	100%	€1.00 Ordinary shares	Ireland	25-28 North Wall, Quay, Dublin 1, Ireland
Premier Foods Ireland Manufacturing Limited			€1.26 Ordinary shares		

## 16. Ownership of subsidiaries/businesses

On 1 April 2016, the Group gained control (as defined under IFRS 10) of Knighton, in which the Group already held 49% of the ordinary share capital and associated voting rights.

On 24 May 2016, the Group acquired the remaining 51% of the ordinary share capital of Knighton.

Goodwill of £4.3m is attributable to the intellectual property of Knighton and synergies which arose on acquisition.

Given the proximity of the transfer of control to 2 April 2016, the values of identifiable assets and liabilities acquired were provisional. During the period, a fair value adjustment has been made in respect of provisions for liabilities that existed at the acquisition date but for which information was not available.

The following table summarises the consideration for Knighton, and the amounts of the assets acquired and liabilities assumed.

	As at 2 April 2016			As at 1 Apr 2017
Recognised amounts of identifiable assets acquired and liabilities assumed	Provisional values on acquisition £m	Purchase of NCI £m	Fair value adjustments £m	Fair values £m
Property, plant & equipment	2.4	–	–	2.4
Inventories	7.0	–	–	7.0
Trade and other receivables	9.2	–	–	9.2
Trade and other payables	(16.2)	–	(0.5)	(16.7)
Cash and cash equivalents	(0.2)	–	–	(0.2)
Financial liabilities – borrowings and other loans	(9.9)	–	–	(9.9)
<b>Total identifiable net liabilities</b>	<b>(7.7)</b>	<b>–</b>	<b>(0.5)</b>	<b>(8.2)</b>
<b>Non-controlling interest</b>	<b>3.9</b>	<b>(3.9)</b>	<b>–</b>	<b>–</b>
<b>Goodwill</b>	<b>3.8</b>	<b>–</b>	<b>0.5</b>	<b>4.3</b>
<b>Equity</b>	<b>–</b>	<b>3.9</b>	<b>–</b>	<b>3.9</b>
<b>Total consideration</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>

## Notes to the financial statements continued

### 17. Inventories

	As at 1 Apr 2017 £m	As at 2 Apr 2016 £m
Raw materials	13.8	12.2
Work in progress	2.9	3.4
Finished goods and goods for resale	54.6	47.6
<b>Total inventories</b>	<b>71.3</b>	<b>63.2</b>

Inventory write-offs in the period amounted to £4.7m (2015/16: £2.0m).

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

### 18. Trade and other receivables

	As at 1 Apr 2017 £m	As at 2 Apr 2016 £m
Trade receivables	53.8	102.8
Trade receivables provided for	(6.7)	(19.8)
Net trade receivables	47.1	83.0
Prepayments	12.5	12.5
Other tax and social security receivable	5.1	4.4
Other receivables	0.4	0.6
<b>Total trade and other receivables</b>	<b>65.1</b>	<b>100.5</b>

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

During 2016, the Group entered into a Receivables Financing Agreement pursuant to which the Group assigns various receivables owed to it in return for funding. Receivables are only eligible for sale if they meet certain criteria. The facility limit is £30 million. As at 1 April 2017, £30 million was drawn.

### 19. Trade and other payables

	As at 1 Apr 2017 £m	As at 2 Apr 2016 £m
Trade payables	(132.5)	(137.8)
Commercial accruals	(38.6)	(35.9)
Tax and social security payables	(5.0)	(4.8)
Other payables and accruals	(15.6)	(26.2)
<b>Total trade and other payables</b>	<b>(191.7)</b>	<b>(204.7)</b>

## 20. Bank and other borrowings

	As at 1 Apr 2017 £m	As at 2 Apr 2016 £m
<b>Current:</b>		
Bank overdrafts	(21.2)	(0.2)
Finance lease obligations	(0.1)	(0.2)
<b>Total borrowings due within one year</b>	<b>(21.3)</b>	<b>(0.4)</b>
<b>Non-current:</b>		
Secured senior credit facility – revolving	(22.0)	(55.0)
Transaction costs	5.6	6.9
	(16.4)	(48.1)
Bank term loan	–	(1.5)
	–	(1.5)
Senior secured notes	(500.0)	(500.0)
Transaction costs	11.4	14.2
	(488.6)	(485.8)
Securitisation facility	–	(6.4)
	–	(6.4)
<b>Total borrowings due after more than one year</b>	<b>(505.0)</b>	<b>(541.8)</b>
<b>Total bank and other borrowings</b>	<b>(526.3)</b>	<b>(542.2)</b>

### **Revolving credit facility**

The revolving credit facility of £272m is due to mature in March 2019 and attracts a leverage based margin of between 2.5% and 4.0% above LIBOR. Banking covenants of net debt / EBITDA and EBITDA / interest are in place and are tested biannually.

The Group entered into a three year floating to fixed interest rate swap in June 2014, with a nominal value of £150m amortising to £50m, attracting a swap rate of 1.44%.

### **Term loan**

The term loan at the prior period end related to that of Knighton and would have matured in October 2018, priced at 2.75% above LIBOR. This was repaid during the period.

### **Securitisation facility**

The securitisation facility drawn at the prior period end related to that of Knighton and would have matured in October 2018, priced at 2.25% above LIBOR. This was repaid during the period.

### **Senior secured notes**

The senior secured notes are listed on the Irish GEM Stock Exchange. The notes totalling £500m are split between fixed and floating tranches. The fixed note of £325m matures in March 2021 and attracts an interest rate of 6.50%. The floating note of £175m matures in March 2020 and attracts an interest rate of 5.00% above LIBOR.

## Notes to the financial statements continued

### 21. Financial instruments

The Group's activities expose it to a variety of financial risks: market risk (arising from adverse movements in foreign currency, commodity prices and interest rates), 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 Finance function. The policy framework governing the management of these risks is defined by 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, diesel and energy. These commodity and energy contracts are part of the Group's normal purchasing activities. Some of the risk relating to diesel is mitigated with the use of derivative financial instruments. The Treasury Risk Management Committee monitors and reviews the Group's foreign currency exchange, commodity price and energy price exposures and recommends appropriate hedging strategies for each.

#### (a) Market risk

##### i) Foreign exchange risk

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

The Group generates some of its profits in non-sterling currencies and has assets in non-sterling jurisdictions, principally the euro.

The 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: euro/sterling	Period ended 1 Apr 2017	Period ended 2 Apr 2016
Period ended	1.1695	1.2536
Average	1.1903	1.3584

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

The table below shows the Group's currency exposures as at 1 April 2017 and 2 April 2016 that gave rise to net currency gains and losses recognised in the consolidated statement of profit or loss 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	
	As at 1 Apr 2017 £m	As at 2 Apr 2016 £m
Net foreign currency monetary assets:		
– Euro	(7.1)	(3.3)
– US dollar	0.8	0.1
<b>Total</b>	<b>(6.3)</b>	<b>(3.2)</b>

In addition the Group also has forward foreign currency exchange contracts outstanding at the period 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:

	As at 1 Apr 2017 £m	As at 2 Apr 2016 £m
Euro	(34.9)	(21.9)
US dollar	–	(0.6)
<b>Total</b>	<b>(34.9)</b>	<b>(22.5)</b>

Sensitivities are disclosed below using the following reasonably possible scenarios:

If the US dollar were to weaken against sterling by 20 US dollar cents, with all other variables held constant, profit after tax would increase by £0.1m (2015/16: £nil).

If the US dollar were to strengthen against sterling by 20 US dollar cents, with all other variables held constant, profit after tax would decrease by £0.1m (2015/16: £0.1m increase).

If the euro were to weaken against sterling by 10 euro cents, with all other variables held constant, profit after tax would decrease by £2.1m (2015/16: £1.2m decrease).

If the euro were to strengthen against sterling by 10 euro cents, with all other variables held constant, profit after tax would increase by £1.8m (2015/16: £1.4m increase).

This is primarily driven by the effect on the mark to market valuation of the foreign exchange derivatives of the Group where the hedged rates differ from the spot rate.

### **(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*, dairy, wheat, cocoa, edible oils, 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 financial instruments where they are available.

### **(iii) Interest rate risk**

The Group's borrowing facilities comprise senior secured notes and a revolving facility, in sterling. Interest is charged at floating rates plus a margin on the amounts drawn down, and at 40% 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 Board. 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 1 April 2017 the reset rate was 0.3439% (2015/16: 0.5875%).

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

	<b>Weighted average interest rate %</b>
As at 1 April 2017	1.4
As at 2 April 2016	1.4

Fixed rate derivative financial liabilities constitute two (2015/16: two) floating to fixed interest rate swaps with a notional value of £25m each and a total notional value of £50m (2015/16: £100m). These mature in December 2017.

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.

At 1 April 2017, for every 50 basis points reduction in rates below the last floating reset rate of 0.3439% (2015/16: 0.5875%) (based on three month LIBOR) with all other variables held constant, annualised net interest expense would decrease by £0.6m (2015/16: £0.5m decrease).

At 1 April 2017, if interest rates were 200 basis points higher than the last floating reset rate of 0.3439% (2015/16: 0.5875%) (based on three month LIBOR), with all other variables held constant, annualised net interest expense would increase by £2.4m (2015/16: £2.1m increase).

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 equivalents and trade and other receivables.

Cash and cash equivalents are deposited with high-credit quality financial institutions and although a significant amount of sales are to a relatively small number of customers these are generally the major grocery retailers whose credit risk is considered low.

At 1 April 2017, trade and other receivables of £15.4m (2015/16: £18.5m) were past due but not impaired. These relate to customers with whom there is no history of default.

## Notes to the financial statements continued

### (b) Credit risk continued

The ageing of trade and other receivables was as follows:

	Fully performing £m	Past due					Total £m
		1–30 days £m	31–60 days £m	61–90 days £m	91–120 days £m	120+ days £m	
<b>Trade and other receivables</b>							
<b>As at 1 April 2017</b>	32.1	10.4	3.0	0.1	0.3	1.6	47.5
As at 2 April 2016	65.1	7.6	3.4	3.0	1.1	3.4	83.6

At 1 April 2017, trade and other receivables of £6.7m (2015/16: £19.8m) were determined to be specifically impaired and provided for. The total includes 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:

	2016/17 £m	2015/16 £m
As at 3 April 2016 / 5 April 2015	19.8	29.5
Receivables written off during the period as uncollectable	(16.7)	(15.2)
Acquisition of subsidiary	–	0.5
Provision for receivables impairment raised	3.6	5.0
<b>As at 1 April 2017 / 2 April 2016</b>	<b>6.7</b>	<b>19.8</b>

### (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 from month to month and there is some volatility within months. This reflects seasonal 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 period end date may not be indicative of debt levels at other points throughout the period.



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

	Within 1 year £m	1 and 2 years £m	2 and 3 years £m	3 and 4 years £m	4 and 5 years £m	Over 5 years £m	Total £m
<b>At 1 April 2017</b>							
Trade and other payables	(186.7)	–	–	–	–	–	(186.7)
Bank overdraft	(21.2)	–	–	–	–	–	(21.2)
Senior secured notes - fixed	–	–	–	(325.0)	–	–	(325.0)
Senior secured notes - floating	–	–	(175.0)	–	–	–	(175.0)
Secured senior credit facility – revolving	–	(22.0)	–	–	–	–	(22.0)
Finance lease obligations	(0.1)	–	–	–	–	–	(0.1)
<b>At 2 April 2016</b>							
Trade and other payables	(199.9)	–	–	–	–	–	(199.9)
Bank overdraft	(0.2)	–	–	–	–	–	(0.2)
Bank term loan	–	–	(1.5)	–	–	–	(1.5)
Senior secured notes – fixed	–	–	–	–	(325.0)	–	(325.0)
Senior secured notes – floating	–	–	–	(175.0)	–	–	(175.0)
Secured senior credit facility – revolving	–	–	(55.0)	–	–	–	(55.0)
Finance lease obligations	(0.2)	–	–	–	–	–	(0.2)
Securitisation facility	–	–	(6.4)	–	–	–	(6.4)

The senior secured notes - floating and secured senior credit facility - revolving are re-priced quarterly to LIBOR, and other liabilities are not re-priced before the maturity date.

At 1 April 2017 the Group had £220.1m (2015/16: £201.8m) of facilities not drawn expiring between one and two years (2015/16: two and three years).

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

The following table analyses the contractual undiscounted cash flows of interest on the floating rate debt to maturity (based on the last fixed rate reset of 0.3439% (2015/16: 0.5875%) 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
<b>At 1 April 2017</b>	10.3	9.5	9.4	–	–	–	29.2
<b>At 2 April 2016</b>	12.1	10.0	9.8	9.8	–	–	41.7

## Notes to the financial statements continued

### (c) Liquidity risk continued

The following table analyses the Group's derivative financial instruments into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed are the undiscounted cash flows.

	Within 1 year £m	1 and 2 years £m	2 and 3 years £m	3 and 4 years £m	4 and 5 years £m	Over 5 years £m	Total £m
<b>At 1 April 2017</b>							
<b>Forward foreign exchange contracts:</b>							
– Outflow	(34.9)	–	–	–	–	–	(34.9)
– Inflow	34.4	–	–	–	–	–	34.4
<b>Commodities:</b>							
– Outflow	(1.8)	–	–	–	–	–	(1.8)
<b>Interest rate swaps:</b>							
– Outflow	(0.7)	–	–	–	–	–	(0.7)
– Inflow	0.2	–	–	–	–	–	0.2
<b>Total derivative financial instruments</b>	<b>(2.8)</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>(2.8)</b>
<b>At 2 April 2016</b>							
<b>Forward foreign exchange contracts:</b>							
– Outflow	(22.5)	–	–	–	–	–	(22.5)
– Inflow	24.1	–	–	–	–	–	24.1
<b>Commodities:</b>							
– Outflow	(3.3)	–	–	–	–	–	(3.3)
<b>Interest rate swaps:</b>							
– Outflow	(1.3)	(0.7)	–	–	–	–	(2.0)
– Inflow	0.5	0.3	–	–	–	–	0.8
<b>Total derivative financial instruments</b>	<b>(2.5)</b>	<b>(0.4)</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>(2.9)</b>

The above table incorporates the contractual cash flows of the interest rate derivatives with floating rates of interest calculated based on LIBOR of 0.3439% (2015/16: 0.5875%) at the balance sheet date.

### (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 price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Set out below is a summary of methods and assumptions used to value each category of financial instrument.

	As at 1 Apr 2017		As at 2 Apr 2016	
	Carrying amount £m	Fair value £m	Carrying amount £m	Fair value £m
<b>Loans and receivables:</b>				
Cash and cash equivalents	3.1	3.1	8.0	8.0
Trade and other receivables	47.5	47.5	83.6	83.6
<b>Financial assets at fair value through profit or loss:</b>				
Derivative financial instruments				
– Forward foreign currency exchange contracts	–	–	1.6	1.6
– Commodity and energy derivatives	0.1	0.1	–	–
<b>Financial liabilities at fair value through profit or loss:</b>				
Derivative financial instruments				
– Forward foreign currency exchange contracts	(0.5)	(0.5)	–	–
– Commodity and energy derivatives	–	–	(1.0)	(1.0)
– Interest rate swaps	(0.4)	(0.4)	(1.0)	(1.0)
– Other financial liabilities	(2.0)	(2.0)	–	–
<b>Financial liabilities at amortised cost:</b>				
Trade and other payables	(186.7)	(186.7)	(199.9)	(199.9)
Senior secured notes	(500.0)	(502.9)	(500.0)	(511.7)
Senior secured credit facility – revolving	(22.0)	(22.0)	(55.0)	(55.0)
Bank term loan	–	–	(1.5)	(1.5)
Bank overdraft	(21.2)	(21.2)	(0.2)	(0.2)
Finance lease obligations	(0.1)	(0.1)	(0.2)	(0.2)
Securitisation facility	–	–	(6.4)	(6.4)

## Notes to the financial statements continued

### (d) Fair value continued

The following table presents the Group's assets and liabilities that are measured at fair value using the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

	As at 1 Apr 2017		As at 2 Apr 2016	
	Level 1 £m	Level 2 £m	Level 1 £m	Level 2 £m
<b>Financial assets at fair value through profit or loss:</b>				
Derivative financial instruments				
– Forward foreign currency exchange contracts	–	–	–	1.6
– Commodity derivatives	–	0.1	–	–
<b>Financial liabilities at fair value through profit or loss:</b>				
Derivative financial instruments				
– Forward foreign currency exchange contracts	–	(0.5)	–	–
– Commodity derivatives	–	–	–	(1.0)
– Interest rate swaps	–	(0.4)	–	(1.0)
Financial liability	–	(2.0)	–	–
<b>Financial liabilities at amortised cost:</b>				
Senior secured notes	(502.9)	–	(511.7)	–

### Fair value estimation

#### Derivatives

Forward exchange contracts are marked to market using prevailing market prices. Hedge accounting has not been applied to forward contracts and as a result the movement in the fair value of £2.1m has been charged to the statement of profit or loss in the period (2015/16: £2.5m 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 £1.1m has been credited to the statement of profit or loss (2015/16: £0.1m credit).

Interest rate swaps are marked to market using prevailing market prices. Interest rate swaps are also not designated for hedge accounting. As a result the movement in the fair value of £0.6m has been credited to the statement of profit or loss in the period (2015/16: £0.7m credit).

#### 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.

#### 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) 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 return capital to shareholders, issue new shares, or sell assets to reduce debt.

The directors do not recommend the payment of a dividend for the period ended 1 April 2017 (2015/16: £nil).

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 the balance sheet date were as follows:

	As at 1 Apr 2017 £m	As at 2 Apr 2016 £m
Total borrowings	(526.3)	(542.2)
Less cash and cash equivalents	3.1	8.0
Net debt	(523.2)	(534.2)
Total equity	(792.8)	(848.5)
Total capital	(1,316.0)	(1,382.7)
<b>Gearing ratio</b>	<b>40%</b>	<b>39%</b>

Gearing is flat year on year due to a relatively unchanged RHM Pension Scheme surplus.

Under the Group's financing arrangement, the Group is required to meet two covenant tests which are calculated and tested on a 12 month rolling basis at the half year and full year, each year. The Group has complied with these tests at 1 October 2016 and 1 April 2017.

### (f) Financial compliance risk

#### **Risk**

The Group continues to operate with a high level of net debt of £523.2m (2015/16: £534.2m) and is subject to operating within banking covenants set out in its refinancing agreement agreed with its banking syndicate, which include net debt/EBITDA and EBITDA/interest covenant tests. In the event these covenants are not met then the Group would be in breach of its financing agreement and, as would be the case in any covenant breach, the banking syndicate could withdraw their funding to the Group.

In addition to covenant compliance the Group must ensure that it manages its liquidity such that it has sufficient funds to meet its obligations as they fall due.

It also supports three defined benefit pension schemes in the UK; two of the three schemes have significant technical funding deficits which could have an adverse impact on the financial condition of the Group.

#### **Mitigation**

The Group has financing arrangements which provide funding until 2021.

The Group reviews its performance on an ongoing basis and formally tests and reports on covenant compliance to the Group's banking syndicate at each reporting date. In the event of a forecast covenant breach the Group would seek a covenant waiver or amendment from its banking syndicate.

The Group manages liquidity risk through the Group 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.

## Notes to the financial statements continued

### *Mitigation* continued

Funding agreements have been reached with the trustees of the pension schemes which fixes deficit contributions until the finalisation of the next triennial valuations due in March / April 2019, subject to amendment in the event that the Company recommences payment of dividends. The Group continues to monitor the pension risks closely, working with the trustees to ensure a collaborative approach.

### 22. Provisions for liabilities and charges

Property provisions primarily relate to provisions for non-operational leasehold properties, dilapidations against leasehold properties and environmental liabilities. The costs relating to certain non-operational leasehold properties and dilapidation provisions will be incurred over a number of years in accordance with the length of the leases. Other provisions primarily relate to insurance claims and provisions for restructuring costs. These provisions have been discounted at rates between 0.30% and 1.72%. The unwinding of the discount is charged to the statement of profit or loss under finance cost.

	Property £m	Other £m	Total £m
<b>At 5 April 2015</b>	(33.9)	(26.3)	(60.2)
Utilised during the period	2.4	1.8	4.2
Additional charge in the period	(2.2)	(2.5)	(4.7)
Unwind of discount	(1.5)	(0.1)	(1.6)
Acquisition of subsidiary	–	(0.1)	(0.1)
Released during the period	2.4	6.4	8.8
<b>At 2 April 2016</b>	(32.8)	(20.8)	(53.6)
Utilised during the period	1.3	4.4	5.7
Additional charge in the period	(1.5)	(5.7)	(7.2)
Unwind of discount	(5.6)	–	(5.6)
Released during the period	4.6	3.1	7.7
Retranslation of foreign currency balances	–	(0.1)	(0.1)
<b>At 1 April 2017</b>	(34.0)	(19.1)	(53.1)

	As at 1 Apr 2017 £m	As at 2 Apr 2016 £m
<b>Analysis of total provisions:</b>		
Non-current	(43.1)	(47.3)
Current	(10.0)	(6.3)
<b>Total</b>	(53.1)	(53.6)

## 23. Retirement benefit schemes

### Defined benefit schemes

The Group operates a number of defined benefit schemes under which current and former employees have built up an entitlement to pension benefits on their retirement. These are as follows:

#### (a) *The Premier schemes, which comprise:*

Premier Foods Pension Scheme ('PFPS')  
 Premier Grocery Products Pension Scheme ('PGPPS')  
 Premier Grocery Products Ireland Pension Scheme ('PGPIPS')  
 Chivers 1987 Pension Scheme  
 Chivers 1987 Supplementary Pension Scheme

#### (b) *The RHM schemes, which comprise:*

RHM Pension Scheme  
 Premier Foods Ireland Pension Scheme

The most recent triennial actuarial valuation of the PFPS, the PGPPS and RHM pension schemes were carried out on 31 March 2016 / 5 April 2016 to establish ongoing funding arrangements. Deficit recovery plans have been agreed with the Trustees of each of the PFPS and PGPPS. The RHM Pension Scheme was in surplus and no deficit contributions are payable. On 28 March 2017, and following the finalisation of the triennial actuarial valuation, the Group announced it had agreed a revised schedule of pension payments with the Trustees of the pension schemes.

Actuarial valuations for the schemes based in Ireland took place during the course of 2013 and 2014. They are all due further valuations in 2016 and 2017, the results of which will not be known until later in 2017.

The exchange rates used to translate the overseas euro based schemes are £1.00 = €1.1903 for the average rate during the period, and £1.00 = €1.1695 for the closing position at 1 April 2017.

All defined benefit plans are held separately from the Company under Trusts. Trustees are appointed to operate the schemes in accordance with their respective governing documents and pensions law. The schemes meet the legal requirement for member nominated trustees representation on the trustee boards and the UK schemes have appointed a professional independent Trustee as Chair of the boards. The members of the trustee boards undertake regular training and development to ensure that they are equipped appropriately to fulfil their function as trustees. In addition each trustee board has appointed professional advisers to give them the specialist expertise they need to support them in the areas of investment, funding, legal, covenant and administration.

The trustee boards of the UK schemes generally meet at least four times a year to conduct their business. To support these meetings the Trustees have delegated certain aspects of the schemes' operation to give specialist focus

(e.g. investment, administration and compliance) to committees for which further meetings are held as appropriate throughout the year. These committees regularly report to the full trustee boards.

The schemes invest through investment managers appointed by the trustees in a broad range of assets including UK and Global equities and Corporate and Government bonds. The plan assets do not include any of the Group's own financial instruments, nor any property occupied by, or other assets used by, the Group. The pension schemes hold a security over the assets of the Group which rank *pari passu* with the banks and bondholders in the event of insolvency, up to a cap.

The main risks to which the Group is exposed in relation to the funded pension schemes are as follows:

- Liquidity risk – the PFPS and PGPPS have significant technical funding deficits which could increase. The RHM Pension Scheme is currently in surplus, but subsequent valuations could reveal a deficit. As such this could have an adverse impact on the financial condition of the Group. The current funding plans in place following the 2016 actuarial valuations fixes the deficit contributions from 1 April 2017 until 31 December 2021. The Group continues to monitor the pension risks closely working with the trustees to ensure a collaborative approach.
- Mortality risk – the assumptions adopted make allowance for future improvements in life expectancy. However, if life expectancy improves at a faster rate than assumed, this would result in greater payments from the schemes and consequently increases in the schemes liabilities. The trustees review the mortality assumption on a regular basis to minimise the risk of using an inappropriate assumption.
- Yield risk – a fall in government bond yields will increase both the schemes assets and liabilities. However, the liabilities may grow by more in monetary terms, thus increasing the deficit in the scheme.
- Inflation risk – the majority of the schemes liabilities increase in line with inflation and so if inflation is greater than expected, the liabilities will increase.

The schemes can limit or hedge their exposure to the yield and inflation risks described above by investing in assets that move in the same direction as the liabilities in the event of a fall in yields, or a rise in inflation. The RHM pension scheme has largely hedged its inflation and interest rate exposure to the extent of its funding level. The PFPS and PGPPS have broadly hedged 50% of their respective liabilities and have put in place a plan to further increase hedging over time as its funding level improves.

The liabilities of the schemes are approximately 48% in respect of former active members who have yet to retire and approximately 52% in respect of pensioner members already in receipt of benefits. The mean duration of the liabilities is approximately 19 years.

## Notes to the financial statements continued

### Defined benefit schemes continued

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

	At 1 Apr 2017		At 2 Apr 2016	
	Premier schemes	RHM schemes	Premier schemes	RHM schemes
Discount rate	2.65%	2.65%	3.55%	3.55%
Inflation – RPI	3.30%	3.30%	3.00%	3.00%
Inflation – CPI	2.20%	2.20%	1.90%	1.90%
Expected salary increases	n/a	n/a	n/a	n/a
Future pension increases	2.15%	2.15%	2.00%	2.00%

For the smaller overseas schemes the discount rate used was 1.80% (2015/16: 1.85%) and future pension increases were 1.45% (2015/16: 1.50%).

At 2 April 2016 the discount rate was derived from a bond curve where all bonds had been rated AA by at least two credit agencies. At 1 April 2017 the discount rate was derived based on a bond curve expanded to also include bonds rated AA by one credit agency (and which might for example be rated A or AAA by other agencies). The impact of this change in methodology increased the discount rate by 0.05%.

The mortality assumptions are based on standard mortality tables and allow for future mortality improvements. The life expectancy assumptions are as follows:

	At 1 Apr 2017		At 2 Apr 2016	
	Premier schemes	RHM schemes	Premier schemes	RHM schemes
Male pensioner, currently aged 65	87.7	85.9	87.8	86.2
Female pensioner, currently aged 65	89.5	88.3	90.0	88.4
Male non-pensioner, currently aged 45	88.8	86.8	89.1	87.5
Female non-pensioner, currently aged 45	90.8	89.5	91.5	89.9

A sensitivity analysis on the principal assumptions used to measure the scheme liabilities at the period end is as follows:

	Change in assumption	Impact on scheme liabilities
Discount rate	Increase/decrease by 0.1%	Decrease/increase by £84.0m/£86.4m
Inflation	Increase/decrease by 0.1%	Increase/decrease by £38.6m/£43.7m
Assumed life expectancy at age 60 (rate of mortality)	Increase by 1 year	Increase by £204.8m

The sensitivity information has been derived using projected cash flows for the Schemes valued using the relevant assumptions and membership profile as at 1 April 2017. Extrapolation of these results beyond the sensitivity figures shown may not be appropriate.



The fair values of plan assets split by type of asset are as follows:

	Premier schemes £m	% of total %	RHM schemes £m	% of total %	Total £m	% of total %
<b>Assets with a quoted price in an active market at 1 April 2017:</b>						
UK equities	0.3	0.0	0.6	0.0	0.9	0.0
Global equities	7.1	1.1	519.0	12.4	526.1	10.8
Government bonds	22.4	3.3	496.7	11.9	519.1	10.7
Corporate bonds	23.0	3.4	–	–	23.0	0.5
Property	8.1	1.2	349.3	8.3	357.4	7.3
Absolute return products	399.7	59.3	884.5	21.1	1,284.2	26.4
Cash	13.4	2.0	55.7	1.3	69.1	1.4
Other	199.7	29.7	2.8	0.1	202.5	4.2
<b>Assets without a quoted price in an active market at 1 April 2017:</b>						
Infrastructure funds	–	–	242.6	5.8	242.6	5.0
Swaps	–	–	1,116.1	26.6	1,116.1	22.9
Private equity	–	–	321.7	7.7	321.7	6.6
Other	–	–	201.9	4.8	201.9	4.2
<b>Fair value of scheme assets as at 1 April 2017</b>	<b>673.7</b>	<b>100</b>	<b>4,190.9</b>	<b>100</b>	<b>4,864.6</b>	<b>100</b>
<b>Assets with a quoted price in an active market at 2 April 2016:</b>						
UK equities	1.4	0.2	0.5	0.0	1.9	0.1
Global equities	18.5	3.1	385.0	10.2	403.5	9.3
Government bonds	22.7	3.9	452.1	12.0	474.8	10.9
Corporate bonds	–	–	1.9	0.1	1.9	0.0
Property	8.2	1.4	284.1	7.6	292.3	6.7
Absolute return products	368.3	63.1	859.3	22.9	1,227.6	28.2
Cash	8.7	1.5	318.2	8.5	326.9	7.5
Other	156.1	26.7	2.5	0.1	158.6	3.7
<b>Assets without a quoted price in an active market at 2 April 2016:</b>						
Infrastructure funds	–	–	228.0	6.1	228.0	5.2
Swaps	–	–	862.5	22.8	862.5	20.0
Private equity	–	–	259.4	6.9	259.4	6.0
Other	0.3	0.1	105.2	2.8	105.5	2.4
<b>Fair value of scheme assets as at 2 April 2016</b>	<b>584.2</b>	<b>100</b>	<b>3,758.7</b>	<b>100</b>	<b>4,342.9</b>	<b>100</b>

The RHM scheme invests directly in interest rate and inflation swaps to protect from fluctuations in interest rates and inflation.

## Notes to the financial statements continued

### Defined benefit schemes continued

The amounts recognised in the balance sheet arising from the Group's obligations in respect of its defined benefit schemes are as follows:

	At 1 April 2017			At 2 April 2016		
	Premier schemes £m	RHM schemes £m	Total £m	Premier schemes £m	RHM schemes £m	Total £m
Present value of funded obligations	(1,162.8)	(3,597.0)	(4,759.8)	(1,004.2)	(3,207.8)	(4,212.0)
Fair value of plan assets	673.7	4,190.9	4,864.6	584.2	3,758.7	4,342.9
<b>(Deficit)/surplus in schemes</b>	<b>(489.1)</b>	<b>593.9</b>	<b>104.8</b>	<b>(420.0)</b>	<b>550.9</b>	<b>130.9</b>

The aggregate surplus of £130.9m has reduced to a surplus of £104.8m in the current period. This movement of £26.1m (2015/16: £342.7m increase) is primarily due to asset performance in the RHM schemes offset in part by the impact of a reduction in the discount rate on the defined benefit obligations.

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

	Premier schemes £m	RHM schemes £m	Total £m
<b>Defined benefit obligation at 5 April 2015</b>	(1,065.9)	(3,394.4)	(4,460.3)
Interest cost	(33.7)	(109.3)	(143.0)
Remeasurement gains	63.0	162.2	225.2
Exchange differences	(4.6)	(2.5)	(7.1)
Benefits paid	37.0	136.2	173.2
<b>Defined benefit obligation at 2 April 2016</b>	<b>(1,004.2)</b>	<b>(3,207.8)</b>	<b>(4,212.0)</b>
Interest cost	(34.2)	(110.6)	(144.8)
Current service cost	-	(0.1)	(0.1)
Remeasurement losses	(155.1)	(437.8)	(592.9)
Exchange differences	(3.8)	(2.0)	(5.8)
Benefits paid	34.5	161.3	195.8
<b>Defined benefit obligation at 1 April 2017</b>	<b>(1,162.8)</b>	<b>(3,597.0)</b>	<b>(4,759.8)</b>

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

	Premier schemes £m	RHM schemes £m	Total £m
<b>Fair value of plan assets at 5 April 2015</b>	612.5	3,636.0	4,248.5
Interest income on plan assets	18.7	117.4	136.1
Remeasurement (losses)/gains	(19.4)	139.0	119.6
Administrative costs	(2.6)	(5.0)	(7.6)
Contributions by employer	7.6	5.3	12.9
Exchange differences	4.4	2.2	6.6
Benefits paid	(37.0)	(136.2)	(173.2)
<b>Fair value of plan assets at 2 April 2016</b>	584.2	3,758.7	4,342.9
Interest income on plan assets	20.2	130.2	150.4
Remeasurement gains	54.0	462.3	516.3
Administrative costs	(3.0)	(3.3)	(6.3)
Contributions by employer	49.2	2.5	51.7
Exchange differences	3.6	1.8	5.4
Benefits paid	(34.5)	(161.3)	(195.8)
<b>Fair value of plan assets at 1 April 2017</b>	673.7	4,190.9	4,864.6

The reconciliation of the net defined benefit (deficit)/surplus over the period is as follows:

	Premier schemes £m	RHM schemes £m	Total £m
<b>(Deficit)/surplus in schemes at 5 April 2015</b>	(453.4)	241.6	(211.8)
Amount recognised in profit or loss	(17.6)	3.1	(14.5)
Remeasurements recognised in other comprehensive income	43.6	301.2	344.8
Contributions by employer	7.6	5.3	12.9
Exchange rate losses	(0.2)	(0.3)	(0.5)
<b>(Deficit)/surplus in schemes at 2 April 2016</b>	(420.0)	550.9	130.9
Amount recognised in profit or loss	(17.0)	16.2	(0.8)
Remeasurements recognised in other comprehensive income	(101.1)	24.5	(76.6)
Contributions by employer	49.2	2.5	51.7
Exchange rate losses	(0.2)	(0.2)	(0.4)
<b>(Deficit)/surplus in schemes at 1 April 2017</b>	(489.1)	593.9	104.8

## Notes to the financial statements continued

### Defined benefit schemes continued

Remeasurements recognised in the consolidated statement of comprehensive income are as follows:

	2016/17			2015/16		
	Premier schemes £m	RHM schemes £m	Total £m	Premier schemes £m	RHM schemes £m	Total £m
Remeasurement (loss)/gain on plan liabilities	(155.1)	(437.8)	(592.9)	63.0	162.2	225.2
Remeasurement gain/(loss) on plan assets	54.0	462.3	516.3	(19.4)	139.0	119.6
Net remeasurement (loss)/gain for the period	(101.1)	24.5	(76.6)	43.6	301.2	344.8

The actual return on plan assets was a £666.7m gain (2015/16: £255.7m gain), which is £516.3m more (2015/16: £119.6m more) than the interest income on plan assets of £150.4m (2015/16: £136.1m) at the start of the relevant periods.

The remeasurement loss on liabilities of £592.9m (2015/16: £225.2m gain) comprises a gain due to member experience of £112.6m (2015/16: £15.5m gain), a gain due to demographic assumptions of £41.8m (2015/16: £49.8m gain) and a loss due to changes in financial assumptions of £747.3m (2015/16: £159.9m gain).

The net remeasurement loss taken to the consolidated statement of comprehensive income was £76.6m (2015/16: £344.8 gain). This loss was £61.7m (2015/16: £278.9m gain) net of taxation (with tax at 17% for UK schemes, and 12.5% for Irish schemes).

The Group expects to contribute between £4m and £8m annually to its defined benefit plans in relation to expenses and government levies and £35-38m of additional annual contributions to fund the scheme deficits up to 2022/23.

The Group has an unconditional right to a refund of any surplus in the RHM Pension Scheme once the liabilities have been discharged and so the asset has not been restricted and no additional liability has been recognised.

The Accounting Standards Board under IFRIC 14, are currently reviewing the recognition of a pensions surplus in the financial statements of an entity. Dependent upon the final published standard, there is potential that any future defined benefit surplus may not be recognised in the financial statements of the Group and additionally, the deficit valuation methodology may also change.

The total amounts recognised in the consolidated statement of profit or loss are as follows:

	2016/17			2015/16		
	Premier schemes £m	RHM schemes £m	Total £m	Premier schemes £m	RHM schemes £m	Total £m
<b>Operating profit</b>						
Current service costs	–	(0.1)	(0.1)	–	–	–
Administrative costs	(3.0)	(3.3)	(6.3)	(2.6)	(5.0)	(7.6)
Net interest (cost)/credit	(14.0)	19.6	5.6	(15.0)	8.1	(6.9)
<b>Total</b>	<b>(17.0)</b>	<b>16.2</b>	<b>(0.8)</b>	<b>(17.6)</b>	<b>3.1</b>	<b>(14.5)</b>

### Defined contribution schemes

A number of companies in the Group operate defined contribution schemes, including provisions to comply with Auto enrolment requirements laid down by law. In addition a number of schemes providing life assurance benefits only are operated. The total expense recognised in the statement of profit or loss of £6.1m (2015/16: £5.4m) represents contributions payable to the plans by the Group at rates specified in the rules of the plans.

## 24. Other liabilities

	As at 1 Apr 2017 £m	As at 2 Apr 2016 £m
Deferred income	(10.9)	(11.7)
Other accruals	(0.2)	(0.3)
<b>Other liabilities</b>	<b>(11.1)</b>	<b>(12.0)</b>

Deferred income relates to amounts received in relation to a previously disposed business.

## 25. Reserves and share capital

### Share premium

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 applies, less subsequent realised losses relating to those acquisitions.

### Other reserves

Other reserves comprise the hedging reserve, which represents the effective portion of the gains or losses on derivative financial instruments that have historically been designated as hedges.

### Profit and loss reserve

The profit and loss reserve represents the cumulative profit or loss and the own shares reserve which represents the cost of shares in Premier Foods plc, purchased in the market and held by the Employee Benefit Trust on behalf of the Company in order to satisfy options and awards under the Company's incentive schemes. 250,420 shares in Premier Foods plc were held by the Employee Benefit Trust at 1 April 2017, with a market value of £110,185 (2015/16: 34,336 shares with a market value of £19,486).

### Share capital

	Number of shares	Ordinary shares @ nominal value (£0.10/share) £m	Share premium £m	Total £m
At 5 April 2015	825,741,256	82.6	1,406.4	1,489.0
Shares issued under share schemes	825,807	0.1	0.2	0.3
<b>At 2 April 2016</b>	<b>826,567,063</b>	<b>82.7</b>	<b>1,406.6</b>	<b>1,489.3</b>
Shares issued under share schemes	5,903,615	0.6	0.1	0.7
<b>At 1 April 2017</b>	<b>832,470,678</b>	<b>83.3</b>	<b>1,406.7</b>	<b>1,490.0</b>

# Notes to the financial statements continued

## Share award schemes

The Company's share award schemes are summarised as follows:

1. A CEO Co-Investment Award ('CEO Co-Investment Award'). The scheme was structured as a share matching plan and was specifically created to facilitate the recruitment of Gavin Darby as CEO in 2013. The award was equity-settled and the outstanding tranche of the award vested on 1 May 2016. No further awards will be made under this plan.
2. A Long-Term Incentive Plan ('LTIP') for executive directors and senior managers, approved by shareholders in 2011. The LTIP is comprised of performance shares whereby participants have the right to subscribe for ordinary shares at nil cost. These awards are equity-settled and have a maximum term of three years. The vesting of the 2014, 2015 and 2016 Performance Share awards are conditional on achievement of a combination of absolute adjusted earnings per share targets and average share price targets.
3. A Restricted Stock Plan ('RSP') which provides specific ad hoc share awards to managers. Awards are normally subject only to continued employment and may be equity-settled or cash-settled and normally have a retention term of two to three years for senior management. In addition an element of the 2015/16 and 2016/17 annual bonus was satisfied in the form of shares awarded under the RSP.
4. A Share Incentive Plan ('SIP') for all employees. An award of free shares was made to all employees in 2014 by the Company under this HMRC tax-advantaged plan. Free shares are held by a trustee for a minimum of three years. Subject to continuing employment, participants may elect to remove shares from the trust after this three year holding period, however, there are tax and National Insurance advantages for the employee should the shares be left in the trust for over five years. No further awards under this plan are currently anticipated.
5. A Deferred Share Bonus Plan ('DSBP'). Currently only the CEO participates in the DSBP which operates alongside the Annual Bonus plan. Awards are based on the achievement of a range of targets which are set at the start of each financial period. If the objective is met, the bonus earned will be converted into shares following the announcement of the results for the financial period and deferred for a period of up to two years. These shares are subject to forfeiture over the period of deferral.

## Share option schemes

The Company's share option schemes are summarised as follows:

1. A Savings Related Share Option Scheme ('Sharesave Plan') for all employees. The employees involved in this HMRC tax advantaged save as you earn scheme have the right to subscribe for up to 10.1 million ordinary shares. The number of shares subject to options, the periods in which they were granted and the periods in which they may be exercised are given below. These options are equity-settled, have a maximum term of 3.5 years and generally vest only if employees remain in employment to the vesting date.

Further details of the share award and share options schemes can be found in the Directors' Remuneration report.

## Details of share award and option schemes

Details of the share awards of the Premier Foods plc CEO Co-Investment Award are as follows:

Premier Foods plc CEO Co-Investment Award	2016/17 Awards	2015/16 Awards
Outstanding at the beginning of the period	751,814	1,503,628
Exercised during the period	(751,814)	(751,814)
<b>Outstanding at the end of the period</b>	–	751,814
<b>Exercisable at the end of the period</b>	–	–

The awards outstanding at 1 April 2017 had a weighted average remaining contractual life of nil years (2015/16: 0.1 years). The weighted average fair value of awards granted during the period was nil pence per award.

Details of the share awards of the Premier Foods plc LTIP (Performance share award) are as follows:

<b>Premier Foods plc LTIP (Performance share award)</b>	<b>2016/17 Awards</b>	<b>2015/16 Awards</b>
Outstanding at the beginning of the period	21,314,764	10,972,494
Granted during the period	8,963,895	12,913,256
Forfeited during the period	(2,490,712)	(2,570,986)
<b>Outstanding at the end of the period</b>	<b>27,787,947</b>	<b>21,314,764</b>
<b>Exercisable at the end of the period</b>	<b>–</b>	<b>2,255,442</b>

The awards outstanding at 1 April 2017 had a weighted average remaining contractual life of 1.1 years (2015/16: 1.5 years). The weighted average fair value of awards granted during the period was nil pence per award.

Details of the share awards of the Premier Foods plc Restricted Stock Plan are as follows:

<b>Premier Foods plc Restricted Stock Plan</b>	<b>2016/17 Awards</b>	<b>2015/16 Awards</b>
Outstanding at the beginning of the period	13,145,634	10,865,450
Granted during the period	308,430	5,054,120
Exercised during the period	(7,314,128)	(1,848,747)
Forfeited during the period	(826,259)	(925,189)
<b>Outstanding at the end of the period</b>	<b>5,313,677</b>	<b>13,145,634</b>
<b>Exercisable at the end of the period</b>	<b>938,156</b>	<b>612,592</b>

The awards outstanding at 1 April 2017 had a weighted average remaining contractual life of 0.3 years (2015/16: 0.7 years). The weighted average fair value of awards granted during the period was nil pence per award.

Details of the share options of the Premier Foods plc Deferred Share Bonus Plan are as follows:

<b>Premier Foods plc Deferred Share Bonus Plan</b>	<b>2016/17 Awards</b>	<b>2015/16 Awards</b>
Outstanding at the beginning of the period	–	–
Granted during the period	157,560	–
<b>Outstanding at the end of the period</b>	<b>157,560</b>	<b>–</b>
<b>Exercisable at the end of the period</b>	<b>–</b>	<b>–</b>

The awards outstanding at 1 April 2017 had a weighted average remaining contractual life of 1.2 years (2015/16: nil years). The weighted average fair value of awards granted during the period was nil pence per award.

## Notes to the financial statements continued

### Share option schemes continued

Details of the share options of the Premier Foods plc Share Incentive Plan are as follows:

Premier Foods plc Share Incentive Plan	2016/17 Awards	2015/16 Awards
Outstanding at the beginning of the period	1,613,000	1,907,000
Exercised during the period	(45,250)	(68,000)
Transferred out during the period	(52,750)	–
Forfeited during the period	(52,000)	(226,000)
<b>Outstanding at the end of the period</b>	<b>1,463,000</b>	<b>1,613,000</b>
<b>Exercisable at the end of the period</b>	<b>–</b>	<b>–</b>

The awards outstanding at 1 April 2017 had a weighted average remaining contractual life of 1.0 years (2015/16: 2.0 years). The weighted average fair value of awards granted during the period was nil pence per award.

Details of the share options of the Premier Foods plc Sharesave Plan are as follows:

Premier Foods plc Sharesave Plan	2016/17		2015/16	
	Awards	Weighted average exercise price (p)	Awards	Weighted average exercise price (p)
Outstanding at the beginning of the period	16,999,242	36	10,146,073	43
Exercised during the period	(253,615)	33	(825,807)	32
Granted during the period	6,046,060	35	10,403,820	32
Forfeited/lapsed during the period	(2,560,353)	36	(2,724,844)	47
<b>Outstanding at the end of the period</b>	<b>20,231,334</b>	<b>35</b>	<b>16,999,242</b>	<b>36</b>
<b>Exercisable at the end of the period</b>	<b>1,074,318</b>	<b>72</b>	<b>494,594</b>	<b>34</b>

During the period 6.0 million (2015/16: 10.4 million) options were granted under the Sharesave Plan, with a weighted average exercise price at the date of exercise of 35 pence per ordinary share (2015/16: 36 pence).

The options outstanding at 1 April 2017 had a weighted average exercise price of 72 pence (2015/16: 34 pence), and a weighted average remaining contractual life of 1.1 years (2015/16: 2.2 years).

In 2016/17, the Group recognised an expense of £4.5m (2015/16: £4.1m), related to all equity-settled share-based payment transactions.

A summary of the range of exercise price and weighted average remaining contractual life is shown below:

Weighted average remaining life and exercise prices	As at 1 Apr 2017			As at 2 Apr 2016		
	Number outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price (p)	Number outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price (p)
At 10 pence	34,722,184	1.0	10	36,825,212	1.2	10
£0.10 to £9.90	20,231,334	1.1	35	16,999,242	2.2	36
£10.00 to £20.00	–	–	–	–	–	–
<b>Total</b>	<b>54,953,518</b>	<b>1.0</b>	<b>19</b>	<b>53,824,454</b>	<b>1.5</b>	<b>18</b>



### Valuation method

The Group uses the Black-Scholes model to determine the fair value of share options at grant dates. Fair values determined from the model use assumptions that are revised for each share-based payment arrangement.

The expected Premier Foods plc share price volatility was determined using an average for food producers as at the date of grant. The risk-free rate has been determined from market yield curves for government gilts with outstanding terms equal to the average expected term to exercise for each relevant grant.

## 26. Notes to the cash flow statement

	Period ended 1 Apr 2017 £m	Period ended 2 Apr 2016 £m
<b>Reconciliation of profit/(loss) before tax to cash flows from operating activities</b>		
<b>Continuing operations</b>		
Profit/(loss) before taxation	12.0	(13.0)
Net finance cost	49.5	44.9
Share of loss from associates	–	22.6
<b>Operating profit</b>	61.5	54.5
Depreciation of property, plant and equipment	16.2	16.1
Amortisation of intangible assets	37.9	37.6
Loss on disposal of non-current assets	0.8	1.8
Impairment of investments in associates	–	13.6
Fair value movements on foreign exchange and other derivative contracts	1.0	(2.6)
Equity settled employee incentive schemes	4.5	4.1
(Increase)/decrease in inventories	(8.1)	12.7
Decrease in trade and other receivables	35.4	26.2
Decrease in trade and other payables and provisions	(22.0)	(24.8)
Movement in retirement benefit obligations	(50.4)	1.6
<b>Cash generated from continuing operations</b>	76.8	140.8
Discontinued operations	–	(3.7)
<b>Cash generated from operating activities</b>	76.8	137.1
	Period ended 1 Apr 2017 £m	Period ended 2 Apr 2016 £m
<b>Reconciliation of cash and cash equivalents to net borrowings</b>		
Net outflow of cash and cash equivalents	(25.9)	(13.9)
Decrease/(increase) in finance leases	0.1	(0.2)
Decrease in borrowings	40.9	69.8
Other non-cash movements	(4.1)	(5.0)
<b>Decrease in borrowings net of cash</b>	11.0	50.7
Total net borrowings at beginning of period	(534.2)	(584.9)
<b>Total net borrowings at end of period</b>	(523.2)	(534.2)

## Notes to the financial statements continued

### 26. Notes to the cash flow statement continued

	As at 2 Apr 2016 £m	Cash flows £m	Other non-cash movements £m	As at 1 Apr 2017 £m
<b>Analysis of movement in borrowings</b>				
Bank overdrafts	(0.2)	(21.0)	–	(21.2)
Cash and bank deposits	8.0	(4.9)	–	3.1
<b>Net cash and cash equivalents</b>	7.8	(25.9)	–	(18.1)
Borrowings - term facilities	(1.5)	1.5	–	–
Borrowings - revolving credit facilities	(55.0)	33.0	–	(22.0)
Borrowings - senior secured notes	(500.0)	–	–	(500.0)
Finance lease obligations	(0.2)	0.1	–	(0.1)
Securitisation facility	(6.4)	6.4	–	–
<b>Gross borrowings net of cash<sup>1</sup></b>	(555.3)	15.1	–	(540.2)
Debt issuance costs	21.1	–	(4.1)	17.0
<b>Total net borrowings<sup>1</sup></b>	(534.2)	15.1	(4.1)	(523.2)

1. Borrowings exclude derivative financial instruments.

The Group has the following cash pooling arrangements in sterling, euros and US dollars, where both the Group and the bank have a legal right of offset.

	As at 1 Apr 2017			As at 2 Apr 2016		
	Offset asset	Offset liability	Net offset liability	Offset asset	Offset liability	Net offset asset
<b>Cash, cash equivalents and bank overdrafts</b>	126.3	(144.4)	(18.1)	134.7	(126.9)	7.8

## 27. Operating lease commitments

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

Leases primarily relate to the Group's properties, which principally comprise offices and factories. Lease payments are typically subject to market review every five years to reflect market rentals, but because of the uncertainty over the amount of any future changes, such changes have not been reflected in the table below. Within our leasing arrangements there are no significant contingent rental, renewal, purchase or escalation clauses.

The future aggregate minimum lease payments under non-cancellable operating leases for continuing operations are as follows:

	As at 1 Apr 2017		As at 2 Apr 2016	
	Property £m	Plant and Equipment £m	Property £m	Plant and Equipment £m
Within one year	3.3	2.4	2.7	2.5
Between 2 and 5 years	6.8	2.7	5.5	4.0
After 5 years	10.2	–	4.8	–
<b>Total</b>	<b>20.3</b>	<b>5.1</b>	<b>13.0</b>	<b>6.5</b>

The Group has made provision for the aggregate minimum lease payments under non-cancellable operating leases for discontinued operations, as described in note 22.

The Group sub-lets various properties under non-cancellable lease arrangements. Sub-lease receipts of £0.6m (2015/16: £0.7m) were recognised in the statement of profit or loss during the period. The total future minimum sub-lease payments at the period end is £0.3m (2015/16: £0.8m).

## 28. Capital commitments

The Group has capital expenditure on property, plant and equipment contracted for at the end of the reporting period but not yet incurred at 1 April 2017 of £1.8m (2015/16: £1.3m).

## 29. Contingencies

There were no material contingent liabilities at 1 April 2017 (2015/16: none). Other contingencies and guarantees in respect of the Parent Company are described in note 9 of the Parent Company financial statements.

## Notes to the financial statements continued

### 30. Related party transactions

The following transactions were carried out with related parties:

#### (a) Key management compensation

Key management personnel of the Group are considered to be the executive and non-executive directors and the Executive Leadership Team. 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 section of the Directors Remuneration Report on pages 35 to 52.

	Period ended 1 Apr 2017 £m	Period ended 2 Apr 2016 £m
Short-term employee benefits	5.1	5.6
Post employment benefits	0.4	0.1
Share-based payments	0.9	1.5
<b>Total</b>	<b>6.4</b>	<b>7.2</b>

#### (b) Transactions with associates

The Group's associates are considered to be related parties. Transactions relating to Knighton are those up to the date of consolidation. Transactions with associates are set out below:

	Period ended 1 Apr 2017 £m	Period ended 2 Apr 2016 £m
Sale of goods:		
– Hovis	0.4	0.4
Sale of services:		
– Hovis	0.7	0.8
<b>Total sales</b>	<b>1.1</b>	<b>1.2</b>
Purchase of goods:		
– Hovis	12.6	12.5
– Knighton	–	18.2
<b>Total purchases</b>	<b>12.6</b>	<b>30.7</b>

As at 1 April 2017 the Group had outstanding balances with Hovis. Total trade receivables was £0.7m (2015/16: £0.5m) and total trade payables was £2.7m (2015/16: £1.8m).

#### (c) Other related parties

As at 1 April 2017 the following are considered to be related parties under the Listing Rules due to their shareholdings exceeding 10% of the Group's total issued share capital:

- Nissin Foods Holdings Co., Ltd. ('Nissin') is considered to be a related party to the Group by virtue of its 19.76% (2015/16: 19.9%) equity shareholding in Premier Foods plc and of its power to appoint a member to the Board of directors. There have been recharges of £0.2m (2015/16: £nil) to Nissin in the period.

### 31. Subsequent events

The following subsequent events occurred after the balance sheet date:

#### ***Mondelez partnership***

On 8 May 2017 the Group announced that it had signed non-binding 'Heads of Terms' to be a Strategic Global Partnership with Mondelez International for Cadbury cake. Once finalised, this agreement will extend the Group's long standing partnership for another five years with the option to the Group of extending this for an additional three years.

#### ***Capital refinancing***

On 16 May 2017 the Group announced that it had amended and extended the term of its revolving credit facility with its lending syndicate from March 2019 to December 2020. The £272m facility, which was £22m drawn at 1 April 2017, is expected to reduce by £55m to £217m, subject to the issue of new £210m Senior Secured floating rate notes outlined below. The interest margin under the revolving credit facility is unchanged. The covenant package attached to the revolving credit facility is:

	Net debt / EBITDA <sup>1</sup>	EBITDA / Interest <sup>1</sup>
2017/18 H1	5.35x	2.65x
2017/18 FY	5.10x	2.70x
2018/19 H1	5.35x	2.70x
2018/19 FY	4.80x	2.70x
2019/20 H1	5.15x	2.70x
2019/20 FY	4.50x	2.75x
2020/21 H1	4.75x	2.85x

1. Net debt, EBITDA and Interest are as defined under the revolving credit facility.

The Group also announced the proposed issue of a new five year £210m Senior Secured floating rate note due 2022, to replace its £175m Senior Secured floating rate, due to mature March 2020, and to make a prepayment under the revolving credit facility. Pricing of the new £210m Senior Secured floating rate notes is to be confirmed following completion of the transaction and the notes are expected to be callable at 101% after one year.

# Company financial statements

The following statements reflect the financial position of the Company, Premier Foods plc as at 1 April 2017 and 2 April 2016. These financial statements were prepared in accordance with Financial Reporting Standard 101 *Reduced Disclosure Framework* (FRS 101) and the UK Companies Act 2006. The directors have taken advantage of the exemption available under section 408 of the Companies Act 2006 and not presented a Company profit and loss account.

Balance sheet	Note	As at 1 Apr 2017 £m	As at 2 Apr 2016 £m
<b>Non-current assets</b>			
Investments in Group undertakings	3	10.7	6.5
<b>Current assets</b>			
Receivables	4	1,279.2	1,261.4
Deferred tax assets	6	2.1	2.0
Cash at bank and in hand		0.8	0.7
<b>Total assets</b>		<b>1,292.8</b>	<b>1,270.6</b>
Payables: amounts falling due within one year	5	(316.0)	(314.3)
<b>Net current assets</b>		<b>966.1</b>	<b>949.8</b>
<b>Total assets less current liabilities</b>		<b>976.8</b>	<b>956.3</b>
<b>Equity</b>			
Called up share capital	7	83.3	82.7
Share premium account		1,406.7	1,406.6
Profit and loss account		(513.2)	(533.0)
<b>Total shareholders' funds</b>		<b>976.8</b>	<b>956.3</b>

The notes on pages 110 to 112 form an integral part of the financial statements.

The financial statements on pages 108 to 109 were approved by the Board of directors on 16 May 2017 and signed on its behalf by:

**Gavin Darby**  
Chief Executive Officer

**Alastair Murray**  
Chief Financial Officer

## Statement of changes in equity

	Called up share capital £m	Share premium account £m	Profit and loss account £m	Total £m
<b>At 5 April 2015</b>	82.6	1,406.4	(552.1)	936.9
Profit for the period	–	–	15.0	15.0
Share-based payments	–	–	4.1	4.1
Shares issued	0.1	0.2	–	0.3
<b>At 2 April 2016</b>	82.7	1,406.6	(533.0)	956.3
Profit for the period	–	–	15.7	15.7
Share-based payments	–	–	4.1	4.1
Shares issued	0.6	0.1	–	0.7
<b>At 1 April 2017</b>	83.3	1,406.7	(513.2)	976.8

# Notes to the Company financial statements

## 1. Accounting policies

### Basis of preparation

These financial statements were prepared in accordance with Financial Reporting Standard 101 *Reduced Disclosure Framework* ('FRS 101').

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ('Adopted IFRSs'), but makes amendments where necessary in order to comply with Companies Act 2006 and where advantage of certain disclosure exemptions available under FRS 101 have been taken, as the Group financial statements contains equivalent disclosures. Disclosure exemptions are as follows:

- Cash flow statements and related notes;
- Presentation of comparative period reconciliations;
- Share based payments;
- Financial instruments and capital management;
- Standards not yet effective; and
- Disclosures in respect of compensation of key management personnel.

The profit for the period of £15.7m (2015/16: £15.0m profit) is recorded in the accounts of Premier Foods plc.

The Company has ensured that its assets and liabilities are measured in compliance with FRS 101. The financial statements have been prepared under the historical cost convention.

The preparation of the financial statements requires the directors to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent liabilities at the date of the financial statements. The key estimates and assumptions are set out in the accounting policies below, together with the related notes to the accounts.

The directors consider that the accounting policies set out below are the most appropriate and have been consistently applied.

The Company is exempt as permitted under Financial Reporting Standard 101 from disclosing related party transactions with entities that are wholly owned subsidiaries of the Premier Foods plc Group.

### Investments

Investments are stated at cost less any provision for impairment in their value.

### Taxation

Tax on the profit or loss for the period comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the period, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous periods.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

### Cash and cash equivalents

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 Company operates a number of equity-settled and cash-settled share-based compensation plans. The fair value of employee share option plans is calculated using an option valuation model, taking into account the terms and conditions upon which the awards were granted. In accordance with International Financial Reporting Standard 2, *Share-Based Payment* ('IFRS 2'), the resulting expense 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 expense is recharged. The value of the charge is adjusted to reflect expected and actual levels of options vesting.

The total amount to be expensed over the vesting period is determined by reference to the fair value of the share awards/options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of share awards/options that are expected to vest. At each balance sheet date, the Company revises its estimates of the number of share awards/options that are expected to vest and recognises the impact of the revision to original estimates, if any, in profit and loss, with a corresponding adjustment to equity.

### Dividends

Dividend distributions to the Company shareholders are 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.



### Operating lease agreements

Leases in which a significant portion of risks and rewards of ownership are retained by the lessor are classified as operating leases. Rental costs under operating leases, net of any incentives received from the lessor, are charged to the profit and loss account on a straight-line basis over the lease period.

### Financial guarantees

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its group, the Company considers these to be insurance arrangements and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

## 2. Operating profit

Audit fees in respect of the Company are £nil (2015/16: £nil). Note 5.2 of the Group consolidated financial statements provides details of the remuneration of the Company's auditors on a Group basis.

At 1 April 2017, the Company had two employees (2015/16: two). Directors' emolument disclosures are provided in the Single Figure Table on page 42 of this annual report.

## 3. Investments in Group undertakings

	2016/17 £m	2015/16 £m
<b>Cost</b>		
At 3 April 2016 / 5 April 2015	1,765.8	1,762.4
Additions	4.2	3.4
<b>At 1 April 2017 / 2 April 2016</b>	<b>1,770.0</b>	<b>1,765.8</b>
<b>Accumulated impairment</b>		
At 3 April 2016 / 5 April 2015	(1,759.3)	(1,759.3)
<b>At 1 April 2017 / 2 April 2016</b>	<b>(1,759.3)</b>	<b>(1,759.3)</b>
<b>NBV at 1 April 2017 / 2 April 2016</b>	<b>10.7</b>	<b>6.5</b>

In 2016/17 a capital contribution of £4.2m (2015/16: £3.4m) was given in the form of share incentive awards to employees of subsidiary companies which were reflected as an increase in investments. Refer to note 15 in the Group financial statements for a full list of the undertakings.

## 4. Receivables

	As at 1 Apr 2017 £m	As at 2 Apr 2016 £m
Amounts owed by Group undertakings	1,279.2	1,261.4

Amounts owed by Group undertakings are unsecured, have no fixed date of repayment, are repayable on demand and are not subject to interest rate risk as they are interest free, with the exception of £379.1m (2015/16: £361.9m) which attracted interest at a rate of LIBOR plus 4.0% (2015/16: LIBOR plus 4.0%). Carrying value approximates fair value.

## 5. Payables: amounts falling due within one year

	As at 1 Apr 2017 £m	As at 2 Apr 2016 £m
Amounts owed to Group undertakings	(296.0)	(294.3)
Group relief payable	(20.0)	(20.0)
<b>Total payables falling due within one year</b>	<b>(316.0)</b>	<b>(314.3)</b>

Amounts owed to Group undertakings are unsecured, have no fixed date of repayment, are repayable on demand and are not subject to interest rate risk as they are interest free, with the exception of £29.6m (2015/16: £28.3m) which attracted interest at a rate of LIBOR plus 4% (2015/16: LIBOR plus 4.0%). Carrying value approximates fair value.

## 6. Deferred Tax

	2016/17 £m	2015/16 £m
At 3 April 2016 / 5 April 2015	2.0	1.8
Credited to the statement of profit and loss	0.1	0.2
<b>At 1 April 2017 / 2 April 2016</b>	<b>2.1</b>	<b>2.0</b>

The deferred tax asset relates to share-based payments.

## Notes to the Company financial statements continued

### 7. Called up share capital and other reserves

#### a) Called up share capital

	As at 1 Apr 2017 £m	As at 2 Apr 2016 £m
<b>Issued and fully paid</b>		
832,470,678 (2015/16: 826,567,063) ordinary shares of 10 pence each	83.3	82.7

#### b) Share-based payments

The costs reflect the Company's share option schemes in operation. Further details are available in note 25 of the Group's consolidated financial statements.

The charge relating to employees of the Company amounted to £0.3m (2015/16: £0.7m). Further details of these schemes can be found in the Directors Remuneration report on page 47 to 48.

### 8. Operating lease commitments

The Company has total future minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	As at 1 Apr 2017 £m	As at 2 Apr 2016 £m
Within one year	–	0.7
Between 2 and 5 years	–	1.0
After 5 years	–	–
<b>Total operating lease commitments</b>	–	1.7

The lease expense has been borne by a subsidiary company.

### 9. 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 1 April 2017 is £0.8bn (2015/16: £0.8bn).

### 10. Subsequent events

There were no subsequent events.

## Manage your shares

The Company's Register of Members is maintained by our registrar, Equiniti. Shareholders with queries relating to their shareholding should contact Equiniti directly using the details given below:

Equiniti, Aspect House, Spencer Road, Lancing, BN99 6DA.

Telephone – 0371 384 2030 (or +44 121 415 7047 if calling from outside the UK).

Calls to this number are charged at a national rate.

Lines are open 8.30 am to 5.30 pm Monday to Friday, excluding UK public holidays.

**Or visit Equiniti's Shareview website:**

**[www.shareview.co.uk](http://www.shareview.co.uk)**

## Trademarks

The Company's trademarks are shown in italics throughout this annual report. The Company has an exclusive worldwide licence to use the *Loyd Grossman* name on certain products and an exclusive worldwide licence to use the *Paul Hollywood* name on certain products. The Company has an exclusive licence to use the *Cadbury* trademark in the UK (and other specified territories) on a variety of ambient cake products. *Cadbury* is a trademark of Mondelez International, Inc.

## 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 should be construed as a profit forecast.



**Premier Foods plc**

**Premier House  
Centrium Business Park  
Griffiths Way  
St Albans  
Hertfordshire  
AL1 2RE**

**T: 01727 815850**

**Registered in England and Wales No. 5160050**

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

