

# Premier Foods plc

Annual Report 2004

Every year, over 95% of all UK households purchase at least one of our brands.

The popularity of our range means that we have an annual Group turnover of over £800m.



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Highlights:

**+8.8%**  
turnover\*

**+27.4%**  
operating profit before  
exceptional items\*

**+9.1%**  
operating profit after operating  
exceptional items\*

**9p**  
dividend per share

\*continuing operations

## Introduction

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Premier Foods is a leading UK manufacturer and marketer of ambient grocery products for the retail and grocery foodservice markets.

We operate a broad portfolio of market-leading branded products and supply retailer brand products in the following segments:

- ▶ Convenience Foods, Pickles and Sauces
  - ▶ Tea and Beverages
  - ▶ Spreads and Desserts
  - ▶ Potatoes
-

## Chairman's statement

### Introduction

I am very pleased to introduce the first set of full year results for Premier Foods since it became a public company on 23 July 2004.

This has been a significant year for the Group with important developments and excellent progress towards our objective of becoming the leading supplier of ambient food products to UK markets. In terms of our business structure, we have:

- Integrated the *Ambrosia* desserts business, acquired in December 2003;
- Sold Materne, the French jams and compote operation, as part of the Initial Public Offering ("IPO");
- Undertaken the IPO in July 2004, which enabled a restructuring of the Company's debt to be made, but also incurred significant one-off costs;
- Acquired from Kraft on 13 February 2005, the *Bird's* desserts business.

At the same time, operationally the business has performed well in spite of a fire at the Bury St Edmunds factory at an important time of the year. This impacted sales; nevertheless sales of the continuing business grew 2%, excluding acquisitions, and 8.8% in total.

The strategy of acquiring and focusing on brands, and improving efficiencies was successful and led to margin growth and an increase in operating profits (for continuing operations prior to exceptional items and amortisation) of 27% to £97.3m. However exceptional and one-off costs totalling £34m were charged to profits resulting primarily from the IPO.

As we stated at the time of the IPO, the directors intend to adopt a competitive and progressive dividend policy reflecting the long-term earnings and cash flow potential of the Group, whilst maintaining an appropriate level of dividend cover. The directors are recommending payment of a final dividend in respect of the year ended 31 December 2004 of 9p per share, payable in May 2005.

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Premier Foods has adapted quickly to life as a public company with the strengthening of corporate governance, the building of shareholder relationships and the development of an effective Board. It is fortunate to have non-executive directors with enormous experience of the food industry complementing the skills of the management team, which I know will serve the Company well in the coming years.

The Company is confident it has the right strategy and the right management to make 2005 a year of further progress as the benefits of actions taken in 2004 continue to come through.

David J Kappler Chairman

## Chief Executive's review

“The business is on track and on strategy”

### Group results – continuing operations

£m	2004	2003	
Sales	<b>842.2</b>	773.8	+8.8%
Operating profit before amortisation and exceptional items	<b>107.4</b>	85.6	+25.5%
Amortisation	<b>(10.1)</b>	(9.2)	
Operating profit before exceptional items	<b>97.3</b>	76.4	+27.4%
Operating exceptional items	<b>(25.4)</b>	(10.5)	
Operating profit	<b>71.9</b>	65.9	+9.1%

This is a strong set of results for 2004, in line with our expectations at the time of the IPO in July last year, despite the serious fire at our Bury St Edmunds factory in October and the challenging market conditions which led to slower sales over the Christmas period. In summary, the business is on track and on strategy.

We have achieved this by continuing to implement a well-defined strategy based on the use of our scale to drive organic branded growth, to develop customer relationships and to deliver cost savings, whilst managing our retailer brands proactively and seeking further branded acquisitions.

The performance during the year has demonstrated the strength of the Company's strategy:

- Branded sales increased from 50% to 55% of grocery sales;
- Drive brands have shown strong growth;
- The Masterbrand strategy is progressing well with *Hartley's* and *Crosse & Blackwell* benefiting from significantly greater scale;
- Product innovation and brand extension are enhancing our brands with *Loyd Grossman* soups and *Branston* sour pickles showing strong growth;
- The integration of *Ambrosia* during 2004 proceeded smoothly, with increased management focus on this brand delivering growth of 7% over 2003 (based on pre and post acquisition sales in 2003), returning the brand and the category to growth after a number of years of decline;
- Our customer relationship strategy has enabled us to secure longer term contracts and pursue category development plans;

- Brand development, leveraging our scale and improved manufacturing efficiency have enabled us to increase our EBITA margin<sup>†</sup> from 11.1% in 2003 to 12.8% in 2004; and
- The acquisition of the *Bird's* and *Angel Delight* brands, which completed in February 2005, further strengthens our portfolio of great British food brands.

Continued focus on cost control and improving manufacturing efficiency drove margin improvement delivering an increase in operating profit before exceptional items from continuing operations of 27.4% to £97.3m.

These figures exclude Materne, a French spreads business, which was sold as part of the IPO. Like-for-like\* grocery sales were level with 2003 and like-for-like\* grocery operating profit before exceptional items increased by 14.8%. We have estimated that the fire at the Bury St Edmunds factory resulted in lost sales of £8.2m. If we had achieved these sales, like-for-like\* grocery turnover would have increased by 1.3%. £3.0m has been recognised in operating profit in respect of the insurance claim for loss of profits associated with the fire.

We increased our marketing expenditure by 5% to £30.4m in 2004, reflecting our focus on drive brands, which showed sales of *Loyd Grossman* up 18%, *Branston* up 2% and *Typhoo* up 3%. The gains made on *Loyd Grossman* and *Branston* are despite the fire and we estimate that these brands would otherwise have shown growth of 31% and 12% respectively. Sales of *Ambrosia* were 7% higher than in 2003, rewarding the additional focus placed on the brand since its acquisition. *Hartley's* also performed exceptionally well, with an organic sales increase of 19% over 2003. Branded sales now represent 55% of our grocery product turnover, up from 50% in 2003.

We completed the closure of the Hadfield factory in the first quarter of the year and the transfer of tea production from Edinburgh to Moreton in December 2004. The Edinburgh rationalisation programme cost £2.4m, and is expected to generate annual savings of £1.1m.

As previously stated, the 2003 comparatives benefited from the reversal of £3.3m of accruals made at the end of 2002, which subsequently proved to be over-provided.

<sup>†</sup>EBITA margin represents operating profit before amortisation and exceptional items as a percentage of turnover.

\*Like-for-like excludes the results of *Ambrosia* which was acquired in December 2003.

Branston is the  
UK's number one  
pickle brand

#### Convenience Foods, Pickles and Sauces

£m	2004	2003	
Sales	<b>374.8</b>	374.6	+0.1%
Operating profit before exceptional items	<b>33.2</b>	32.7	+1.5%

Sales by the Convenience Foods, Pickles and Sauces business increased by 0.1% to £374.8m. We estimate that we would have shown growth of approximately 2.2%, but for the fire at our Bury St Edmunds factory. The consolidation of our convenience foods products, particularly our foodservice offering under *Crosse & Blackwell* has created a £25m brand and this greater scale will help us to develop our foodservice business during 2005.

Branded sales in 2004 amounted to 38% of sales for the business, the same as 2003.

Operating profit before exceptional items for the division was £33.2m in 2004, an increase of £0.5m on 2003, though an increase of £2.7m after taking account of the accrual reversal referred to earlier. This increase is primarily due to improved manufacturing efficiency, particularly savings from the closure of the Hadfield factory. This business is seeing increases in raw material prices, principally tin plate, however we have achieved price rises on the affected products, which largely recovers the anticipated cost inflation.

### Tea and Beverages

£m	2004	2003	
Sales	<b>140.3</b>	143.0	-1.9%
Operating profit before exceptional items	<b>31.9</b>	26.9	+18.6%

Sales by the Tea and Beverages business declined by 2% to £140.3m. The decline was principally due to the exit from certain low-margin retailer brand tea contracts. Sales of *Typhoo* increased by 3% in 2004, with UK sales of *London Fruit & Herb* successfully transferred to the *Typhoo* brand.

Branded sales in 2004 amounted to 81% of sales for the business, up from 79% in 2003.

Operating profit before exceptional items for the Tea and Beverages segment increased by £5.0m to £31.9m. This improvement comes from lower raw material costs, savings starting to flow from the consolidation of tea production into the Moreton factory and the reallocation of marketing expenditure from Tea and Beverages to other divisions.

Ambrosia is  
the number one  
selling ambient  
dessert brand

### Spreads and Desserts – continuing operations

£m	2004	2003	
Sales	<b>176.8</b>	120.4	+46.8%
Like-for-like* sales	<b>117.8</b>	115.2	+2.3%
Operating profit before exceptional items	<b>26.7</b>	11.2	+138.4%
Like-for-like* operating profit before exceptional items	<b>16.3</b>	10.5	+55.2%

Sales by the Spreads and Desserts business have increased to £176.8m. This increase is primarily due to the inclusion of *Ambrosia*, following its acquisition in December 2003. Like-for-like\* sales increased by 2.3% with *Hartley's*, *Rose's*, and *Gale's* all performing strongly; like-for-like\* branded sales grew by 6%, offset by a decline in retailer brand sales of 1%. The development of the *Hartley's* fruit masterbrand is progressing well with *Chiver's* marmalades successfully transferred during the second half of 2004 and the transfer of *Rowntree's* jellies currently underway. On completion of the brand consolidation, the *Hartley's* brand will have sales of £33.0m (based on 2004 turnover), providing real economies of scale in advertising. Our initiatives to improve the display of the spreads fixture has helped *Hartley's* to achieve organic growth over 2003 of 19% to become the UK's leading jam brand.

The integration of *Ambrosia* went smoothly, with the acquired business fully integrated by the end of the first quarter of 2004. We launched a brandy-flavoured custard and new yoghurt-pot style four pack of custard and rice puddings in the fourth quarter of the year. These product developments and the enhanced focus that we have been able to apply to the brand resulted in an increase in like-for-like\* sales for *Ambrosia* of 7% in 2004. In February 2005, *Ambrosia* launched its first TV advertising campaign for six years.

Branded sales in 2004 amounted to 69% of sales for the business, up from 54% in 2003.

Operating profit before exceptional items increased from £11.2m in 2003 to £26.7m in 2004. This was mainly due to the inclusion of *Ambrosia*, which contributed £10.4m at the operating profit level, compared to £0.7m in 2003. Like-for-like\* operating profit before exceptional items increased by £5.8m to £16.3m, principally as a result of the improved branded sales and reduced manufacturing costs following the closure of the Hadfield factory.

\*Like-for-like excludes the results of *Ambrosia* which was acquired in December 2003.

\*Like-for-like includes pre and post acquisition sales for 2003.

## Potatoes

£m	2004	2003	
Sales	<b>150.3</b>	135.8	+10.7%
Operating profit before exceptional items	<b>5.5</b>	5.6	-1.8%

Sales by our Potatoes business increased by 11% to £150.3m, primarily due to the higher market price of potatoes during the first half of the year compared to last year, though a good harvest in the second half of 2004 softened market prices and improved margins.

The potato supply industry became more competitive through 2004 with increased supplier rationalisation. We have responded by strengthening the management team to provide the business with a more appropriate skills mix to underpin its future development. We also took action to address the business's cost base and closed two of its six packing houses.

At the end of 2004, we received notice from Sainsbury's that they would cease to source potatoes from Premier from July 2005. However, we have recently confirmed a number of new supply contracts with other customers, which will replace a significant part of this volume. The industry remains very competitive and we are therefore continuing to review the future shape and strategy of the business.

## Bird's acquisition

On 13 February 2005 we completed the acquisition of the ambient desserts business of Kraft Foods UK Limited. This business principally comprises the *Bird's* custard and *Angel Delight* instant desserts brands. The acquisition is an excellent strategic fit, bringing to the Group further iconic category-leading brands with significant consumer awareness, which will be integrated into our Spreads and Desserts business. The acquisition will further enhance the branded mix of the Group, lifting branded sales as a percentage of grocery sales by approximately two percentage points.

These products are primarily powders and we are integrating their production into the Knighton factory. This should be completed by December 2005.

## Sudan 1 product recall

On 18 February 2005, the Food Standards Agency initiated a recall of a number of products, which had been identified as possibly being contaminated with a dye, "Sudan 1", not authorised for use in food products. The dye was traced to a batch of chilli powder supplied to the Group, which was used by the Group in the manufacture of Worcester sauce. The Group used the Worcester sauce in the manufacture of three other products and supplied Worcester sauce to a number of retail and food ingredient customers.

A number of the Group's customers have indicated that they intend to claim for their costs associated with the product recall. These claims may comprise claims for damage to their own products, the costs of recalling and destroying recovered products and claims for consequential loss among others.

Given the nature of the recall, the limited number of claims that have been received at this stage and intrinsic uncertainty involved in such situations, it has not been possible to quantify fully the claims. However, the Company has made a preliminary assessment of the quantum and nature of the claims based on a set of assumptions reflecting management's current view of the situation and after having taken appropriate legal advice.

At this time, based on this assessment, its own insurance position and its potential claims against its suppliers and their own insurers, the Group does not believe that it has any material financial exposure.

**Outlook**

As a result of improving conditions through January, we remain confident that we will achieve sales growth for the full year in line with our strategic targets. This will be underpinned by our strong pipeline of new product and category development which will help to drive branded sales growth.

We continue to focus on manufacturing efficiency through capital and other projects. We do not anticipate any significant net raw material price movements beyond the rise in tin plate costs, referred to earlier.

*Following completion of the Bird's acquisition, we have commenced the integration process and our initial impressions are very encouraging. This acquisition will lift sales by our Spreads and Desserts business to over £200.0m and increase its branded sales mix to approximately 72%.*

**Robert Schofield** Chief Executive

## Financial review

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### Basis of preparation

Premier Foods plc acquired the Premier Foods Investments No.3 ("PFI No.3") group through a group reconstruction as part of the IPO process. The results have been prepared using merger accounting. Please see note 1 to the consolidated financial statements.

### Premier consolidated profit and loss account for continuing businesses

#### Turnover

Group sales from continuing operations increased by 8.8% to £842.2m, which included a full year's contribution from Ambrosia. Like-for-like\* sales from continuing operations were 1.9% ahead of 2003.

#### Gross profit

Gross profit before exceptional items was £210.4m for 2004, an increase of 15.2% over 2003. This is principally due to the inclusion of the *Ambrosia* business, but is also a reflection of the improved operating efficiency of the business. Gross margin was 25.0% for 2004, an increase of 140 basis points compared to the same period in 2003. This increase was largely due to the inclusion of *Ambrosia*, which contributed 90 basis points. The balance of the improvement in margin was due to the increase in sales of *branded products*, *improvements in manufacturing efficiency* and a lower depreciation charge offset by a higher pension cost and the effect of higher market prices on margins in the Potatoes business.

#### Selling and distribution expenses

Selling and distribution expenses before exceptional items were £75.6m in 2004, an increase of £2.3m, or 3.1%, over the same period in 2003. The increase is principally due to the inclusion of a full year's costs for *Ambrosia* and a 5% increase in our *marketing spend* offset by savings in our distribution costs. Like-for-like\* selling and distribution expenses decreased by £2.1m or 2.9%.

“Operating profit before exceptional items increased by 27.4%”

#### Administrative expenses

Administrative expenses before exceptional items have increased from £23.8m in 2003 to £30.4m in 2004. After adjusting for the impact of the accrual reversals of £3.3m referred to earlier, administrative expenses increased by £3.3m. This increase is principally due to the inclusion of a full year's costs for *Ambrosia* and increased pension costs.

#### Operating profit before exceptional items

Operating profit before exceptional items was £97.3m for 2004, an increase of £20.9m, or 27.4%, compared to 2003. Like-for-like\* operating profit increased by 14.8% to £86.9m.

#### Exceptional items

Operating exceptional items charged during the year were £25.4m, of which £16.7m was associated with the IPO in July. Non-IPO operating exceptional items were £8.7m in 2004. Included in this were costs related to the closure of the Edinburgh site and the integration of its operations into Moreton, together with restructuring costs and provisions for the impairment of assets in the Potatoes business.

Also included in the £8.7m was a charge of £1.0m incurred on the merger of three of our principal pension schemes. The merger required a one-off cash contribution of £10.0m to equalise the level of funding in the schemes, £9.0m of which had been previously provided against.

Prior year operating exceptional items primarily related to the provision for the closure of the Hadfield site and the integration of its operations into the Histon and Bury St Edmunds plants.

The non-operating exceptional credit of £12.9m in 2004 is made up of the £11.7m profit on the sale of our Materne business as part of the IPO, the gain made on the replacement of fixed assets at the Bury St Edmunds site following the fire, offset by the write-down of fixed assets at the closed Edinburgh factory and potato packing sites.

#### IPO exceptional items and associated costs

As referred to earlier we charged £16.7m of IPO costs as exceptional items during the year. This was made up of share option related costs of £14.5m and sundry legal, accountancy and ancillary items totalling £2.2m.

We incurred costs of £10.2m on the primary share offer, which have been treated as a deduction from the primary proceeds thus reducing the share premium arising on the issue of the shares.

Costs of £8.2m were incurred on the arrangement of the new senior credit facility. These have been capitalised and will be amortised over the term of the facility.

The un-amortised issuance costs of £10.5m associated with the previous senior credit facility have been written off and charged as an exceptional interest charge. We repaid our Senior Notes in September 2004, which resulted in an early redemption penalty of £11.1m. This has been treated as an exceptional interest charge.

These are summarised as:

Item	£m	Treatment
Options		
– Cash cancellation	8.2	Operating exceptional cost
– Rollover options	6.3	Operating exceptional cost
Sundry IPO expenses	2.2	Operating exceptional cost
	16.7	
Equity:		
– Underwriting, legal and accounting	10.2	Share premium account
Debt:		
– Issuance costs		
– new facility	8.1	Capitalised, to be written off over term of debt
– Issuance costs		
– old facilities	10.5	Exceptional interest cost
Senior Notes early redemption penalty	11.1	Exceptional interest cost

\*Like-for-like excludes the results of *Ambrosia* which was acquired in December 2003.

#### Bury St Edmunds fire

On 27 October 2004 we suffered a serious fire at our Bury St Edmunds plant, which is the main manufacturing site for our Pickles and Sauces business. With the exception of *Branston* sweet pickles, where we were able to recommence manufacture within three weeks, we either transferred production to our Jonker Fris subsidiary in the Netherlands or outsourced production to third parties. This minimised disruption to our customers, which was especially important during the peak Christmas season. All the lines are now operational at the site and distribution is close to pre-fire levels.

*We have recognised the loss of profits recoverable through our insurance policy as other operating income. The assets destroyed by the fire have been written down as a non-operating exceptional loss and the insurance proceeds received to replace the assets, from which the £1.0m insurance excess has been deducted, have been recorded as non-operating exceptional income of £3.5m.*

#### Cash flow and debt

Net cash flow from operating activities before exceptional items for the continuing businesses was £115.2m in 2004, compared to £110.9m in 2003. Exceptional cash flow items in 2004 included the payment of a one off contribution to the pension scheme of £10.0m to facilitate the merger of the three predecessor schemes and the cash costs of the closure of the Hadfield site. The net proceeds of the shares issued in the IPO and the capitalisation of the PFI No. 3 Loan Notes reduced debt by £303.0m. Gross debt, net of cash and before debt issuance costs, was £377.5m at 31 December 2004.

#### Capital expenditure

Gross capital expenditure during 2004 was £36.8m, of which £6.9m was for assets purchased to replace those damaged in the fire at Bury St Edmunds. After the deduction of the £1.0m excess, we received £5.9m from our insurers to fund this replacement programme. We also received proceeds of £4.0m from the sale of the Hadfield factory.

#### Interest

Interest charged in 2004 was £78.3m. This comprises a net £41.7m payable of cash interest, £11.1m of interest payable on the PFI No.3 loan notes, prior to their capitalisation, a total of £14.4m of debt issuance costs amortisation and a charge of £11.1m on the early redemption of the Senior Notes. Interest charges will fall significantly in 2005 following the changes to our capital structure at the IPO. Net interest paid in 2004 was £59.4m, comprising £48.3m of interest on term debt and the senior notes and the £11.1m early redemption penalty on the senior notes. We anticipate that our ongoing cash interest costs will total approximately 7% of net debt, comprising 6% on the term debt and an additional 1% to cover the amortisation of debt, insurance costs and other associated financing charges.

#### Taxation

The tax charge for 2004 was £2.5m on profit before tax of £8.7m. Tax paid in the year was £0.2m.

#### Pensions

We provide retirement benefits for UK employees under our main defined benefit (final salary) scheme, the Premier Foods Pension Scheme (the "PF Scheme"), which was formed by the merger of three pension schemes in May 2004.

A second smaller defined benefit (final salary) scheme, the Premier Ambient Products Pension Scheme (the "PAPPS") provides benefits solely for former employees of Unilever Bestfoods employed in the *Ambrosia* business.

We regularly review our actuarial assumptions and in light of increased inflationary pressures in the economy have changed our FRS 17 assumptions. The net effect of this adjustment is to increase the reported net deficit after deferred tax in the scheme, as calculated under FRS 17 assumptions to £45.2m. The revision to the FRS 17 assumptions does not affect the actuarial deficit on which the cash contributions that the Company is making to the scheme are based and contributions remain at the same levels as those made during 2004.

Paul Thomas Finance Director

## Board of Directors

**David Kappler** Aged 58  
Chairman

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

**Robert Schofield** Aged 53  
Chief Executive

Joined the Group in 2001 taking responsibility for its branded business. He was appointed Chief Executive in January 2002. Robert Schofield has extensive manufacturing and operational experience gained at United Biscuits plc where he ultimately served as Managing Director of United Biscuits UK, directing both the McVities and KP Foods businesses. Mr Schofield is the non-executive Chairman of Burton's Foods Limited.

**Paul Thomas** Aged 49  
Finance Director

Joined the Group in 2002 as Finance Director. Prior to this he served as Finance Director of the leisure and brewing divisions of Bass plc. Previously, he was the Director of Planning and Business Development in the retail division of Grand Metropolitan plc. He is a Chartered Accountant and the Company Secretary.

**David Felwick CBE** Aged 60  
Non-executive director

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

**Sharon Hintze** Aged 60  
Non-executive director

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

**Lyndon Lea** Aged 36  
Non-executive director

Joined the Group in 1999. He was appointed to the Board immediately prior to flotation in 2004 and currently serves on the boards of Yell Group plc and various Cayman limited companies which wholly own Weetabix Limited, Aster City Cable, Eurotax Glass's Holdings AG and Burton's Foods Limited.

**Ian McHoul** Aged 45  
Non-executive director

Joined the Group on flotation in 2004. He is currently the Group Finance Director of the Scottish & Newcastle Group. He was previously the Finance and Strategy Director of the Entrepreneur Pub Company Limited and prior to that he spent 10 years with Courage Limited and its parent company Foster's Brewing Group in a variety of roles. Mr McHoul is a Chartered Accountant.

**Ian Ramsay** Aged 65  
Non-executive director

Joined the Group on flotation in 2004. He was formerly President of Europe, Africa and the Middle East at Bestfoods Europe. Prior to this, he was Senior Vice President of Finance and Human Resources and President of Europe Operations at Bestfoods Europe.

**George Sewell** Aged 58  
Non-executive director

Joined the Group on flotation in 2004. He was previously president of Quaker European Foods. Mr Sewell was formerly Chairman of the Association of Cereal Food Manufacturers, a member of the Council of Food & Drink Federation.

## Senior Management

**Howard Beveridge** Aged 44

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

**Stephen Bolton** Aged 40

Joined the Group in 2002 as Commercial Director. Prior to joining the Group, he served as Marketing Director at Jeyes UK Ltd. His early marketing and commercial management career included periods with Philips, Sara Lee and Addis Housewares.

**Dominic Box** Aged 40

Joined the Group in 2004 and was subsequently appointed Commercial Director for the spreads, desserts and snacks business units. Prior to joining Premier, he served as director of PZ Cussons in UK marketing, supply chain and international roles, after gaining his branded marketing experience in Rowntree and Nestlé Food.

**Ian Croxford** Aged 47

Joined the Group in 2003 as Operations Director. Prior to this he served as the Managing Director of Banshee Spirits, MD also of John Dewar & Sons (Whisky division of Bacardi Martini); Global Packaging Director for UDV the (spirits division of Diageo). Previously, he held senior general management and operational roles with Tate & Lyle, Allied Domecq, Associated British Foods, and other major food companies.

**Ian York** Aged 45

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

## Directors' report

The directors have pleasure in presenting the first report and audited financial statements of Premier Foods plc and its subsidiaries for the year ended 31 December 2004.

### Principal activities

The Group is a leading UK manufacturer and marketer of ambient grocery products and one of the largest suppliers to the retail grocery and out-of-home markets. The Company has three principal grocery product segments:

- Convenience Foods, Pickles and Sauces;
- Tea and Beverages; and
- Spreads and Desserts.

It also operates a potato packing and marketing business which supplies the retail, foodservice, food manufacturing and potato growing markets.

The branded products include *Ambrosia* custard and milk puddings, *Branston* pickles, *Typhoo* tea, *Hartley's* preserves, *Gale's* honey and lemon curd, *Crosse & Blackwell* convenience foods, *Sun-Pat* peanut butter, *Sarson's* vinegar, *Hayward's* pickles, *Smash* instant mash potato, *Marvel* powder milk creamer and *Waistline* salad dressings, soups and cooking sauces. In addition, the Group produces cocoa-based beverages, *Rowntree's* jelly and *Lloyd Grossman* cooking sauces, soups and salad dressings under agreement or licence. It also provides a range of retailer brand products, principally for the major multiple grocery retailers.

### Business review and future developments

Premier Foods plc was incorporated on 22 June 2004 but did not trade until 15 July 2004. On 15 July 2004, Premier Foods plc acquired the entire share capital of Premier Foods Investments No. 3 Limited and its subsidiaries. The Company's shares were admitted to the main list of the London Stock Exchange on 19 July 2004. The shares were placed at £2.15 and as a result £108.4m was raised after direct costs of £10.2m. In addition, £204.3m of loan notes due to Premier Investments Holdings L.P. were redeemed by the issue of new shares in the Company.

The Chairman's statement on page 2, the Chief Executive's review on pages 3 to 9 and the Financial review on pages 10 to 13 provide a review of the business during the year and likely future developments.

### Financial results

The audited financial statements are presented on pages 36 to 74.

### Profit and dividend

The profit (loss) on ordinary activities before tax for the year ended 31 December 2004 was £8.7m (2003: £(0.3)m).

In the Listing Particulars of the Company published in July 2004 the Board stated that, in the absence of unforeseen circumstances, it intended to recommend payment in May 2005 of a final dividend for the year ended 31 December 2004 of approximately 9p per ordinary share. Given that the financial results for the year are in line with the directors' expectations at the time of Listing, the directors recommend a final dividend of 9p per ordinary share for the year ended 31 December 2004. Subject to shareholders' approval, the final dividend will be paid on 31 May 2005 to members on the register as at 6 May 2005. The results after dividends are transferred to reserves.

### Participation of controlling shareholder in placing of the Company's shares

Details of the share capital movements during the period are set out in note 22 to the financial statements on page 67.

### Research and development

Research and development costs of £1.0m were incurred during the year relating to salaries paid in the new product development division.

### Contracts of significance with controlling shareholder

Details of related transactions with related parties are set out in notes 24 and 29 to the financial statements on pages 71 to 73.

### Land and buildings

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

### Post-balance sheet events

On 13 February 2005 the Company completed the acquisition of *Bird's Custard*, *Angel Delight* and associated brands and assets from Kraft Foods UK Ltd for £70.0m in cash.

On 18 February 2005, the Food Standards Agency initiated a recall of a number of products, which had been identified as possibly being contaminated with a dye "Sudan 1" not authorised for use in food products. The dye was traced to a batch of chilli powder supplied to the Group, which was used by the Group in the manufacture of Worcester sauce. The Group used the Worcester sauce in the manufacture of three other products and supplied Worcester sauce to a number of retail and food ingredient customers.

A number of the Group's customers have indicated that they intend to claim for their costs associated with the product recall. These claims may comprise claims for damage to their own products, the costs of recalling and destroying recovered product and claims for consequential loss among others.

Given the nature of the recall, the limited number of claims that have been received at this stage and intrinsic uncertainty involved in such situations, it has not been possible to quantify fully the claims. However, the Company has made a preliminary assessment of the quantum and nature of the claims based on a set of assumptions reflecting management's current view of the situation and after having taken appropriate legal advice.

At this time, based on this assessment, its own insurance position and its potential claims against its suppliers and their own insurers, the Group does not believe that it has any material financial exposure.

### Directors and their interests

The following directors held office during the year ended 31 December 2004:

Designation	Appointed
David Kappler, non-executive Chairman	19 July 2004
Robert Schofield, Chief Executive	22 June 2004
Paul Thomas, Finance Director	22 June 2004
David Felwick CBE, Senior independent non-executive director	19 July 2004
Sharon Hintze, non-executive director	19 July 2004
Lyndon Lea, non-executive director	22 June 2004
Ian McHoul, non-executive director	19 July 2004
Ian Ramsay, non-executive director	19 July 2004
George Sewell, non-executive director	19 July 2004

Details of the directors' service contracts, emoluments, the interests of the directors and their immediate families in the share capital of the Company and options to subscribe for shares in the Company are shown in the Directors' Remuneration Report on pages 23 to 31.

### Corporate governance

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

### Compliance statement

During the period from the Company's admission to trading on the London Stock Exchange on 23 July 2004 to 31 December 2004, the Board considers that the Group has complied with the provisions set out in the Combined Code on Corporate Governance issued by the Financial Reporting Council in July 2003 (the "Combined Code"), with the exception that it has yet to undertake a formal review of its own performance, that of its committees and individual directors. These performance appraisals, which have not been considered to be of value in the short time since Listing, will be undertaken during 2005.

## Operation of the Board

The Board normally meets at least six times each calendar year and also meets on other occasions as necessary. Meetings are usually held in the Company's head office, in St Albans, but also provide an opportunity for the Board as a whole to visit the Group's operating facilities. Details of the number of Board and Committee meetings and the attendance at those meetings is set out on page 20.

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

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

The Chief Executive has overall responsibility for the executive management of the Group and for implementing Board strategy and policy, within the approved budgets and timescales. The Chief Executive is supported by the Finance Director and Operations Board, which consists of the senior executives who head up the Group's principal operations. The biographies of the directors and members of the senior management team appear on pages 14 and 15.

Procedures are in place which allow directors to take independent professional advice in the course of their duties and all directors have access to the advice and services of the Company Secretary.

### Board structure

The Board consists of a non-executive Chairman, two executive directors and six non-executive directors. In accordance with best practice, separate individuals have been appointed to the positions of Chairman and Chief Executive. David Felwick has been appointed the senior independent director.

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

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

### Board committees

The Board has established an effective committee structure to assist in the discharge of its responsibilities. The terms of reference of these committees comply with the provisions of the Combined Code and are available for inspection on the Company's website, [www.premierfoods.co.uk](http://www.premierfoods.co.uk).

### Audit Committee

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

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

The Committee will keep under review the external auditors' independence including any non-audit services that are to be provided by the external auditors. The auditors are also required to confirm their independence at least annually. A formal policy has been developed and implemented which ensures that the nature of the advice to be provided could not impair the objectivity of the external auditors' opinion on the Group's financial statements. The policy incorporates a fee limit above which a formal tender process must be undertaken and approval of the Committee obtained prior to any proposed appointment. Additionally, the use of delegated authorities to appoint the external auditors is routinely reported to the Committee.

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

### **Remuneration Committee**

The Remuneration Committee is chaired by David Felwick. The other members of the Committee are Sharon Hintze and Ian Ramsay. Only independent non-executive directors may serve on the Committee. The Chairman and Chief Executive attend Remuneration Committee meetings at the invitation of the Committee Chairman. The Remuneration Committee will normally meet at least twice a year.

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

Further information on the activities of the Remuneration Committee is set out in the Remuneration Report on pages 23 to 31.

### **Nomination Committee**

The Nomination Committee is chaired by David Kappler, and its other members are Lyndon Lea, Ian McHoul, David Felwick and Ian Ramsay. David Kappler will not chair the Committee when it is dealing with a successor to the Chairmanship of the Company. The Committee, which will normally meet not less than twice a year, has responsibility for considering the size, structure and composition of the Board of the Company, retirements and appointments of additional and replacement directors and making appropriate recommendations so as to maintain an appropriate balance of skills and experience on the Board. It did not meet in 2004.

During 2005 the Nomination Committee will establish a process for Board appointments that it considers to be formal, rigorous and transparent. This process will include a review of the skills, experience and knowledge of the existing directors to assess which of the potential short-listed candidates would most benefit the balance of the Board having regard also to the need for succession planning.

The terms of appointment for the non-executive directors are available for inspection on the Company's website, [www.premierfoods.co.uk](http://www.premierfoods.co.uk).

### **Reappointment**

The Company's Articles of Association require directors appointed by the Board during the year to retire and, if agreed, offer themselves for reappointment at the first Annual General Meeting ("AGM") following their appointment. As all of the directors were appointed during the year, separate resolutions proposing their reappointment will be put to shareholders at the AGM to be held on 26 May 2005.

There is also a process of rotation which ensures that no director holds office for more than three years without being reappointed at an AGM and also that at least one-third of directors will be required to retire and seek reappointment at each subsequent AGM.

### **Remuneration**

The Directors' Remuneration Report, providing a statement on the Company's policy on directors' and senior managers' remuneration, benefits, share scheme entitlements and pension arrangements is set out on pages 23 to 31. A resolution to approve the Directors' Remuneration Report will be proposed at the forthcoming AGM.

The Directors' Remuneration Report sets out the status of the Company's compliance with the requirements of the Combined Code with regard to remuneration matters.

### Internal control

The Board has overall responsibility for the Group's systems of internal control, for reviewing their effectiveness and for ensuring that there is a process to identify, evaluate and manage the significant risks to achievement of the Group's strategic objectives. Such systems cover strategic, commercial, operational and financial areas and include the management of risks therein. However, the Board also recognises that these systems are designed to manage rather than to eliminate risk and can provide only reasonable, and not absolute, assurance against material misstatement or loss.

During the period from Listing to approval of the Report and Accounts an exercise has been completed to identify the key risks. Appropriate management actions have been determined and these include transfer to third parties (eg through insurance and financial derivatives) and internal monitoring and contingency planning. Measures have and are being taken to embed all such actions in the systems of internal control.

The Board and Audit Committee have reviewed the effectiveness of the internal control system including financial, operational, compliance control and risk management in line with the requirements of the Combined Code for the period from Listing to approval of the Report and Accounts.

During the year the Board reviewed the need for, and made the decision to establish, an internal audit department. The head of internal audit was appointed at the start of 2005 and has subsequently developed the internal audit and risk management strategy and produced a detailed plan of activities for the year that has been approved by the Audit Committee. The head of internal audit will provide regular independent reports to the Audit Committee on the operation of internal controls including the management of risk. These will incorporate the findings of the other internal assurance teams.

The Audit Committee will in turn monitor and review the effectiveness of the internal audit department and ensure that it is adequately resourced to perform its duties.

### Relations with shareholders

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

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

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

Notice of the AGM, together with the Annual Report and Accounts, is sent to shareholders at least 20 working days before the meeting, and details of the proxy votes for and against each resolution are announced after the result of the vote on the show of hands.

The following table sets out the number of meetings of the Board and its committees and individual attendances during the period from Listing on 23 July 2004 to 31 December 2004. Whilst the Company was incorporated on 22 June 2004 and held a number of meetings preparatory to flotation, to report such meetings would convey no useful information to shareholders as the majority of directors did not formally take up their appointments until 19 July 2004. In addition to the meetings detailed below, ad hoc committees of the Board are convened for specific purposes from time to time.

	Group Board	Remuneration	Nomination	Audit
Number of meetings held since Listing	5	1	0	2
David Kappier, non-executive Chairman	5	1*	0	2*
Robert Schofield, Chief Executive	5	1*	—	—
Paul Thomas, Finance Director	5	—	—	2*
David Feiwick CBE, Senior independent non-executive director	4	1	0	2
Sharon Hintze, non-executive director	5	1	—	—
Lyndon Lea, non-executive director	4	—	0	—
Ian McHoul, non-executive director	4	—	0	2
Ian Ramsay, non-executive director	5	1	0	—
George Sewell, non-executive director	5	1*	—	2

\*Denotes attendance by invitation.

### Employment policies

A summary of the Company's employment policies is set out in the report headed Corporate Social Responsibility on pages 32 and 33.

### Directors' interests in contracts

No director had a material interest at any time during the year in any contract of significance, other than a service contract (see Directors' Remuneration Report on pages 23 to 31), with the Company or any of its subsidiary undertakings.

### Charitable and political donations

No donations were made by the Group to political parties. During the year the Group made charitable donations amounting to £29,271. The annual donations budget is administered by local site committees to a policy predominantly directed towards educational objectives and those communities in which the Group's businesses are located.

### Substantial shareholdings

As at 18 March 2005, the Company has been notified, in accordance with Sections 198 to 208 of the Companies Act 1985, of the following interests in the ordinary shares of the Company:

Notification received from	Number of ordinary shares	Percentage of issued share capital
AXA Investment Managers UK Ltd	29,148,519	11.90
Standard Life Investments (UK)	24,586,477	10.04
Fidelity International Limited	12,644,487	5.16
Legal & General Group plc	9,823,874	4.01

### Creditor payment policy

The Company recognises the benefits to be derived from maintaining good relationships with its suppliers. It is the Company's policy that payment is made on time, provided suppliers perform in accordance with agreed terms. The Group has a variety of payment terms with suppliers. Payment terms for purchases under major contracts are agreed as part of the contract negotiations. Trade creditors at the year end represented 59 days of purchases.

### Directors' responsibilities

The directors are required to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit or loss, total recognised gains or losses and cash flows of the Group for that period. The directors confirm that appropriate accounting policies have been used and applied consistently, and reasonable and prudent judgements and estimates have been made in the preparation of the financial statements for the year ended 31 December 2004. The directors also confirm that the financial statements have been properly prepared in accordance with the Companies Act 1985, and all applicable accounting standards have been followed. The directors are responsible for maintaining adequate accounting records, for safeguarding the assets of the Company and the Group and the investment of shareholders. They also take reasonable steps to prevent and detect fraud and other irregularities. The directors are responsible for maintaining the integrity of financial information, including the Annual Report, on the Group's website, [www.premierfoods.co.uk](http://www.premierfoods.co.uk). Legislation in the UK concerning the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

### Going concern

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

### International Financial Reporting Standards

As a UK quoted company, Premier Foods is required to produce financial statements for accounting periods beginning on or after 1 January 2005 in accordance with International Financial Reporting Standards ("IFRS"). This will require an opening balance sheet to be prepared under IFRS at 1 January 2004 (the date of transition) together with financial statements for the year ended 31 December 2004 for comparative purposes. We intend to publish this restatement in June 2005.

The Group has established a dedicated team to study the effects of adopting IFRS on the Group's financial statements and the most significant areas of impact with respect to known and anticipated changes to financial statements have been identified. The effect of these changes is currently being quantified and work is also in progress to implement any changes to financial reporting processes that may be required.

The most significant areas of impact with respect to known and anticipated changes to financial statements have been identified and are detailed below.

The Group currently applies SSAP 24 to account for defined benefit pension schemes and complies with the FRS 17 transitional arrangements. IAS 19 is broadly consistent with FRS 17 except that it provides the option not to recognise actuarial gains and losses below a threshold while spreading forward those above this threshold over the average remaining service life of the employees in the scheme. If the spreading option is not adopted then the effect of adopting IAS 19 is broadly as illustrated in the FRS 17 disclosures. The Group pension deficit will be reflected in the balance sheet at the date of transition.

IAS 36 stipulates that goodwill is not amortised but instead is subject to annual impairment testing. The Group considers that it will not need to restate its goodwill balance at the date of transition.

In accordance with IAS 39 the Group intends to recognise the fair value of financial instruments at the balance sheet date.

The Group has introduced share incentive plans in 2004 and, in accordance with IFRS 2, it will recognise the fair value of these share based payments and charge them to the profit and loss account over the vesting period of the plans.

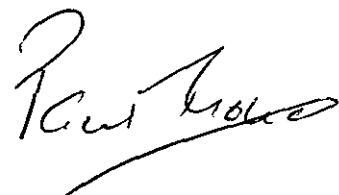
### Auditors

A resolution to reappoint the auditors, PricewaterhouseCoopers LLP, will be proposed at the forthcoming AGM in accordance with Section 385 of the Companies Act 1985. The reappointment of PricewaterhouseCoopers LLP has been approved by the Audit Committee who will also be responsible for determining their audit fee on behalf of the directors.

### Annual General Meeting business

The first Annual General Meeting of the Company will be held at Haberdashers' Hall, 18 West Smithfield, London EC1A 9HQ on Thursday 26 May 2005 at 2.00 pm. The Notice convening the AGM appears on page 77, together with details of the business to be considered, and full explanations of each resolution that is being proposed.

By order of the Board



Paul Thomas

Company Secretary

18 March 2005

Premier Foods plc

Premier House

Centrum Business Park

Giffords Way

St Albans

Hertfordshire AL1 2RE

Registered in England No. 5160050

## Directors' remuneration report for the year ended 31 December 2004

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

### Remuneration Committee

#### Role

The Remuneration Committee is responsible, pursuant to a policy framework on executive remuneration agreed by the Board, for determining the pay and benefits and contractual arrangements for the Chairman, executive directors and the Company Secretary, and for overseeing the Group's share schemes. The Committee also recommends and monitors the structure and levels of remuneration for senior managers throughout the Group. It operates under the delegated authority of the Board and its terms of reference are available to view on the Group's website, [www.premierfoods.co.uk](http://www.premierfoods.co.uk).

It is committed to principles of accountability and transparency to ensure that remuneration arrangements demonstrate a clear link between reward and performance. In its work, the Committee considers fully the principles and provisions of the Combined Code on Corporate Governance.

#### Membership

The Committee comprised the following independent non-executive directors during the period from Admission to 31 December 2004:

Mr D L Felwick CBE  
(Committee Chairman and non-executive director)

Mr I M Ramsay  
(appointed 3 August 2004)

Miss S Hintze

Mr G Sewell  
(resigned 3 August 2004)

#### Meetings

The directors' attendance at Committee meetings held during their period of membership and the number of meetings held during 2004 is set out on page 20. The Chairman, Mr D J Kappler, and the Group Chief Executive, Mr R J Schofield, are invited to attend the Committee meetings, except when the Committee discusses matters relating to their remuneration.

#### Advisors

Deloitte & Touche LLP ("Deloitte") were appointed by the Committee as their retained advisors in 2004 and continue to provide advice to the Committee on matters relating to remuneration including market comparison data and best practice. Deloitte also advised the Company on tax implications of share plans on Admission.

The Committee consults with the Chairman and the Chief Executive as appropriate, and is also supported by the Group Head of HR.

### Remuneration policy

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

For 2005, annual salary will continue to be set at levels not normally exceeding median. In relation to bonuses and long-term incentive plans, the policy will continue to be to provide an opportunity for executives to earn total remuneration packages in the upper quartile range, provided that stretching and demanding performance conditions are met.

With advice from Deloitte, the Committee have carried out a review of all aspects of the remuneration policy including pay benchmarking for the most senior roles and a consideration of the relevant comparator companies for performance measurement.

Going forward, the Committee intends to rebalance the remuneration packages of senior executives to increase the emphasis on key performance objectives and to strengthen executive shareholding. This rebalancing will involve adjusting the annual bonus structure by introducing an element of compulsory deferral into shares and by utilising the Long-Term Incentive Plan ("LTIP"). No further share options will be granted other than in exceptional circumstances, such as in connection with recruitment.

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

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

#### **Remuneration for executive directors**

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

It is the Committee's policy that, for 2005, the balance between fixed and variable remuneration for the executive directors shall be as follows:

#### **Basic salary**

Basic salary for executive directors takes into account the role, responsibilities, performance and experience of the individual. This is normally reviewed annually unless responsibilities change. Salary levels are targeted at the median of companies of a comparable size, complexity and market sector.

#### **Annual bonus**

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

The executive directors received discretionary bonus payments in May 2004 in respect of the first quarter of 2004. These bonus payments, which were not subject to the satisfaction of performance conditions, were paid to Mr Schofield and Mr Thomas in respect of their executive directorships of Premier Foods (Holdings) Limited. Details of these payments are set out on page 30. No bonus arrangements were put in place in respect of the remainder of 2004.

Following the review of remuneration policy, for 2005, it is the intention of the Committee that bonus potentials will be set at 75% of salary for executive directors, with a target level of 50%. The performance targets will be based on profit before tax and growth in branded sales.

In addition, to encourage executive directors to build up a significant personal stake in the Company it is intended that, in the future, they will be required to defer 50% of any bonus into shares in the Company. The deferred bonus shares will normally vest three years after their award. Generally, the deferred bonus shares will not be forfeitable. However, in the event that the executive's employment is terminated by reason of his gross misconduct or by reason of a material breach of his employment contract, his deferred bonus shares may, at the discretion of the Remuneration Committee, be forfeited.

Bonuses will not be pensionable.

### Share options

The Premier Foods (Holdings) Limited Employee Share Option Scheme ("the Old ESOS") Premier Foods (Holdings) Limited ("PFH") adopted the Old ESOS in 2000. Options were granted over shares in PFH. On Admission, the executive directors and senior managers rolled over 70% of their outstanding options under the Old ESOS into new options over shares in the Company (with the remaining 30% being cancelled for cash). The new options may be exercised at any time from the first anniversary of Admission (or earlier in the event of a takeover of the Company) and will lapse on the tenth anniversary of grant. The old options had vested in full on Admission, and the new options are not subject to any requirement for continued employment or any performance conditions.

No further options will be granted under the Old ESOS.

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

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

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

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

The current intention is that no further options will be granted under the New ESOS, other than in exceptional circumstances (e.g. in relation to recruitment).

### Long-Term Incentive Plan

The intention is for the first awards under the Long-Term Incentive Plan ("LTIP") to be made in 2005, following the AGM. Thereafter, the intention is for awards under the LTIP to be granted annually. The value of shares awarded to executive directors, under the LTIP, in any financial year will be subject to individual limits which will be determined by the Committee from time to time.

The current policy is that the maximum value of shares which may be awarded to executive directors, in any financial year, will be limited to 100% of salary. However, for 2005, it is intended that the awards will have a value of 100% of salary for Mr Schofield and 80% of salary for Mr Thomas.

Vesting of awards will be subject to the fulfilment of stretching performance conditions based on total shareholder return ("TSR"), as measured over a three year period against appropriate comparators. TSR measures the growth in share price, as adjusted for reinvested dividends over the performance period. The Committee considers TSR to be the most appropriate measure to align executives' interests with those of shareholders.

Relative TSR performance will be measured against two appropriate comparator groups: 50% based on performance measured against the FTSE 250 (excluding investment companies) and 50% based on performance measured against a group of relevant companies from the food sector. The Committee considers that splitting the vesting of the award in this way ensures that performance is correctly targeted against the Group's key comparators. For both parts of the awards, 30% will vest for median performance, rising on a straight-line basis to full vesting for upper quartile performance. The TSR calculations will be conducted on an independent basis by Deloitte.

The proposed constituents of the food sector comparator group for the 2005 awards are:

#### Food sector comparator group

Arla Foods plc	Devro PLC	Robert Wiseman Dairies PLC
Associated British Foods PLC	Geest PLC	Tate & Lyle PLC
Cadbury Schweppes plc	Greencore plc	Uniq plc
Cranswick plc	Northern Foods plc	
Dairy Crest Group plc	Richmond Foods plc	

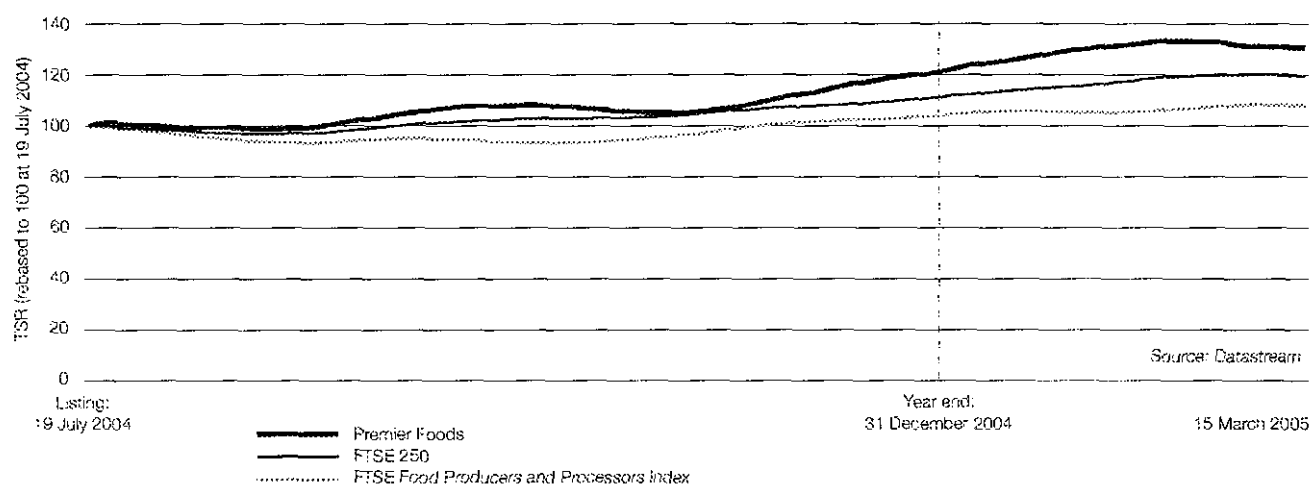
In addition, the vesting of awards will be subject to a secondary financial measure, to ensure that underlying financial performance is also achieved. The Committee will have the power to scale back awards if it is felt that underlying financial performance has not been adequate. The current intention is for the vesting of awards granted in 2005 to be subject to the minimum requirement that earnings per share ("EPS") must have exceeded the growth in the UK Retail Prices Index by an average of at least 2% per annum, over the three year performance period. The Committee may determine that an alternative secondary financial measure will apply for future grants of awards under the LTIP.

### Performance graph

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

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

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



### Remuneration of non-executive directors

The remuneration of the non-executive directors is determined by the Chairman and executive members of the Board and the remuneration of the Chairman is determined by the Remuneration Committee.

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

The non-executive directors were offered the opportunity to purchase shares in the Company on flotation at a 50% discount to the flotation price. Details of the benefits received are set out in the table of directors' detailed emoluments on page 30.

### All employee share schemes

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

### Employee trust

The Premier Foods plc Employee Share Ownership Trust was established on 19 July 2004. The trust was not active during 2004 and held no shares for that period.

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## Pensions

The Premier Foods Pension Scheme ("PF Scheme") is a funded, contributory, exempt-approved scheme which provides benefits on a defined benefit (final salary) basis and is contracted out of the State Second Pension.

Mr Schofield is a member of the PF Scheme. Mr Schofield is subject to the "earnings cap" imposed by the Finance Act 1989. Under the PF Scheme Mr Schofield will be provided with a pension of 1/30th of salary up to the Finance Act 1989 "earnings cap" for each year of pensionable service. Mr Schofield's normal pension date under the PF Scheme is age 60 and he is not required to make contributions to the PF Scheme.

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

Each executive director is contractually entitled to a lump sum life assurance benefit of four times uncapped salary. The contractual life cover that exceeds the approved benefit which can be provided under the PF Scheme is provided on an unapproved basis.

The Committee will review the pensions arrangements for executive directors, particularly in light of the new UK pensions regime which will apply from April 2006. Details of any changes to the pensions arrangements for executive directors will be disclosed in the Directors' Remuneration Report for 2005.

## Other benefits

Each executive director is provided with a car, telecommunication services and an allowance for personal tax and financial planning. Each executive director is also provided with private health cover and permanent health insurance. Mr Thomas is entitled to a housing allowance of £18,000 per annum.

## Other directorships

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

Mr Schofield is the non-executive Chairman of Burton's Foods Group Limited and also a director of Burton's Foods (Holdings) Limited and Burton's Foods Limited. He does not receive any fees in respect of these directorships. Pursuant to the terms of his service agreement with the Company, Mr Schofield has agreed not to take part in any discussion by the Board or a committee of the Board nor vote on any transaction, arrangement or agreement by a member of the Group with Burton's or its affiliates. Mr Schofield has further agreed to keep confidential and not disseminate or otherwise use any confidential information which may give rise to a conflict of interest.

## Service contracts

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

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

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

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

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

None of the non-executive directors have employment contracts with the Company. However, each has entered into a letter of appointment dated 19 July 2004 with the Company confirming their appointment for initial periods ranging from two to three years, unless terminated by either party giving the other one month's written notice. Non-executive directors are typically expected to serve two three-year terms although the Board may invite individual non-executive directors to serve an additional period. The appointments are subject to the provisions of the Companies Act 1985 and the Company's Articles of Association, in particular the need for periodic re-election. Continuation of an individual non-executive director's appointment is also contingent on that non-executive director's satisfactory performance, which will be evaluated annually.

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

Details of appointment periods appear below:

	Date of current appointment or reappointment	Expiry date	Notice period
David Kappler	19 July 2004	18 July 2006	One month
David Felwick CBE	19 July 2004	18 July 2007	One month
Sharon Hintze	19 July 2004	18 July 2006	One month
Lyndon Lea	22 June 2004	18 July 2007	One month
Ian McHoul	19 July 2004	18 July 2007	One month
Ian Ramsay	19 July 2004	18 July 2006	One month
George Sewell	19 July 2004	18 July 2007	One month

#### Directors' interests in ordinary shares

The beneficial interests of directors at the date of appointment and end of the year in shares in Premier Foods plc were:

	Fully paid ordinary share of 10 each	
	As at Date of appointment	As at 31 December 2004
Robert Schofield	Nil	Nil
Paul Thomas	Nil	144,843 <sup>(1)</sup>
David Kappler	Nil	116,279 <sup>(2)</sup>
David Felwick CBE	Nil	37,209 <sup>(2)</sup>
Sharon Hintze	Nil	Nil
Lyndon Lea	Nil	37,209 <sup>(2)</sup>
Ian McHoul	Nil	37,209 <sup>(2)</sup>
Ian Ramsay	Nil	Nil
George Sewell	Nil	37,209 <sup>(2)</sup>

(1) Paul Thomas utilised the cash cancellation payment (net of income tax and national insurance contributions) arising from the cancellation of 270,000 share options under the Premier Foods (Holdings) Limited Employee Share Option Scheme (see table of interests in share options on page 30) to purchase 144,843 shares on Admission at a price of 215p per ordinary share.

(2) Ordinary shares acquired on Admission at a price of 107.5p each, representing a 50% discount to the offer price.

Directors' share interests include the interests of their spouses and infant children as required by Section 328 of the Companies Act 1985. Robert Schofield and Paul Thomas are additionally interested in options to subscribe for shares as detailed on the following page. There were no changes in the beneficial interests of the directors in the Company's shares between 31 December 2004 and 18 March 2005.

## Information subject to audit

**Directors' detailed emoluments**  
Year ended 31 December 2004

	Appointed	Salaries and fees 2004 £	Benefits 2004 £	Annual bonus 2004 £	Total 2004 £	Total 2003 £
<b>Executive directors</b>						
Robert Schofield	22 June 2004	<b>375,540</b>	<b>33,665</b>	<b>49,613<sup>(1)</sup></b>	<b>458,818<sup>(2)</sup></b>	341,485 <sup>(3)</sup>
Paul Thomas	22 June 2004	<b>265,403</b>	<b>38,285</b>	<b>33,075<sup>(1)</sup></b>	<b>336,763<sup>(2)</sup></b>	241,385 <sup>(3)</sup>
<b>Non-executive directors</b>						
David Kappler	19 July 2004	<b>59,167</b>	<b>125,000<sup>(4)</sup></b>	–	<b>184,167</b>	–
David Felwick CBE	19 July 2004	<b>27,308</b>	<b>40,000<sup>(4)</sup></b>	–	<b>67,308</b>	–
Sharon Hintze	19 July 2004	<b>20,481</b>	–	–	<b>20,481</b>	–
Lyndon Lea	22 June 2004	<b>20,481</b>	<b>40,000<sup>(4)</sup></b>	–	<b>60,481</b>	–
Ian McHoul	19 July 2004	<b>25,032</b>	<b>40,000<sup>(4)</sup></b>	–	<b>65,032</b>	–
Ian Ramsay	19 July 2004	<b>22,756</b>	–	–	<b>22,756</b>	–
George Sewell	19 July 2004	<b>20,481</b>	<b>40,000<sup>(4)</sup></b>	–	<b>60,481</b>	–
		<b>836,649</b>	<b>356,950</b>	<b>82,688</b>	<b>1,276,287</b>	582,870

(1) Discretionary bonus amounts received in respect of executive directorships of Premier Foods (Holdings) Limited, prior to Admission.

(2) Includes amounts received in respect of executive directorships of Premier Foods (Holdings) Limited, prior to Admission.

(3) Amounts received in respect of executive directorships of Premier Foods (Holdings) Limited.

(4) Benefit represents a 50% discount to the offer price of ordinary shares acquired on Admission at a price of 107.5p each.

**Interest in share options**

At the beginning and end of the year and at the date of appointment, the following directors had options to subscribe for shares of 1p each granted under the terms of the Premier Foods plc Executive Share Option Scheme:

	Options <sup>(1)</sup> as at 31 December 2003 and on appointment	Options granted during the year	Cash cancelled <sup>(2)</sup> during the year	Options as at 31 December 2004	Exercise price	Exercise period
Robert Schofield	2,215,000	1,416,374 <sup>(3)</sup> 1,000,000 <sup>(4)</sup>	664,500	<b>1,416,374</b> <b>1,000,000</b>	£1.46 £0.01 £2.15	– 23.07.05 – 22.07.14 23.07.07 – 22.07.14
Paul Thomas	900,000	575,502 <sup>(3)</sup> 595,349 <sup>(4)</sup>	270,000	<b>575,502</b> <b>595,349</b>	£1.46 £0.01 £2.15	– 23.07.05 – 22.07.14 23.07.07 – 22.07.14

(1) Options granted under the Premier Foods (Holdings) Limited Employee Share Option Scheme ("the Holdings Scheme") on 4 October 2002 at a price of £1.46.

(2) These options (originally granted under the Holdings Scheme) were cash cancelled at the time of Admission, in July 2004. Full details were disclosed in the Listing Particulars. On cash cancellation of these options, each executive director made a profit per share of £1.05. Robert Schofield received £1.3m and Paul Thomas received £0.5m from the cash cancellation. The balance of the executive directors' options under the Holdings Scheme were rolled over into options over Premier Foods plc shares - see footnote 3 below.

(3) Rolled-over options granted in respect of the balance of outstanding options under the Holdings Scheme (see footnote 2 above). The exercise of these options is not subject to any performance conditions.

(4) Options granted under the Premier Foods plc Executive Share Option Scheme. The exercise of these options is conditional upon the satisfaction of both EPS and TSR based performance targets (further details of which are set out on page 25).

On 31 December 2004 the market price of ordinary shares of Premier Foods plc was 272p and the range during 2004 was 208p to 272p. No options have expired unexercised during 2004.

There were no changes in the options held by the directors between 31 December 2004 and 18 March 2005.

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

### Pension entitlements

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

	Age at 31 December 2004	Years' service at 31 December 2004	Total accrued benefit at 31 December 2004 £	Increase in accrued benefit during the year £	Increase in accrued benefit during the year, excluding inflation £
Robert Schofield	53	3 years 7 months	<b>12,094</b>	3,608	3,328
Paul Thomas	49	2 years 6 months	<b>5,522</b>	2,237	2,144

For each director, the total accrued benefit at 31 December 2004 represents the annual pension that is expected to be payable on eventual retirement, given the length of service and salary of each director at 31 December 2004. The increase in accrued benefit earned during the year represents the increase in this expected pension (including the effect of inflation) when compared with the position at 31 December 2003. The increase in accrued pension excluding the effect of inflation over the year is also shown.

Requirements under:	Schedule 7A of the Companies Act 1985			The Listing Rules
	Transfer value at 31 December 2003 of total accrued benefit £	Transfer value at 31 December 2004 of total accrued benefit £	Value of increase in accrued benefit during the year £	Value of increase in accrued benefit during the year, excluding inflation £
Robert Schofield	84,500	<b>132,800</b>	48,300	36,500
Paul Thomas	26,100	<b>46,700</b>	20,600	18,100

For each director, the value of the increase in accrued benefit under the requirements of Schedule 7A of the Companies Act 1985 is the amount obtained by subtracting from the transfer value of the total accrued benefit at 31 December 2004 from the corresponding transfer value at 31 December 2003. The value of the increase in accrued benefit under the Listing Rules is the transfer value at 31 December 2004 of the increase in accrued benefit during the period, excluding inflation.

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



**David Felwick**

Chairman of the Remuneration Committee

18 March 2005

Premier Foods plc  
Premier House  
Centrium Business Park  
Griffiths Way  
St Albans  
Hertfordshire AL1 2RE  
Registered in England No. 5160050

## Corporate social responsibility

As one of the largest ambient food producers in the UK, the Company is committed to managing its business in a socially responsible manner. It believes strongly that to grow and be profitable it must work actively to develop sustainable relationships with its various stakeholders comprising employees, shareholders, suppliers, customers and the wider communities in which it operates. During the year progress has been made in many areas of corporate responsibility although it is recognised that there are still areas for improvement. Significant business drivers such as cost savings, particularly in energy which is a significant operational cost, encourage good environmental performance.

### Safety, Health and the Environment ("SHE")

The Board has overall responsibility for the safe, healthy and environmentally sound management of the Company's operations. It recognises the importance of achieving the highest standards of health and safety in the interests of employees, contractors and others who may be affected by the operations under its control. This is demonstrated by the appointment of Ian Croxford, Operations Director as Health & Safety champion and the promotion of SHE as one of the Company's core business values.

The Company has developed a SHE management system that sets out policies, standards and procedures through which it will systematically manage the health and safety of its employees and others whilst also protecting the environment. According to published data, the Company now achieves a significantly lower level of lost time accidents exceeding three days. (Reporting of Injuries, Diseases and Dangerous Occurrences Regulations) than its industrial peers.

Regular safety reviews are undertaken both internally and by external advisors, as a result of which action programmes are developed and followed up.

The Company ensures that contractors also comply with H&S regulations and obliges them to ensure that their employees are provided with safe working environmental and safety equipment.

The Company aims to reduce the impact of its activities on the environment wherever feasible. It has signed up to the Climate Change Levy Agreement and invested over £5m in a range of energy efficiency projects across all of its sites. Other initiatives, including wind generation and CHP plants, are currently under review.

All sites operate waste reduction programmes which meet fully their obligations under the Packaging Waste Regulations. The Company's integrated approach is to reduce the volume of packaging not only in its operations but also through the cooperation of its regular suppliers. Procedures are in place to formalise the environmental impact evaluation of any new packaging designs and materials under Environmental Management System and the Packaging Essential Requirements Regulations. Recent focus on waste stream segregation at the point of disposal has achieved significantly greater recovery of materials for recycling. Substantial effort is currently being directed at reducing reliance on landfill with one site having already reduced its landfill requirement by over 80%. The Company has recorded and collated centrally all waste streams over several years. These systems are being brought into line with IPPC regulations.

In recent years the Company has placed significant emphasis on reducing the sulphur content of its boiler emissions. We operate a mix of boiler plants, those with dual firing of gas and oil now burn gas as the first choice fuel and low sulphur oil as back-up. Regular combustion checks optimise burner efficiency and minimise the emission of harmful gases. On the larger coal fired sites, investment has been made to improve energy efficiency with variable speed drives on both cooling fans and fuel feed screws along with Reverse Osmosis boiler feed treatment. A 20% reduction in sulphur dioxide output has been achieved by switching to ultra low sulphur coal for the last three years.

The larger sites within the Group are certified to the international environmental management systems standard ISO14001 or have planned certification within the next year. ISO14001 includes the requirement that environmental impacts are identified and that there are ongoing programmes for improvement across key impact areas.

### Product stewardship

In September 2004 the Food and Drink Federation ("FDF") published its Food and Drink Manifesto outlining the UK Food and Drink manufacturing industry's commitment to work constructively with consumers, government and others to help find solutions to the issues surrounding obesity and the food and health debate generally. The Manifesto covers more informative labelling, sodium, fat and sugar reduction in products, portion sizes, vending, advertising to children, healthy lifestyle and public education. Premier Foods not only endorsed this Manifesto but also provided numerous examples of good practice that were published alongside it. Independent nutritionists work alongside the Company's own management to identify and implement nutritional and health improvements that can be made across our product portfolio.

The Company has a long history of working with the growers and merchants who supply the quality raw materials used by its businesses. It recognises its responsibility to produce safe, legal and wholesome food products. The control of pesticide, herbicide and fungicide usage is achieved through governance of an integrated crop management policy. The Premier Foods Policy on Agrochemicals outlines the practices and procedures taken in exercising our duty of care to protect the consumer. This policy is subject to annual review and can be viewed on the Company's website, [www.premierfoods.co.uk](http://www.premierfoods.co.uk).

### Employees

The Company is an equal opportunity employer where recruitment and career progression are not influenced by race or ethnic origin, religion, sex or marital status.

In order to promote career development the Company provides its employees with access to relevant training schemes through in-house training and educational assistance and encourages professional memberships.

As the Company grows we seek to develop our employees through increasingly varied and innovative training and development schemes which are designed to ensure that we have highly trained and motivated staff capable of meeting the highest standards required by customers and investors.

As part of the Company's approach to equal opportunities, applications from disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. The training, career development and promotion of disabled persons is expected, as far as possible, to be identical with that of other employees. In the event of an employee becoming disabled every effort is made to ensure that employment within the Group continues and that appropriate training is arranged.

A number of employee consultation and communication mechanisms are in place including:

- regular communication meetings with employees at all levels of the organisation;
- intranet site;
- specific consultation and involvement regarding major changes to business operations.

By offering employees the chance to join a Savings Related Share Option Scheme we hope to encourage employees to invest in the Company and benefit from its future prosperity and growth.

### Labour rights

The Company has been active in ethical supply chain work since 1992.

The Company's aim is to ensure the application of universal labour standards in its supply chain and to seek to accomplish these aims by working with suppliers in order to achieve progressive and sustainable compliance to universal labour standards.

All ethical work is managed through the Ethical Assurance Programme ("EAP") involving a cross-departmental team from buying, technical and personnel. Standards within the supply chain are assessed and monitored through the EAP with the objective of assisting suppliers to resolve issues.

The Company's strategy is for each area of the business to approach ethical monitoring in a way which best suits the strengths and weaknesses for those supply chains. Where possible we engage and work with multi-stakeholder organisations and key stakeholders in pursuit of these aims.

The experience and track record of the tea division in ethical work is maximised through the "halo" effect for the rest of the Company, with lessons learned and various approaches being absorbed into operations in other areas of the business.

#### Ethical Trading Initiative

Premier Foods (tea) was one of the founding members of Ethical Trading Initiative ("ETI") in 1998. The ETI is a tripartite organisation of companies, trade unions and non-governmental organisations seeking to identify and promote good practice in the implementation of codes of labour practice.

As a result of the consolidation of the Premier businesses in 2002, the Company as a whole became a full member of ETI from January 2003. As a member of the ETI we report our progress towards our membership obligations and submit ourselves to peer review through our annual report and other work undertaken to company, trade union and non-governmental organisation members.

### Community

#### Working with communities

Company operations bring employment opportunities, both through direct employment and indirectly through supporting activities in the local and regional economies. The Company has a policy of recruiting local people where possible.

#### Future plans

Significant improvements in SHE performance have been made in recent years. However, the Company acknowledges that performance improvement is a continuing challenge. In particular the Board is keen to ensure that its performance in the area of corporate responsibility is of a standard consistent with international benchmarks set by other leading food producing companies.

## Independent auditors' report to the members of Premier Foods plc

We have audited the financial statements which comprise the profit and loss account, the balance sheet, the cash flow statement, the statement of total recognised gains and losses, the reconciliation of movements in shareholders' deficit and the related notes which have been prepared under the historical cost convention (as modified by the revaluation of certain fixed assets) and the accounting policies set out in the statement of accounting policies. We have also audited the disclosures required by Part 3 of Schedule 7A to the Companies Act 1985 contained in the directors' remuneration report ("the auditable part").

### Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities. The directors are also responsible for preparing the directors' remuneration report.

Our responsibility is to audit the financial statements and the auditable part of the directors' remuneration report in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the auditable part of the directors' remuneration report have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only those sections set out in the table of contents, including the chairman's statement, the chief executive's review, the financial review, the biographies of directors and senior management, the directors' report, the unauditable part of the directors' remuneration report and the corporate social responsibility report.

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

### Basis of audit opinion

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

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

### **Fundamental uncertainty in respect of the product recall**

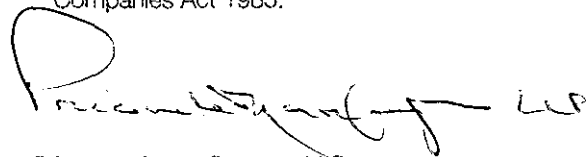
In forming our opinion, we have considered the adequacy of the disclosures made in the financial statements concerning the recall of products possibly contaminated with the illegal dye "Sudan 1". Given the recent nature of the recall, the limited number of claims received and the inherent uncertainty associated with such situations, it has not been possible to quantify fully the claims against the company and the level of recovery from suppliers and insurers.

The financial statements have been prepared assuming no material financial exposure will result from the product recall. The validity of this assumption depends on the level of claims against the company and the response from its suppliers and the insurers of both the company and its suppliers. The directors, having taken legal advice, have made a preliminary assessment of the quantum of the claims and the expected recovery from their suppliers, their suppliers' insurers and the company's own insurers. As a result of this assessment, the directors believe that no material financial exposure will arise from the recall. The financial statements do not include any adjustments that would result, to the extent that any claims are not covered by the company's insurers, or its suppliers and their insurers. Details of the circumstances relating to this fundamental uncertainty are described in note 28. Our opinion is not qualified in this respect.

### **Opinion**

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the company and the group at 31 December 2004 and of the profit and cash flows of the group for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- those parts of the directors' remuneration report required by Part 3 of Schedule 7A to the Companies Act 1985 have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers LLP  
Chartered Accountants and Registered Auditors  
London

18 March 2005

#### **Notes:**

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

## Consolidated profit and loss account

	Note	Year ended 31 December 2004			Year ended 31 December 2003		
		Continuing £m	Discontinued £m	Total £m	Continuing £m	Discontinued £m	Total £m
Turnover	3	842.2	54.6	896.8	773.8	96.8	870.6
Cost of sales							
Before exceptional items	3	(631.8)	(40.7)	(672.5)	(591.1)	(76.7)	(667.8)
Exceptional items	3.4	(4.5)	–	(4.5)	(8.9)	(0.5)	(9.4)
		(636.3)	(40.7)	(677.0)	(600.0)	(77.2)	(677.2)
Gross profit		205.9	13.9	219.8	173.8	19.6	193.4
Selling and distribution costs							
Before exceptional items	3	(75.6)	(9.5)	(85.1)	(73.3)	(13.2)	(86.5)
Exceptional items	3.4	(0.6)	–	(0.6)	(1.4)	–	(1.4)
		(76.2)	(9.5)	(85.7)	(74.7)	(13.2)	(87.9)
Administration costs							
Before amortisation and exceptional items	3	(30.4)	(2.3)	(32.7)	(23.8)	(3.9)	(27.7)
Amortisation of intangible assets	12	(10.1)	(0.1)	(10.2)	(6.8)	(0.3)	(7.1)
Amortisation of pension prepayment	7	–	–	–	(2.4)	–	(2.4)
Exceptional items	3.4	(20.3)	–	(20.3)	(0.2)	–	(0.2)
		(60.8)	(2.4)	(63.2)	(33.2)	(4.2)	(37.4)
Net operating expenses		(137.0)	(11.9)	(148.9)	(107.9)	(17.4)	(125.3)
Other operating income	3	3.0	–	3.0	–	–	–
Operating profit		71.9	2.0	73.9	65.9	2.2	68.1
Profit on sale of subsidiary undertakings	4	11.7	–	11.7	–	–	–
Profit on sale of tangible fixed assets, net	4	1.2	0.2	1.4	2.0	–	2.0
Net interest (payable)/receivable	8	(78.3)	–	(78.3)	(70.6)	0.2	(70.4)
Profit/(loss) on ordinary activities before taxation	6	6.5	2.2	8.7	(2.7)	2.4	(0.3)
Tax (charge)/credit on profit/(loss) on ordinary activities	9	(2.5)	–	(2.5)	8.9	–	8.9
Profit on ordinary activities after taxation		4.0	2.2	6.2	6.2	2.4	8.6
Dividends	11			(22.0)			–
Retained (loss)/profit for the year				(15.8)			8.6
Earnings per share (pence)	10						
– basic				3.9			9.6
– diluted				3.8			9.3

## Consolidated statement of total recognised gains and losses

	Note	Year ended 31 December	
		2004 £m	2003 £m
Profit on ordinary activities after taxation		<b>6.2</b>	8.6
Dividends		<b>(22.0)</b>	—
Exchange adjustments offset in reserves	23	<b>(1.9)</b>	3.3
<b>Total recognised gains and losses in the year</b>		<b>(17.7)</b>	11.9

## Consolidated reconciliation of movements in shareholders' deficit


	Note	Year ended 31 December	
		2004 £m	2003 £m
Profit on ordinary activities after taxation		<b>6.2</b>	8.6
Dividends	23	<b>(22.0)</b>	—
Exchange adjustments offset in reserves	23	<b>(1.9)</b>	3.3
Issue of shares for cash net of issue expenses	22,23	<b>109.0</b>	—
Issue of share options	22,23	<b>6.3</b>	—
Capitalisation of loan notes by issue of shares	22,23	<b>204.3</b>	—
<b>Net decrease in shareholders' deficit</b>		<b>301.9</b>	11.9
Shareholders' deficit at 1 January		<b>(316.8)</b>	(328.7)
<b>Shareholders' deficit at 31 December</b>		<b>(14.9)</b>	(316.8)

There is no material difference between the results disclosed in the profit and loss account and the results on an unmodified historical cost basis and therefore, a note of historical cost profits and losses is not included in these accounts.

## Balance sheets

	Note	Group 31 December		Company 31 December	
		2004 £m	2003 £m	2004 £m	2003 £m
Fixed assets					
Intangible assets	12	<b>174.6</b>	190.4	-	-
Tangible assets	13	<b>147.3</b>	153.1	-	-
Investments	14	<b>0.1</b>	0.3	<b>356.0</b>	-
		<b>322.0</b>	343.8	<b>356.0</b>	-
Current assets					
Stock	15	<b>98.2</b>	120.6	-	-
Debtors					
-- due within one year	16	<b>110.6</b>	120.7	<b>20.6</b>	-
-- due after more than one year	16	<b>9.4</b>	6.5	-	-
Cash at bank and in hand		<b>12.5</b>	28.1	<b>3.5</b>	-
		<b>230.7</b>	275.9	<b>24.1</b>	-
Creditors -- Amounts falling due within one year	17	<b>(201.1)</b>	(235.6)	<b>(29.9)</b>	-
Net current assets/(liabilities)		<b>29.6</b>	40.3	<b>(5.8)</b>	-
Total assets less current liabilities		<b>351.6</b>	384.1	<b>350.2</b>	-
Creditors -- Amounts falling due after more than one year	18	<b>(354.9)</b>	(681.8)	-	-
Provisions for liabilities and charges	21	<b>(11.6)</b>	(19.1)	-	-
Net (liabilities)/assets		<b>(14.9)</b>	(316.8)	<b>350.2</b>	-
Capital and reserves					
Called up share capital	22	<b>2.4</b>	-	<b>2.4</b>	-
Share premium account	23	<b>320.9</b>	10.0	<b>320.9</b>	-
Revaluation reserve	23	<b>4.0</b>	4.0	-	-
Merger reserve	23	<b>(136.8)</b>	(136.8)	-	-
Profit and loss reserve	23	<b>(205.4)</b>	(194.0)	<b>26.9</b>	-
Total equity shareholders' (deficit)/funds		<b>(14.9)</b>	(316.8)	<b>350.2</b>	-

Signed on behalf of The Board of Directors, who approved the financial statements on 18 March 2005.



Robert Schofield Director and Chief Executive



Paul Thomas Finance Director

## Consolidated cash flow statement

	Note	Year ended 31 December	
		2004 £m	2003 £m
Net cash inflow from operating activities	25a	<b>98.4</b>	109.9
Returns on investments and servicing of finance			
Interest received		<b>5.3</b>	5.1
Interest paid		<b>(64.7)</b>	(47.9)
Issue costs of new bank loan		<b>(8.1)</b>	(4.3)
Net cash outflow from returns on investments and servicing of finance		<b>(67.5)</b>	(47.1)
Taxation		<b>(0.2)</b>	1.7
Capital expenditure and financial investment			
Purchase of tangible fixed assets		<b>(36.8)</b>	(27.3)
Sale of tangible fixed assets		<b>4.0</b>	6.5
Receipts from insurers		<b>5.9</b>	–
Purchase of intangible assets		<b>–</b>	(0.2)
Net cash outflow for capital expenditure and financial investment		<b>(26.9)</b>	(21.0)
Acquisitions and disposals			
Sale/(purchase) of subsidiary undertakings	24	<b>34.8</b>	(106.3)
Cash disposed of upon sale of subsidiary undertakings	24	<b>(0.6)</b>	–
Net cash inflow/(outflow) for acquisitions and disposals		<b>34.2</b>	(106.3)
Net cash inflow/(outflow) before financing		<b>38.0</b>	(62.8)
Financing			
Issue of ordinary share capital		<b>98.7</b>	–
(Decrease)/increase in borrowings		<b>(355.7)</b>	34.8
Capitalisation of loan notes by issue of shares		<b>204.3</b>	–
Net cash (outflow)/inflow from financing		<b>(52.7)</b>	34.8
Decrease in net cash		<b>(14.7)</b>	(28.0)
Reconciliation to net debt	25b		
Net debt at 1 January		<b>(693.9)</b>	(607.5)
Decrease in net cash		<b>(14.7)</b>	(28.0)
Decrease/(increase) in borrowings		<b>355.7</b>	(34.8)
Other non-cash movements		<b>(17.4)</b>	(19.8)
Exchange adjustments		<b>–</b>	(3.8)
Net debt at 31 December		<b>(370.3)</b>	(693.9)

## Notes to the consolidated financial statements

### 1. Basis of preparation and consolidation

#### Accounting convention

The financial statements have been prepared in accordance with the Companies Act 1985 and applicable accounting standards in the United Kingdom ("UK GAAP"), under the historical cost convention, except for the departure from Financial Reporting Standard 6 "Acquisitions and disposals" ("FRS 6") described below and the revaluation of freehold land and buildings carried out before the implementation of Financial Reporting Standard 15 "Tangible fixed assets" ("FRS 15") as described in note 13.

#### Basis of consolidation

The consolidated financial statements include the financial statements of Premier Foods plc ("the Company"). The profits and losses of the subsidiary undertakings are included from the effective date of acquisition until the effective date of disposal.

On 22 June 2004, Premier Foods plc was incorporated with an issued share capital of 5,000,000 1p ordinary shares. Premier Foods plc became the ultimate holding company of the Group on 15 July 2004. On this date, HMTF Premier Limited (HMTFPL) contributed its shares in Premier Foods Investment No.3 Limited (PFI No.3) to Premier Foods plc in exchange for 1,000 1p ordinary shares in Premier Foods plc. The scheme of arrangement has been accounted for as a Group reconstruction in accordance with the principles of merger accounting.

FRS 6 requires acquisition accounting to be adopted where all of the conditions laid down by merger accounting are not satisfied. One of the requirements of merger accounting under Schedule 4A 10(1) of the Companies Act 1985 is that at least 90% of the consideration (calculated by reference to the nominal value of shares issued) should be in the form of equity shares. On 23 January 2004, PFI No.3 acquired, through its wholly owned subsidiary undertakings Premier Foods Investments No.2 Limited (PFI No.2) and Premier Foods Investments No.1 Limited (PFI No.1), the entire share capital of Premier Foods Investments Limited and its subsidiaries by the issue of one £1 ordinary share to HMTFPL and the assumption of £194.4m of loan notes due 2017 to Premier Investments Holdings L.P. The obligations under the loan notes constituted more than 10% of the total consideration.

As a result of the transactions executed on 23 January 2004, the shareholders in PFI No.3 were the same as the former shareholders of Premier Foods Investments Limited, the ultimate parent company at 31 December 2003 and the rights of each shareholder, relative to the others, were unchanged. Consequently, the directors have considered that to record the Group reconstruction as an acquisition by PFI No.3, to attribute fair values to the assets and liabilities of PFI No.1, PFI No.2 and Premier Foods Investments Limited, and to reflect in each case only the post Group reconstruction consolidated results of the Group within the consolidated financial statements would fail to give a true and fair view of the Group's consolidated results and financial position.

Accordingly, having regard to the overriding requirement under Section 227(6) of the Companies Act 1985 for the consolidated financial statements to give a true and fair view of the Group's results and financial position, the directors have adopted merger accounting principles in respect of the Group reconstruction in drawing up the financial statements underlying the consolidated financial statements. As a result, all equity shares that were outstanding at the date of the Group reconstruction have, together with all disclosures, been restated and presented throughout the period of the consolidated financial statements to give the effect of the Group reconstruction as if it had occurred immediately prior to the beginning of the period. The directors have considered it is not practicable to quantify the effect of this departure from FRS 6.

The results of the companies acquired under the Group reconstruction on 15 July 2004 was a profit of £8.6m for the year ended 31 December 2003 and a loss of £4.0m for the period from 1 January 2004 to 15 July 2004.

### 2. Accounting policies

#### Turnover

Turnover is the value of sales, excluding transactions with or between wholly owned subsidiaries, after deduction of sales rebates, discounts, value added tax and other taxes directly attributable to turnover. Sales are recognised upon receipt of confirmation that the goods shipped have been accepted by the customer, where the sales price is fixed and collectability is reasonably assured. Shipping and handling costs are included in selling and distribution costs.

#### Sales rebates and discounts

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

## 2. Accounting policies continued

### Depreciation

Freehold land is not depreciated. Long and short leasehold property is amortised over the terms of the leases from the date the property is brought into use.

Other fixed assets are depreciated over their estimated useful lives on a straight-line basis at rates sufficient to reduce them to their estimated residual value. Such estimated useful lives are:

Freehold land	Not depreciated
Freehold buildings	20 to 50 years
Vehicles, plant and machinery	3 to 15 years

When properties are revalued, the depreciation thereafter provided is based on the revalued depreciable amounts.

In accordance with Financial Reporting Standard 11 "Impairment of fixed assets and goodwill" ("FRS 11"), where assets are impaired, write-downs are charged initially against any related revaluation reserve until historic cost is reached unless they are caused by a clear consumption of economic benefits.

### Goodwill and intangible assets

Purchased goodwill, being the excess of the fair value of the purchase consideration over the fair value of the separable net assets of businesses acquired, is capitalised and amortised over the shorter of its estimated useful life and 20 years on a straight-line basis.

Prior to 1998 before the adoption of Financial Reporting Standard 10 "Goodwill and intangible assets" ("FRS 10"), goodwill arising on the acquisition of subsidiary undertakings was written off to reserves in the year of acquisition. On the subsequent disposal or termination of a business acquired prior to 1998, the profit or loss on disposal or termination is calculated after charging the gross amount of any related goodwill previously taken to reserves.

Acquired trademarks that are controlled through custody or legal rights and could be sold separately from the rest of the business are capitalised, where fair value can be reliably measured. Trademarks are amortised on a straight-line basis over the shorter of their estimated useful economic life and 20 years.

### Asset impairment

Intangible and tangible fixed assets are tested for impairment when an event that might affect asset values has occurred. An impairment loss is recognised, in the profit and loss account, to the extent that the carrying amount cannot be recovered either by selling the asset or by the discounted future earnings from operating the assets. Goodwill is subject to an impairment review at the end of the first full year following an acquisition and at any time when the directors believe that impairment may have occurred.

### Fixed asset investments

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

### Research and development

Research and development expenditure is expensed in the period in which it is incurred.

### Leasing

Payments under operating leases are charged wholly to the profit and loss account in the period in which they are incurred.

Where a leasehold property has ceased to be used for the purpose of the business, full provision is made for the future rental costs of the property less any sublet income.

### Stock

Stock is valued at the lower of cost and net realisable value. No interest is included but, where appropriate, cost includes production and other attributable overhead expenses. Cost is calculated on a first-in-first-out basis by reference to the invoiced value of supplies and attributable costs of bringing stock to its present location and condition.

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## 2. Accounting policies continued

### Foreign currency translation

Assets and liabilities denominated in foreign currencies are translated into sterling at rates of exchange ruling at the end of the financial year.

The results of overseas subsidiary undertakings are translated at the average rate of exchange ruling during the year. Exchange differences arising from the retranslation at year-end exchange rates of the net investment in foreign subsidiary undertakings, less exchange differences on borrowings that finance or provide a hedge against those subsidiary undertakings, are taken to reserves through the statement of total recognised gains and losses. All other exchange gains or losses are taken to the profit and loss account.

### Taxation

The (charge)/credit for taxation is based on the profit/(loss) for the year and takes into account deferred taxation. The Group provides in full for deferred tax arising from timing differences between the recognition of gains and losses in the financial statements and their inclusion in tax computations to the extent that a liability or an asset is expected to be payable or recoverable in the foreseeable future. The Group has chosen not to discount its deferred tax liability.

### Pension costs

The Group currently operates a number of pension schemes, principally the Premier Foods Pension Scheme, which is a funded defined benefits scheme. There is a further funded defined benefits scheme, the Premier Ambient Products Pension Scheme (PAPPS). In addition there are a small number of company defined contribution schemes.

Pension costs are recognised and measured in accordance with Statement of Standard Accounting Practice 24 "Accounting for pension costs" ("SSAP 24"). The pension costs relating to the Group pension schemes are assessed in accordance with the advice of independent qualified actuaries. The amounts so determined include the regular cost of providing the benefits as a percentage of current and expected future earnings of the employees covered. Variations from the regular pension cost are spread on a systematic basis over the estimated average remaining service lives of current employees in the plans.

A proportion of the employees of the Group companies are members of a number of defined benefit pension schemes. Each of the Group's operating companies directly funds the schemes based on the actual pension cost for its employees in accordance with the funding levels as determined by the schemes actuaries.

Payments to the Group's defined contribution schemes are charged to the profit and loss account in the period in which they are incurred.

### Post retirement benefits

The Group provides certain additional post retirement and unfunded pension benefits principally for employees in mainland Europe. The estimated cost of providing such benefits is charged to the profit and loss account on a systematic basis over the employees' working lives within the Group.

### Exceptional items

Exceptional items are those that need to be disclosed by virtue of their size or incidence. Such items are included within operating profit unless they represent profits or losses on the sale or termination of an operation, costs of a fundamental reorganisation or restructuring having a material effect on the nature and focus of the Group's business, or profits or losses on the disposal of fixed assets.

### Cash and liquid resources

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

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## 2. Accounting policies continued

### Debt issuance costs

Costs relating to the issuance of debt are offset against the carrying value of the related debt and amortised over the term in which management expect the debt to be repaid, in line with the level of the debt, in accordance with Financial Reporting Standard 4 "Capital instruments" ("FRS 4").

### Financial instruments

Derivative financial instruments utilised by the Group comprise interest rate swaps, cross currency swaps, forward foreign exchange contracts and currency options. All such instruments are used for hedging purposes to alter the risk profile of an underlying exposure faced by the Group. Interest rate swap settlements are recognised as adjustments to interest expense over the term of the underlying instrument and exchange gains or losses are recognised on the maturity of the underlying transaction in the profit and loss account.

## 3. Profit and loss account

	2004				2003			
	Continuing operations			Total £m	Continuing operations			Total £m
	Before exceptional items £m	Operating exceptional items £m	Discontinued operations £m		Before exceptional items £m	Operating exceptional items £m	Discontinued operations £m	
Turnover	842.2	–	54.6	896.8	773.8	–	96.8	870.6
Cost of sales	(631.8)	(4.5)	(40.7)	(677.0)	(591.1)	(8.9)	(77.2)	(677.2)
Gross profit	210.4	(4.5)	13.9	219.8	182.7	(8.9)	19.6	193.4
Selling and distribution costs	(75.6)	(0.6)	(9.5)	(85.7)	(73.3)	(1.4)	(13.2)	(87.9)
Administrative costs excluding amortisation	(30.4)	(20.3)	(2.3)	(53.0)	(23.8)	(0.2)	(3.9)	(27.9)
Net operating expenses before amortisation	(106.0)	(20.9)	(11.8)	(138.7)	(97.1)	(1.6)	(17.1)	(115.8)
Other operating income	3.0	–	–	3.0	–	–	–	–
Operating profit before amortisation	107.4	(25.4)	2.1	84.1	85.6	(10.5)	2.5	77.6
Amortisation of intangible assets	(10.1)	–	(0.1)	(10.2)	(6.8)	–	(0.3)	(7.1)
Amortisation of pension prepayment	–	–	–	–	(2.4)	–	–	(2.4)
Operating profit	97.3	(25.4)	2.0	73.9	76.4	(10.5)	2.2	68.1

Other operating income relates to insurance recovery for loss of profit as a result of the fire at the Group's Bury St. Edmunds factory (see note 4).

**4. Exceptional items**

	2004 £m	2003 £m
Operating exceptional items		
Restructuring of production facilities	<b>(4.5)</b>	(8.9)
Restructuring of distribution facilities	<b>(0.6)</b>	(1.4)
Restructuring of administration facilities	<b>(2.6)</b>	(0.2)
Merger of pension schemes	<b>(1.0)</b>	–
IPO costs	<b>(16.7)</b>	–
Continuing operations	<b>(25.4)</b>	(10.5)
Discontinued operations		
Restructuring of production facilities	–	(0.5)
<b>Total operating exceptional items</b>	<b>(25.4)</b>	<b>(11.0)</b>
Non-operating exceptional items		
(Loss)/profit on sale of tangible fixed assets	<b>(2.3)</b>	2.0
Net insurance recovery on tangible fixed assets	<b>3.5</b>	–
Profit on sale of subsidiary undertakings	<b>11.7</b>	–
Continuing operations	<b>12.9</b>	2.0
Discontinued operations		
Profit on sale of tangible fixed assets	<b>0.2</b>	–
<b>Total non-operating exceptional items</b>	<b>13.1</b>	<b>2.0</b>

**Restructuring of production facilities**

The charge in the year ended 31 December 2004 relates to the closure costs of the Group's Edinburgh site and the consolidation of tea production into the Group's operations at Moreton, additional costs relating to the Hadfield factory closure that commenced in 2003, together with costs associated with the restructuring of the Group's potato business.

The charge in the year ended 31 December 2003 relates to the closure costs of the Hadfield factory following transfer of production to other sites and additional costs relating to the closure of the North Walsham factory that commenced in 2002.

**Restructuring of distribution facilities**

The charge in the years ended 31 December 2004 and 2003 relates to the restructuring of the Group's sales force and distribution arrangements.

**Restructuring of administration facilities**

The charge in the year ended 31 December 2004 relates to the restructuring of the administration function at the Group's potato business and the integration of the Ambrosia business.

The exceptional charge during the year ended 31 December 2003 relates primarily to the relocation of the Group's principal administration functions to St. Albans.

**Merger of pension schemes**

A charge of £1.0m on the merger of three of the Group's principal pension schemes was incurred. The merger required a one-off cash contribution of £10.0m to equalise the level of funding in the schemes, £9.0m of which had been previously provided against.

#### 4. Exceptional items continued

##### IPO costs

The IPO resulted in £16.7m of operating exceptional items. This was made up of share option related costs of £14.5m and sundry legal, accountancy and ancillary items totalling £2.2m.

##### (Loss)/profit on sale of tangible fixed assets

The loss relates to the disposal of tangible fixed assets for the restructuring of the Group's potato business and closure of the Group's Edinburgh site.

##### Net insurance recovery on tangible fixed assets

On 27 October 2004 the Group suffered a serious fire at its Bury St. Edmunds factory, which is the main manufacturing site for pickles and sauces. Since that date, the Group has undertaken a comprehensive rebuild programme to restore production. Significant progress has been made and the Group is back to full production at the site, although the rebuild is not yet complete. Exceptional non-operating income of £3.5m is included, representing the difference between the insurance reimbursement for new tangible fixed assets installed less the book value of tangible fixed assets destroyed by the fire.

##### Profit on sale of subsidiary undertakings

On 23 July 2004 the Group disposed of Hillsdown Holland BV and its subsidiary undertakings, including Materne Boin S.A.S. ("Materne"), its French spreads business, to Financière Materne S.A.S. and Materne Luxembourg Sarl, affiliates of HMTFPL, the Company's principal shareholder prior to IPO, for a cash consideration of £35.5m.

The profit arising on the sale was £11.7m (see note 2.4).

#### 5. Segmental reporting

The following is the segmental analysis of turnover, profit before tax and net assets by business and geographical segments.

##### (a) Business segment analysis

##### Turnover

	2004 £m	2003 £m
Continuing operations		
– Convenience foods, pickles and sauces	374.8	374.6
– Tea and beverages	140.3	143.0
– Spreads and desserts	176.8	120.4
Sub total for segments relating to grocery products	691.9	638.0
– Potatoes	150.3	135.8
Total continuing operations	842.2	773.8
Discontinued operations – grocery products	54.6	96.8
Total	896.8	870.6

**5. Segmental reporting continued**

## (a) Business segment analysis continued

## Profit on ordinary activities before taxation

	2004 £m	2003 £m
Continuing operations		
Operating profit before operating exceptional items		
Convenience foods, pickles and sauces	<b>33.2</b>	32.7
Tea and beverages	<b>31.9</b>	26.9
Spreads and desserts	<b>26.7</b>	11.2
Sub total for segments relating to grocery products	<b>91.8</b>	70.8
Potatoes	<b>5.5</b>	5.6
Total operating profit before operating exceptional items	<b>97.3</b>	76.4
Operating exceptional items	<b>(25.4)</b>	(10.5)
Continuing operations – total operating profit	<b>71.9</b>	65.9
Discontinued operations		
Operating profit before operating exceptional items – grocery products	<b>2.0</b>	2.7
Operating exceptional items	<b>–</b>	(0.5)
Discontinued operations – total operating profit	<b>2.0</b>	2.2
Operating profit	<b>73.9</b>	68.1
Non-operating exceptional items	<b>13.1</b>	2.0
Net interest payable	<b>(78.3)</b>	(70.4)
Profit/(loss) on ordinary activities before taxation	<b>8.7</b>	(0.3)

Non-operating exceptional items and net interest payable have not been allocated to segments as any allocations would be arbitrary due to the integrated nature of these items.

## 5. Segmental reporting continued

### (a) Business segment analysis continued

The following additional disclosures have been given to show the operating profit before operating exceptional items, depreciation, amortisation of intangible assets and amortisation of the pension prepayment ("EBITDA before operating exceptional items") by segment for continuing operations.

	2004 £m	2003 £m
<i>Continuing operations</i>		
<i>Convenience foods, pickles and sauces</i>		
EBITDA before operating exceptional items	45.9	47.9
Amortisation of intangible assets	(3.0)	(3.2)
Amortisation of pension prepayment	-	(1.4)
Depreciation	(9.7)	(10.6)
Operating profit before operating exceptional items	33.2	32.7
<i>Tea and beverages</i>		
EBITDA before operating exceptional items	35.5	31.0
Amortisation of intangible assets	(0.5)	(0.5)
Amortisation of pension prepayment	-	(0.5)
Depreciation	(3.1)	(3.1)
Operating profit before operating exceptional items	31.9	26.9
<i>Spreads and desserts</i>		
EBITDA before operating exceptional items	36.8	18.8
Amortisation of intangible assets	(6.3)	(2.7)
Amortisation of pension prepayment	-	(0.5)
Depreciation	(3.8)	(4.4)
Operating profit before operating exceptional items	26.7	11.2
<i>Sub total for segments relating to grocery products</i>		
EBITDA before operating exceptional items	118.2	97.7
Amortisation of intangible assets	(9.8)	(6.4)
Amortisation of pension prepayment	-	(2.4)
Depreciation	(16.6)	(18.1)
Operating profit before operating exceptional items	91.8	70.8
<i>Potatoes</i>		
EBITDA before operating exceptional items	7.8	9.1
Amortisation of intangible assets	(0.3)	(0.4)
Depreciation	(2.0)	(3.1)
Operating profit before operating exceptional items	5.5	5.6
<i>Total – continuing operations</i>		
EBITDA before operating exceptional items	126.0	106.8
Amortisation of intangible assets	(10.1)	(6.8)
Amortisation of pension prepayment	-	(2.4)
Depreciation	(18.6)	(21.2)
Total operating profit before operating exceptional items	97.3	76.4
Operating exceptional items	(25.4)	(10.5)
Continuing operations – total operating profit	71.9	65.9

## 5. Segmental reporting continued

### (a) Business segment analysis continued

#### Net operating assets/(liabilities) – by business segment

	2004 £m	2003 £m
Continuing operations		
<i>Grocery products</i>		
Net operating assets excluding intangible assets	166.5	139.5
Intangible assets	174.6	185.2
	<b>341.1</b>	<b>324.7</b>
<i>Potatoes</i>		
Net operating assets excluding intangible assets	14.3	18.1
Intangible assets	–	0.2
	<b>14.3</b>	<b>18.3</b>
Total net operating assets – continuing operations	<b>355.4</b>	<b>343.0</b>
Discontinued operations		
<i>Grocery products</i>		
Net operating assets excluding intangible assets	–	29.1
Intangible assets	–	5.0
Total net operating assets – discontinued operations	–	34.1
Net operating assets	<b>355.4</b>	<b>377.1</b>
Net debt (note 25b)	<b>(370.3)</b>	<b>(693.9)</b>
Net liabilities	<b>(14.9)</b>	<b>(316.8)</b>

Net operating assets/(liabilities) have not been allocated to individual grocery segments as allocations of net operating assets/(liabilities) within that segment would be arbitrary due to the integrated nature of the Group's grocery operations.

### (b) Geographical analysis

#### Turnover

	2004 £m	2003 £m
Turnover by origin		
Continuing operations		
United Kingdom	814.9	745.2
Mainland Europe	27.3	28.6
	<b>842.2</b>	<b>773.8</b>
Discontinued operations – Mainland Europe	54.6	96.8
	<b>896.8</b>	<b>870.6</b>
Turnover by market		
Continuing operations		
United Kingdom	792.0	726.4
Mainland Europe	41.7	39.9
Other	8.5	7.5
	<b>842.2</b>	<b>773.8</b>
Discontinued operations – Mainland Europe	54.6	96.8
	<b>896.8</b>	<b>870.6</b>

**5. Segmental reporting continued**

(b) Geographical analysis continued

Profit/(loss) on ordinary activities before taxation -- by geographical origin

	2004 £m	2003 £m
Operating profit		
Continuing operations		
United Kingdom before exceptional items	<b>94.9</b>	74.5
United Kingdom exceptional items	<b>(25.4)</b>	(10.5)
Mainland Europe	<b>2.4</b>	1.9
	<b>71.9</b>	65.9
Discontinued operations -- Mainland Europe	<b>2.0</b>	2.2
Operating profit	<b>73.9</b>	68.1
Non-operating exceptional items -- United Kingdom	<b>13.1</b>	2.0
Net interest payable	<b>(78.3)</b>	(70.4)
Profit/(loss) on ordinary activities before taxation	<b>8.7</b>	(0.3)

Net operating assets/(liabilities) -- by geographical origin

	2004 £m	2003 £m
Continuing operations		
United Kingdom		
Net operating assets excluding intangible assets	<b>172.6</b>	147.7
Intangible assets	<b>174.6</b>	185.3
	<b>347.2</b>	333.0
Mainland Europe		
Net operating assets excluding intangible assets	<b>8.2</b>	9.9
Intangible assets	<b>-</b>	0.1
	<b>8.2</b>	10.0
Total net operating assets -- continuing operations	<b>355.4</b>	343.0
Discontinued operations -- Mainland Europe		
Net operating assets excluding intangible assets	<b>-</b>	29.1
Intangible assets	<b>-</b>	5.0
Total net operating assets -- discontinued operations	<b>-</b>	34.1
Net operating assets	<b>355.4</b>	377.1
Net debt (note 25b)	<b>(370.3)</b>	(693.9)
Net liabilities	<b>(14.9)</b>	(316.8)

**6. Profit/(loss) on ordinary activities before taxation**

	2004 £m	2003 £m
Profit/(loss) on ordinary activities before taxation is stated after charging/(crediting)		
Staff costs (note 7)	<b>122.1</b>	118.0
Depreciation of tangible fixed assets		
– owned assets	<b>19.7</b>	23.3
– under finance leases	–	0.1
Amortisation of intangible assets	<b>10.2</b>	7.1
Amortisation of pension prepayment	–	2.4
Release of prior year accruals relating to exceptional items	–	(3.3)
Operating lease rental payments		
– plant and machinery	<b>4.5</b>	3.5
– land and buildings	<b>1.8</b>	2.0
Research and development	<b>1.0</b>	0.9
Principal auditors' fees		
Audit services		
– statutory audit services	<b>0.5</b>	0.3
– audit-related regulatory reporting	<b>0.1</b>	0.1
– other services not covered above	<b>2.4</b>	0.1
Total auditors' remuneration	<b>3.0</b>	0.5
Audit fees in respect of the parent company	–	–

The amount for other services in principal auditors' fees relates predominately to work associated with the IPO of the Group during 2004.

Of the profit for the year, a profit of £7.9m is dealt with in the accounts of Premier Foods plc. The directors have taken advantage of the exemption available under Section 230 of the Companies Act 1985 and not presented a profit and loss account for the Company alone.

**7. Employees**

	2004 £m	2003 £m
Staff costs for the Group during the year		
Wages and salaries	<b>106.1</b>	102.0
Social security costs	<b>10.9</b>	11.0
Other pension costs	<b>5.1</b>	5.0
Total staff costs	<b>122.1</b>	118.0

	Number	Number
Average monthly number of people (including executive directors) employed		
Management	<b>435</b>	417
Administration	<b>661</b>	630
Production, distribution and other	<b>3,552</b>	3,603
Total employees	<b>4,648</b>	4,650

Directors' remuneration (including retirement benefit accruing to the directors under defined benefit schemes) are disclosed in the Remuneration Report on pages 23 to 31.

## 7. Employees continued

### Pension commitments

#### Background

The Group companies participate in a number of pension schemes, principally the Premier Foods Pension Scheme, which is a funded defined benefit scheme. The Premier Foods Pension Scheme (formerly known as the HF Pension Scheme) comprise the assets and liabilities of the Premier Brands Pension Fund and the Hillsdown Foods Group Pension Scheme, which were transferred to the Premier Foods Pension Scheme on merger of the three schemes on 21 May 2004. There is also a further funded defined benefit scheme, PAPPS.

There are in addition a small number of company defined contribution schemes, personal pension schemes and life assurance only arrangements. The scheme funds are administered by trustees and are independent of the Group's finances. The defined benefit schemes invest in a mixture of United Kingdom and European equities and corporate and government bonds.

#### Actuarial assessments

The total pension cost for the Group in the periods has been assessed in accordance with the advice of independent qualified actuaries, using the projected unit method. The last formal actuarial assessments of the Premier Foods Pension Scheme and the PAPPS were undertaken as at 21 May 2004 and as at 31 December 2004 respectively.

As at the date of the actuarial assessments, at 31 December 2004 and 2003, the actuarial value of the assets were sufficient to cover 95% and 95% respectively of the benefits that had accrued to members after allowing for future salary increases. The market value of assets at the valuation dates used for scheme funding and accounting purposes were £303.7m and £273.3m respectively.

The principal actuarial assumptions were that the rate of discount of liabilities is 3% more than wage inflation and 4% more than pension increases. Allowance was made for pensions in payment to increase as required by statute and in accordance with the rules of the schemes, and also to reflect the Group's investment policies. Assets were valued using a discounted dividend approach. The significant assumption used in this assessment was that future investment returns would be 7% per annum. Assets have been taken at market values at the valuation dates and the year-end. For accounting purposes in previous years assets had been valued using a discounted dividend approach. The market value of the assets at 31 December 2004 was £303.7m.

The actuarial valuation of the Premier Foods Pension Scheme has been updated to 31 December 2004 for assessment of the pension cost. The normal cost of the Group's defined benefit pension schemes was £3.9m and £4.1m in the years ended 31 December 2004 and 2003 respectively, which, after interest on the recognised surplus and amortisation of the remaining unrecognised surplus, resulted in a net defined benefit pensions expense of £5.3m and £4.3m in the respective years.

#### Contributions

The Group contributed a total of £18.6m to the Premier Foods Pension Scheme (including amounts contributed to the HF Pension Scheme, the Premier Brands Pension Fund and the Hillsdown Foods Group Pension Scheme prior to the merger) in the year ended 31 December 2004. The Group contributed £0.4m to the PAPPS in the year ended 31 December 2004.

The Group contributed £2.2m to the Hillsdown Foods Group Pension Scheme in the year ended 31 December 2003. In the six month period to 30 June 2003 the Group did not contribute to the HF Pension Scheme and the Premier Brands Pension Fund, due to the schemes' surplus at that time. The Group recommenced contributions to the schemes from July 2003, paying £1.6m and accruing £0.3m in contributions to 31 December 2003.

Contributions to the PAPPS in the year ended 31 December 2003 amounted to £0.5m.

#### Pension prepayment and provisions

The pension prepayment in respect of the HF Pension Scheme and the Premier Brands Pension Fund at 31 December 2004 and 2003 was £9.1m and £5.8m respectively. The increase in prepayment of £3.3m was primarily due to an increase of cash contributions in the year to reduce fund deficits. The reduction in the prepayment of £2.4m in the year ended 31 December 2003 is due to the net defined benefit pensions expense exceeding the cash contributions paid.

A provision of £7.2m in respect of the Hillsdown Foods Group Pension Scheme was held at 31 December 2003, which represented the estimated scheme deficit upon Premier Foods (Holdings) Limited becoming principal employer for the scheme less cash contributions made to the scheme. This provision was fully utilised following the merger of the pension schemes in May 2004.

## 7. Employees continued

### Mainland Europe post retirement and unfunded pension benefits

The Group also operates plans in mainland Europe, which provide employees with certain post retirement and unfunded pension benefits. The liabilities in respect of these benefits amounted to £0.1m and £0.2m in the years ended 31 December 2004 and 2003 respectively. The costs of these plans were £0.4m in the years ended 31 December 2004 and 2003 respectively.

### Defined contribution schemes

The cost of the defined contribution schemes was £0.4m and £0.3m for the years ended 31 December 2004 and 2003 respectively.

### FRS 17 "Retirement benefit" disclosures

Financial Reporting Standard 17 "Retirement benefits" ("FRS 17") introduces a completely different approach to accounting for defined benefit pension schemes. At each period end the pension scheme assets are measured at market value, the pension scheme liabilities are measured at a present value using a specified actuarial valuation method and discounted at a corporate bond rate, and the resulting surplus or deficit would be shown on the Group's balance sheet. FRS 17 redefines what should be reported as operating costs, including an annual "current service cost" (which is no longer reduced or increased by spreading forward surpluses or deficits). The expected return on scheme assets less the notional interest cost on the scheme liabilities is included as other finance costs (or income) adjacent to interest. Actuarial gains and losses from period to period are to be recognised immediately in the statement of total recognised gains and losses. FRS 17 requires that where accounting periods end after 22 June 2001 additional disclosure is required in order to provide adequate future data comparatives when FRS 17 is fully implemented.

The figures below are consolidated figures including both the Premier Foods Pension Scheme and the PAPPS. A full actuarial valuation was carried out at 21 May 2004 for the Premier Foods Pension Scheme and updated to 31 December 2004 by a qualified independent actuary to take account of the requirements of FRS 17 in order to assess the liabilities of the Scheme at 31 December 2004.

A valuation is being carried out for the PAPPS currently and the provisional results are used in the disclosure figures. Scheme assets are stated at their market values at the respective balance sheet dates.

The major assumptions used by the actuary were:

	2004	2003	2002
Rate of increase in salaries	<b>3.5%</b>	2.5%	2.5%
Rate of increase in pensions in payment	<b>2.5%</b>	1.5%	1.5%
Rate of increase in pensions in deferment	<b>2.5%</b>	1.5%	1.5%
Discount rate	<b>5.5%</b>	5.5%	5.5%
Inflation assumption	<b>2.5%</b>	1.5%	1.5%

The assets in the scheme and the expected rate of return at 31 December were:

Asset	Expected rate of return	Market value	Expected rate of return	Market value	Expected rate of return	Market value
	2004 %	2004 £m	2003 %	2003 £m	2002 %	2002 £m
Equities	<b>8.5</b>	<b>136.8</b>	8.5	206.7	9.5	176.5
Bonds	<b>6.0</b>	-	6.0	63.9	6.0	68.5
Other	<b>4.8</b>	<b>166.9</b>	4.0	2.7	4.0	0.8
Total market value of scheme assets	<b>6.5</b>	<b>303.7</b>	7.9	273.3	8.5	245.8

The larger than normal proportion of funds held in other assets (cash) at the year-end, reflects short term tactical decisions taken by the Trustee of the Premier Foods Pension Scheme in consultation with the Company, pending discussions to take place in the first quarter of 2005, on an agreed longer term investment strategy for the Scheme.

## 7. Employees continued

### FRS 17 "Retirement benefit" disclosures continued

The following amounts at 31 December were measured in accordance with the requirements of FRS 17:

	2004 £m	2003 £m
Total market value of scheme assets	<b>303.7</b>	273.3
Present value of scheme liabilities	<b>(368.3)</b>	(301.9)
Deficit in the schemes	<b>(64.6)</b>	(28.6)
Related deferred tax	<b>19.4</b>	8.6
Net pension liability	<b>(45.2)</b>	(20.0)

If the above amounts had been recognised in the financial statements, the Group's net liabilities and profit and loss reserve at 31 December would be as follows:

	2004 £m	2003 £m
Net shareholders' deficit (including pension prepayment recognised under SSAP 24)	<b>(14.9)</b>	(316.8)
Pension (prepayment)/liability recognised under SSAP 24	<b>(9.1)</b>	1.4
Related deferred tax	<b>2.7</b>	(0.4)
Net pension liability recognised under FRS 17	<b>(45.2)</b>	(20.0)
Net shareholders' deficit (including pension liability recognised under FRS 17)	<b>(66.5)</b>	(335.8)
Profit and loss reserve (including pension prepayment recognised under SSAP 24)	<b>(205.4)</b>	(194.0)
Pension (prepayment)/liability recognised under SSAP 24	<b>(9.1)</b>	1.4
Related deferred tax	<b>2.7</b>	(0.4)
Net pension liability recognised under FRS 17	<b>(45.2)</b>	(20.0)
Profit and loss reserve (including pension liability recognised under FRS 17)	<b>(257.0)</b>	(213.0)

The following amounts would have been recognised in the performance statements in the year under the requirements of FRS 17:

	2004 £m	2003 £m
Analysis of amounts charged to operating profit		
Current service charge	<b>4.1</b>	4.3
Past service charge (gross)	<b>-</b>	1.0
Total operating charge	<b>4.1</b>	5.3
Analysis of amounts credited to other finance income		
Expected return on pension scheme assets	<b>21.5</b>	20.5
Interest on pension scheme liabilities	<b>(16.1)</b>	(15.7)
Net return	<b>5.4</b>	4.8
Analysis of amounts recognised in statement of total recognised gains and losses		
Actual return less expected return on pension scheme assets	<b>8.1</b>	17.8
Experience losses arising on the scheme liabilities	<b>(15.1)</b>	(13.6)
Changes in assumptions underlying the present value of the scheme liabilities	<b>(49.3)</b>	-
Actuarial (loss)/gain recognised in the statement of total recognised gains and losses	<b>(56.3)</b>	4.2

**7. Employees continued**

## FRS 17 "Retirement benefit" disclosures continued

	2004 £m	2003 £m
Movement in deficit during the year		
Deficit in the scheme at beginning of year	<b>(28.6)</b>	(36.1)
Movement in year		
Current service charge	<b>(4.1)</b>	(4.3)
Employer contributions	<b>19.0</b>	3.8
Past service charge (gross)	-	(1.0)
Other finance income	<b>5.4</b>	4.8
Actuarial (loss)/gain recognised in the statement of total recognised gains and losses	<b>(56.3)</b>	4.2
Deficit in the scheme at end of year	<b>(64.6)</b>	(28.6)

	2004	2003	2002
History of experience gains and losses			
Difference between the expected and actual return on scheme assets			
Amount (£m)	<b>8.1</b>	17.8	(53.2)
Percentage of scheme assets at year end	<b>2.7%</b>	6.5%	(21.6%)
Experience (losses)/gains of scheme liabilities			
Amount (£m)	<b>(15.1)</b>	(13.6)	2.9
Percentage of the present value of the scheme liabilities at year end	<b>(4.1%)</b>	(4.5%)	1.0%
Total (loss)/gain recognised in the statement of total recognised gains and losses			
Amount (£m)	<b>(56.3)</b>	4.2	(26.7)
Percentage of the present value of the scheme liabilities at year end	<b>(15.3%)</b>	1.4%	(9.5%)

Employer contributions in the years ended 31 December 2004 and 2003 were £19.0m and £3.8m respectively. It is expected that contributions will be £9.7m in 2005 and a similar amount per annum thereafter.

**8. Net interest payable**

	2004 £m	2003 £m
Interest payable		
Interest payable on bank loans, senior notes and overdrafts	<b>47.0</b>	47.1
Interest payable on unsecured unguaranteed loan notes	<b>11.1</b>	18.4
Exchange loss on US dollar denominated senior notes	-	5.0
Amortisation of debt issuance costs	<b>3.9</b>	5.7
	<b>62.0</b>	76.2
Senior notes early redemption penalty	<b>11.1</b>	-
Exceptional amortisation of debt issuance costs	<b>10.5</b>	-
	<b>21.6</b>	-
Total interest payable	<b>83.6</b>	76.2
Interest receivable - bank deposits	<b>(5.3)</b>	(5.8)
Net interest payable	<b>78.3</b>	70.4

**9. Tax on profit/(loss) on ordinary activities**

Analysis of charge/(credit) in the year

	2004 £m	2003 £m
United Kingdom – Corporation tax at 30%		
– current period	<b>6.2</b>	–
– prior year	<b>(7.8)</b>	(10.7)
	<b>(1.6)</b>	(10.7)
Foreign tax – Corporation taxes		
– current year	<b>0.8</b>	–
– prior year	<b>(0.1)</b>	–
	<b>0.7</b>	–
Total current tax	<b>(0.9)</b>	(10.7)
Deferred tax		
Origination and reversal of timing differences		
Representing:		
United Kingdom	<b>3.4</b>	2.8
Foreign tax	<b>–</b>	(1.0)
Total deferred tax	<b>3.4</b>	1.8
Tax on profit/(loss) on ordinary activities	<b>2.5</b>	(8.9)

The tax for the year differs from the standard rate of corporation tax in the United Kingdom (30%) for the years ended 31 December 2004 and 2003. The differences are explained below:

	2004 £m	2003 £m
Profit/(loss) on ordinary activities before taxation	<b>8.7</b>	(0.3)
Profit/(loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of 30%	<b>2.6</b>	(0.1)
Effects of:		
Adjustments in respect of prior years	<b>(7.9)</b>	(10.7)
Disallowable/(non-taxable) exceptional items	<b>5.1</b>	(0.6)
Utilisation of tax losses	<b>(0.7)</b>	–
Tax losses not recognised	<b>3.3</b>	2.7
Capital allowances for the year in excess of depreciation and other timing differences	<b>(3.3)</b>	(0.9)
Other disallowable/(non-taxable) items	<b>–</b>	(1.1)
Total current tax credit	<b>(0.9)</b>	(10.7)

## 10. Earnings per share

Basic earnings per share have been calculated by dividing earnings attributable to ordinary shareholders by the weighted average number of ordinary shares of the Company. In determining the weighted average number of shares in issue, the issue of 1,000 ordinary shares on 15 July 2004 in consideration for the entire issued share capital of PFI No.3 and the capitalisation issue of 89,327,533 ordinary shares were deemed to have occurred at the beginning of the earliest period presented (see note 22).

	2004			2003		
	Basic EPS	Dilutive effect of share options	Diluted EPS	Basic EPS	Dilutive effect of share options	Diluted EPS
<b>Continuing operations</b>						
Earnings (£m)	<b>4.0</b>	–	<b>4.0</b>	6.2	–	6.2
Weighted average number of shares (million)	<b>159.2</b>	<b>3.0</b>	<b>162.2</b>	89.3	2.9	92.2
Earnings per share (pence)	<b>2.5</b>	–	<b>2.5</b>	6.9	(0.2)	6.7
<b>Discontinued operations</b>						
Earnings (£m)	<b>2.2</b>	–	<b>2.2</b>	2.4	–	2.4
Weighted average number of shares (million)	<b>159.2</b>	<b>3.0</b>	<b>162.2</b>	89.3	2.9	92.2
Earnings per share (pence)	<b>1.4</b>	<b>(0.1)</b>	<b>1.3</b>	2.7	(0.1)	2.6
<b>Total business</b>						
Earnings (£m)	<b>6.2</b>	–	<b>6.2</b>	8.6	–	8.6
Weighted average number of shares (million)	<b>159.2</b>	<b>3.0</b>	<b>162.2</b>	89.3	2.9	92.2
Earnings per share (pence)	<b>3.9</b>	<b>(0.1)</b>	<b>3.8</b>	9.6	(0.3)	9.3

## 11. Dividends

The Board proposes a final dividend of 9p per ordinary share payable on 31 May 2005 to shareholders on the Register of Members at 6 May 2005. No interim dividend was payable during the year.

## 12. Intangible assets

Group	Goodwill £m	Trademarks £m	Total £m
<b>Cost</b>			
At 1 January 2004	147.2	55.3	202.5
Fair value adjustment	<b>(0.6)</b>	–	<b>(0.6)</b>
Disposal of subsidiary undertakings	<b>(7.3)</b>	–	<b>(7.3)</b>
At 31 December 2004	<b>139.3</b>	<b>55.3</b>	<b>194.6</b>
<b>Aggregate amortisation</b>			
At 1 January 2004	9.4	2.7	12.1
Charge for the year	<b>7.4</b>	<b>2.8</b>	<b>10.2</b>
Disposal of subsidiary undertakings	<b>(2.3)</b>	–	<b>(2.3)</b>
At 31 December 2004	<b>14.5</b>	<b>5.5</b>	<b>20.0</b>
<b>Net book amount</b>			
At 31 December 2003	137.8	52.6	190.4
At 31 December 2004	<b>124.8</b>	<b>49.8</b>	<b>174.6</b>

### Goodwill

Goodwill balances relate to acquisitions made after 1 January 1998. Any goodwill arising on acquisitions prior to 1 January 1998 has been written off to reserves.

Goodwill arising on these acquisitions is amortised on a straight-line basis over 20 years with the exception of the potato seed business, which is amortised on a straight-line basis over three years.

### Trademarks

Trademarks are amortised on a straight-line basis over a period of 20 years.

**13. Tangible fixed assets****(a) Tangible fixed assets**

Group	Freehold land and buildings £m	Long leasehold properties £m	Short leasehold properties £m	Vehicles, plant and machinery £m	Total £m
Cost or valuation					
At 1 January 2004	69.8	3.7	0.8	258.7	333.0
Additions at cost	1.5	-	-	36.7	38.2
Disposal of subsidiary undertakings	(8.6)	-	-	(28.9)	(37.5)
Other disposals	(7.5)	-	(0.8)	(23.8)	(32.1)
Reclassifications	0.4	-	-	(0.4)	-
Exchange adjustments	(0.3)	-	-	(2.1)	(2.4)
At 31 December 2004	55.3	3.7	-	240.2	299.2
Aggregate depreciation and impairment					
At 1 January 2004	16.7	0.6	0.4	162.2	179.9
Charge for the year	2.1	-	-	17.6	19.7
Impairment loss	0.8	-	-	1.5	2.3
Disposal of subsidiary undertakings	(4.9)	-	-	(20.7)	(25.6)
Other disposals	(3.9)	-	(0.4)	(19.1)	(23.4)
Reclassifications	0.2	-	-	(0.2)	-
Exchange adjustments	(0.2)	-	-	(0.8)	(1.0)
At 31 December 2004	10.8	0.6	-	140.5	151.9
Net book amount					
At 31 December 2003	53.1	3.1	0.4	96.5	153.1
At 31 December 2004	44.5	3.1	-	99.7	147.3

Assets held under finance leases, capitalised and included in long leasehold property and vehicles, plant and machinery are set out below.

	Group	
	2004 £m	2003 £m
Long leasehold property		
Cost	-	0.3
Aggregate depreciation	-	-
Net book amount	-	0.3
Vehicles, plant and machinery		
Cost	-	1.0
Aggregate depreciation	-	(1.0)
Net book amount	-	-

### 13. Tangible fixed assets continued

#### (b) Analysis of freehold land and buildings at cost or valuation

The Group revalued freehold land and buildings before the implementation of FRS 15 in the year ended 31 December 2000. Bidwells, independent Chartered Surveyors, made the valuations on the basis of open market value for existing use, at 31 December 1990. The Group has taken advantage of the transitional arrangements of FRS 15 not to update these valuations. The valuation and cost of these freehold land and buildings were as follows:

	Group	
	2004 £m	2003 £m
At cost	0.1	0.1
At valuation	4.0	4.0

If freehold land and buildings (as disclosed in (a)) were stated on the historical cost basis, excluding the effect of the valuation above, the amounts would be:

	Group	
	2004 £m	2003 £m
Freehold land and buildings		
At cost	51.4	65.9
Aggregate depreciation	(10.8)	(16.7)
Net book value based on historic cost	40.6	49.2

### 14. Investments

	Group		Company	
	2004 £m	2003 £m	2004 £m	2003 £m
Unlisted investments				
At 1 January	0.3	0.2	--	--
Additions	--	0.1	--	--
Disposal of subsidiary undertakings	(0.2)	--	--	--
At 31 December	0.1	0.3	--	--
Shares in subsidiary undertakings				
At 1 January	--	--	10.0	--
Additions	--	--	346.0	--
At 31 December	--	--	356.0	--
Total investments	0.1	0.3	356.0	--

### 15. Stock

	Group	
	2004 £m	2003 £m
Raw materials	32.0	43.4
Work in progress	3.1	2.5
Finished goods and goods for resale	63.1	74.7
Total stock	98.2	120.6

**16. Debtors**

	Group		Company	
	2004 £m	2003 £m	2004 £m	2003 £m
Amounts falling due within one year				
Trade debtors	<b>90.7</b>	100.2	–	–
Amounts owed by subsidiary undertakings	–	–	<b>20.0</b>	–
Other debtors	<b>14.2</b>	14.8	<b>0.3</b>	–
Prepayments and accrued income	<b>5.7</b>	5.7	<b>0.3</b>	–
	<b>110.6</b>	120.7	<b>20.6</b>	–
Amounts falling due after more than one year				
Pension prepayment (note 7)	<b>9.1</b>	5.8	–	–
Other debtors	<b>0.3</b>	0.7	–	–
	<b>9.4</b>	6.5	–	–
<b>Total debtors</b>	<b>120.0</b>	127.2	<b>20.6</b>	–

**17. Creditors – Amounts falling due within one year**

	Group		Company	
	2004 £m	2003 £m	2004 £m	2003 £m
Bank and other borrowings (note 19)	<b>27.9</b>	40.4	–	–
Amounts due to subsidiary undertakings	–	–	<b>6.1</b>	–
Trade creditors	<b>117.9</b>	148.1	–	–
Corporation tax	<b>12.7</b>	13.8	–	–
Other tax and social security payable	<b>4.7</b>	4.4	<b>0.1</b>	–
Other creditors	<b>8.3</b>	8.8	–	–
Dividend payable	<b>22.0</b>	–	<b>22.0</b>	–
Accruals and deferred income	<b>7.6</b>	20.1	<b>1.7</b>	–
<b>Total creditors falling due within one year</b>	<b>201.1</b>	235.6	<b>29.9</b>	–

**18. Creditors – Amounts falling due after more than one year**

	Group	
	2004 £m	2003 £m
Bank and other borrowings (note 19)	<b>354.9</b>	681.6
Other creditors	–	0.2
<b>Total creditors falling due after more than one year</b>	<b>354.9</b>	681.8

**19. Bank and other borrowings**

	Group	
	2004 £m	2003 £m
Due within one year		
Secured Senior Credit Facility – Term A (note a)	<b>9.3</b>	–
Debt issuance costs	<b>(0.9)</b>	–
	<b>8.4</b>	–
Secured Senior Credit Facility – Term B (note a)	<b>10.7</b>	–
Debt issuance costs	<b>(1.1)</b>	–
	<b>9.6</b>	–
Secured Senior Credit Facility (note b)	–	34.2
Debt issuance costs	–	(4.7)
	–	29.5
Bank loans and overdrafts	<b>9.9</b>	10.8
Total bank borrowings	<b>27.9</b>	40.3
Finance lease obligations	–	0.1
	<b>27.9</b>	40.4
Due after more than one year		
Secured Senior Credit Facility – Term A (note a)	<b>166.5</b>	–
Debt issuance costs	<b>(2.4)</b>	–
	<b>164.1</b>	–
Secured Senior Credit Facility – Term B (note a)	<b>193.5</b>	–
Debt issuance costs	<b>(2.8)</b>	–
	<b>190.7</b>	–
Secured Senior Credit Facility (note b)	–	217.9
Debt issuance costs	–	(5.4)
	–	212.5
Acquisition Facility (note b)	–	75.0
Debt issuance costs	–	(3.4)
	–	71.6
Unsecured Subordinated US\$200m 12% Senior Notes due 2009 (note b)	–	129.2
Unsecured Subordinated £75m 12.25% Senior Notes due 2009 (note b)	–	75.0
	–	204.2
Unsecured unguaranteed loan notes due 2017 (note b)	–	193.2
Other unsecured loans	<b>0.1</b>	0.1
	<b>354.9</b>	681.6
Total bank and other borrowings	<b>382.8</b>	722.0

**(a) Senior Credit Facility and Acquisition Facility arrangement – 2004**

On 20 July 2004, the Group entered into an amended and restated Senior Credit Facility and Acquisition Facility agreement with J.P. Morgan plc as arranger, JPMorgan Chase Bank as underwriter, with J.P. Morgan Europe Limited as agent and security trustee. Under the Senior Credit Facility, a syndicate of financial institutions made £380.0m of credit facilities available to the Group.

The Senior Credit Facility comprise (i) £175.8m Term A facilities and (ii) £204.2m Term B facilities.

In addition an Acquisition Facility has been made available, which is a multi currency revolving credit facility of £200.0m (or its equivalent in other currencies).

The final maturity date of the above arrangements is 20 July 2009.

## 19. Bank and other borrowings continued

(b) Senior Credit Facility, Acquisition Facility Arrangement, Unsecured Unguaranteed Loan Notes and Unsecured Subordinated Senior Notes – 2003

The facilities in place at 31 December 2003 included a Secured Senior Credit Facility, an Acquisition Facility, Unsecured Subordinated Senior Notes Facilities for US\$200m and £75m along with the Unsecured Unguaranteed Loan Notes.

On 23 July 2004 the Secured Credit Facility and Acquisition Facility were replaced by a combination of the Senior Credit Facility – Term A (see note (a)) and the primary proceeds raised on IPO.

On 23 July 2004 ordinary shares were issued to capitalise the Unsecured Unguaranteed Loan Notes (see note 22 (iii)).

The Unsecured Subordinated Senior Notes were repaid on 1 September 2004 using the Senior Credit Facility – Term B (see note (a)).

## 20. Financial instruments

The main risks facing the Group arise from adverse movements in interest rates and foreign currency, along with a shortage of liquidity and credit. The Group uses a variety of derivative financial instruments to manage these risks. The management of these risks, along with the day to day management of treasury activities is performed by the Group treasury department. The policy framework governing the management of these risks is established by the Treasury Committee, which is a sub-committee appointed by the Company's Board of Directors. The policies toward these risks are documented and reviewed on a regular basis by the Treasury Committee. The framework for management of these risks is set down in the Treasury policies and procedures manual.

The Group also enters into contracts with suppliers for its principal raw materials, some of which are considered commodities. These contracts are part of the Group's normal purchasing activities, which always result in receipt of raw materials.

### Interest rate risk

The Group borrows principally in pounds sterling at floating rates of interest and seeks to mitigate the effect of adverse movements in interest rates by entering into derivative financial instruments. The Group actively monitors its interest rate exposure, since the high level of debt makes its profitability sensitive to movements in interest rates. However, the minimum interest rate hedging that must be maintained is governed by the hedging strategy letter, which forms part of the Senior Credit Facility (see note 19(a)). The Group makes use of a variety of derivative instruments including interest rate swaps to hedge its interest rate exposure. The Senior Credit Facility requires the Group to hedge a minimum of 50% of its Term debt for a period of two years.

### Foreign exchange risk

The Group reports its financial statements in pounds sterling and trades in several non-sterling currencies, primarily Euros and US dollars. Its trading transactions are therefore subject to the effect of movements in these currencies. Such exposures arise from sales or purchases in currencies other than the unit's functional currency. Management of the major exposures is centralised and managed by the Group's treasury department. It is Group's policy to hedge exposure using forward foreign currency exchange contracts and currency options. Although the Group generates some of its profits in non-sterling currencies and has assets in non-sterling jurisdictions, the translation exposure resulting from these profits and overseas net assets is not considered material and is currently not hedged. This matter is reviewed regularly by the Treasury Committee.

### Liquidity risk

The Group has negotiated facilities with its bankers that provide sufficient headroom to ensure liquidity and continuity of funding. It therefore has sufficient unutilised banking facilities and reserve borrowing capacity. The Group tends to have significant fluctuations in its short-term borrowing position due to seasonal factors; however, the revolving credit facilities are set at a level sufficient to meet its projected peak borrowing requirements.

### Credit risk

Potential concentrations of credit risk to the Group consist principally of cash and cash equivalents and trade receivables. Cash and cash equivalents are deposited with high-credit quality financial institutions. Trade receivables are due principally from major grocery retailers, however, it is the Group's policy to insure all third-party trade debt. The Group does not consider there to be any significant concentration of credit risk at 31 December 2004.

### Short-term debtors and creditors

Short-term debtors and creditors have been excluded from all the following disclosures, other than the currency risk disclosures.

## 20. Financial instruments continued

### Interest rate risk profile of financial assets

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

	2004 £m	2003 £m
Currency		
Financial assets – floating rate		
Cash at bank and in hand		
Sterling	3.1	13.2
Euro	8.2	13.6
US dollar	1.2	1.3
Total	12.5	28.1

The cash and deposits all have maturities of less than one year and earn interest at floating rates based on relevant LIBID equivalents.

In addition the Group has pension prepayment and other debtors due after more than one year (see note 16) of £9.4m and £6.5m at 31 December 2004 and 2003 respectively. No interest is earned on these balances.

### Interest rate risk profile of financial liabilities

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

	Floating rate financial liabilities £m	Fixed rate financial liabilities £m	Total £m
Currency			
Sterling	(270.1)	(464.1)	(734.2)
Euro	(1.1)	–	(1.1)
US dollar	(0.2)	–	(0.2)
At 31 December 2003	(271.4)	(464.1)	(735.5)
Sterling	(200.0)	(190.0)	(390.0)
Euro	–	–	–
US dollar	–	–	–
At 31 December 2004	(200.0)	(190.0)	(390.0)

All the Group's creditors falling due within one year (other than bank and other borrowings) are excluded from the above tables either due to the exclusion of short-term items or because they do not meet the definition of a financial liability, such as tax balances.

In addition to the above, the Group's provisions and other creditors (due after more than one year) of £2.6m and £13.4m, as at 31 December 2004 and 2003, respectively for restructuring, unfunded pension liabilities, post retirement benefits and other liabilities met the definition of financial liabilities. These financial liabilities were considered to be floating rate financial liabilities. This is because, in establishing the provisions, the cash flows are discounted where material.

### Fixed rate financial liabilities

	Weighted average interest rate %	Weighted average period for which rate is fixed Years
Currency: Sterling		
At 31 December 2004	4.93	2.88
At 31 December 2003	8.97	4.55

The above calculation of the fixed rate weighted average interest rates excludes any borrowing margin as the derivative instruments used to fix the interest rates are not allocated specifically against the Term A and Term B facilities of the Senior Credit Facility (see note 19(a)), which in turn would determine the applicable margin. The level of floating rate borrowings are determined by reference to the Senior Credit Facility. The pricing basis for all floating rate borrowings is LIBOR.

## 20. Financial instruments continued

Interest periods selected are determined by reference to market conditions and interest rate outlook but cannot be for a maturity period longer than twelve months.

The analysis of average interest rates and years to maturity on fixed rate debt is after adjusting for interest rate swaps. Exposure to movements in interest rates and years to maturity on fixed rate debt is after adjusting for interest rate swaps.

### Maturity of financial liabilities

The maturity profile of the carrying amount of the Group's financial liabilities, other than short-term creditors and provisions (shown in note 21) were as follows:

	2004			2003			
	Debt £m	Debt issuance costs £m	Total £m	Debt £m	Debt issuance costs £m	Other creditors after more than one year £m	Total £m
Within one year, or on demand	<b>29.9</b>	<b>(2.0)</b>	<b>27.9</b>	45.1	(4.7)	—	40.4
Between:							
1 and 2 years	<b>30.0</b>	<b>(1.7)</b>	<b>28.3</b>	47.5	(3.0)	—	44.5
2 and 3 years	<b>55.0</b>	<b>(1.5)</b>	<b>53.5</b>	49.4	(2.5)	—	46.9
3 and 4 years	<b>65.0</b>	<b>(1.4)</b>	<b>63.6</b>	56.3	(2.0)	—	54.3
4 and 5 years	<b>210.0</b>	<b>(0.6)</b>	<b>209.4</b>	64.7	(1.1)	—	63.6
Over 5 years	<b>0.1</b>	—	<b>0.1</b>	472.5	(0.2)	0.2	472.5
<b>Total</b>	<b>390.0</b>	<b>(7.2)</b>	<b>382.8</b>	735.5	(13.5)	0.2	722.2

### Currency exposures

The table below shows the Group's currency exposures that gave rise to net currency gains and losses recognised in the consolidated profit and loss accounts for the years ended 31 December 2004 and 2003. Such exposures comprise monetary assets/(liabilities) that are not denominated in the functional currency of the subsidiary undertaking involved.

The amounts shown below are after taking into account the effect of forward exchange contracts and other derivative instruments entered into to manage these exposures.

	Functional currency of the Group's operation		
	Sterling £m	Euro £m	Total £m
At 31 December 2004			
Net foreign currency monetary assets/(liabilities)			
Euro	<b>3.4</b>	—	<b>3.4</b>
US dollar	<b>1.2</b>	—	<b>1.2</b>
Other currencies	<b>(0.2)</b>	—	<b>(0.2)</b>
<b>Total</b>	<b>4.4</b>	—	<b>4.4</b>
At 31 December 2003			
Net foreign currency monetary assets/(liabilities)			
Euro	11.5	—	11.5
US dollar	1.2	—	1.2
Other currencies	(0.5)	—	(0.5)
<b>Total</b>	<b>12.2</b>	—	<b>12.2</b>

## 20. Financial instruments continued

### Borrowing facilities

The Group has the following undrawn committed borrowing facilities available during the year in respect of which all conditions precedent had been met at that date:

	2004 £m	2003 £m
Expiring in more than two years	<b>164.8</b>	60.8

The undrawn facilities form part of the Group's overall working capital lines, the drawn down amounts of which bear interest at floating rates and are committed until 20 June 2009.

### Fair values of financial assets and financial liabilities

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

	2004		2003	
	Carrying amounts £m	Fair value £m	Carrying amounts £m	Fair value £m
Primary financial instruments held or issued to finance the Group's operations				
Short-term borrowings	<b>(29.9)</b>	<b>(29.9)</b>	(45.0)	(45.0)
Long-term borrowings	<b>(360.1)</b>	<b>(360.1)</b>	(690.4)	(694.0)
Finance leases	-	-	(0.1)	(0.1)
Other creditors due after more than one year	-	-	(0.2)	(0.2)
Provisions	<b>(2.6)</b>	<b>(2.6)</b>	(13.2)	(13.2)
Debtors due after more than one year	<b>9.4</b>	<b>9.4</b>	6.5	6.5
Cash at bank and in hand	<b>12.5</b>	<b>12.5</b>	28.1	28.1
Derivative financial instruments held to manage the interest rate and currency profile				
Interest rate swaps	-	<b>(0.6)</b>	-	(0.6)
Cross-currency swaps	-	-	-	(1.4)
Forward foreign currency contracts	-	<b>(1.3)</b>	-	(17.1)

The fair values for the notes, which have been included within long-term borrowings, have been based on current market values.

The foreign exchange contracts and interest rate swap agreements have been marked to their fair values at the balance sheet date.

Under the Group's accounting policy, foreign currency assets and liabilities that are hedged using currency swaps are translated initially at the swap rates. Any gains or losses arising from changes in exchange rates are included in the book value of the relevant asset or liability. Changes in the value of the swap as a result of changes in interest rates are not included in the book value of the relevant asset or liability.

All commodity contracts are settled by physical delivery and are not held for trading purposes. There were no significant gains or losses on contracts at the balance sheet dates that were expected to be shown in the income statement in the following year.

## 20. Financial instruments continued

### Hedges

The Group's policy is to hedge the following exposures:

- Interest rate risk – using interest rate derivative products.
- Currency risk – using forward foreign currency contracts and currency options to hedge its net foreign currency debtors and creditors. Forward foreign currency contracts and currency option contracts are also used for future anticipated foreign currency exposures for up to twenty-four months.

The table below shows the extent to which the Group has off-balance sheet (unrecognised) and on-balance sheet (deferred) gains and losses in respect of financial instruments used as hedges at the beginning and end of the year. It also shows the amount of such gains and losses which were included in the profit and loss account for the year and those gains and losses which are expected to be included in next year's or later profit and loss accounts.

All the gains and losses on the hedging instruments are expected to be matched by losses and gains on the hedged transactions or positions.

	Unrecognised			Deferred		
	Gains £m	Losses £m	Total net gains/(losses) £m	Gains £m	Losses £m	Total net gains/(losses) £m
Gains and (losses) on hedges at 1 January 2004 arising in previous year included in 2004 income	–	(3.4)	(3.4)	–	–	–
Gains and (losses) on hedges at 31 December 2004	0.7	(2.6)	(1.9)	–	–	–
Of which:						
Gains and (losses) expected to be included in 2005 income	0.7	(1.8)	(1.1)	–	–	–
Gains and (losses) expected to be included in 2006 income or later	–	(0.8)	(0.8)	–	–	–

### Financial instruments held for trading purposes

The Group does not trade in financial instruments.

## 21. Provisions for liabilities and charges

	Restructuring and other £m	Pension liabilities and post retirement benefits £m	Deferred tax £m	Total £m
At 1 January 2004	5.9	7.3	5.9	19.1
Charged to profit and loss account	–	–	3.4	3.4
Utilised in the year	(1.8)	(7.2)	–	(9.0)
Disposal of subsidiary undertakings	(1.6)	–	(0.3)	(1.9)
At 31 December 2004	2.5	0.1	9.0	11.6

	2004 £m	2003 £m
Maturity profile of provisions (excluding deferred tax)		
Within 1 year	2.2	8.1
Between 1 and 2 years	–	2.2
Between 2 and 5 years	0.4	2.8
Over 5 years	–	0.1
Total	2.6	13.2

## 21. Provisions for liabilities and charges continued

### Restructuring and other

At 31 December 2004 these provisions represent the liabilities in respect of: the restructure of the administration function in the Group's potato business; the completion of the closure of the Edinburgh site and integration of its operations into the Moreton site; legal costs as disclosed in note 28; and changes to distribution arrangements.

### Deferred tax

	2004 £m	2003 £m
Provision for deferred tax comprises		
Accelerated capital allowances	9.3	6.3
Short-term timing differences	(3.0)	(2.1)
Deferred tax liability on pension prepayment	2.7	1.7
<b>Total deferred tax</b>	<b>9.0</b>	<b>5.9</b>

### Factors that may affect future tax charges

At 31 December 2004, deferred tax assets of £39.3m relating to capital losses, £11.5m relating to corporation tax losses and £34.8m relating to surplus ACT have not been recognised, as they do not meet the criteria for recognition under Financial Reporting Standard 19 "Deferred tax" ("FRS 19"). The future tax charge may be reduced if any of these losses can be utilised.

## 22. Called up share capital

	Company	
	2004 £m	2003 £m
Authorised		
332,113,095 ordinary shares of 1p each	3.3	—
Allotted, called up and fully paid		
244,888,679 ordinary shares of 1p each	2.4	—

(i) On 22 June 2004, Premier Foods plc was incorporated with an issued share capital of 5,000,000 1p ordinary shares;

(ii) On 15 July 2004, the authorised share capital of Premier Foods plc was increased to 5,001,000 1p ordinary shares by the creation of 1,000 ordinary shares. On this date, HMTFPL contributed its shares in PFI No.3 to Premier Foods plc in exchange for 1,000 1p ordinary shares in Premier Foods plc.

On 23 July 2004, Premier Foods plc increased its authorised share capital to 332,113,095 1p ordinary shares by the creation of 327,112,095 ordinary shares and the following transactions were undertaken;

(iii) 95,036,105 1p ordinary shares were issued by Premier Food plc at a premium of 214p per share in consideration for the capitalisation of the Group's loan notes amounting to £204.3m;

(iv) 55,114,083 1p ordinary shares were issued by Premier Foods plc at a premium of 214p per ordinary share and were fully paid up;

(v) Share premium of £893,275.33 was capitalised for the issue of 89,327,533 1p ordinary shares to HMTFPL;

(vi) 265,115 1p ordinary shares were issued to non-executive directors at a premium of 106.5p per ordinary share and were fully paid up;

(vii) 144,843 1p ordinary shares were issued to Mr Paul Thomas, an executive director, at a premium of 214p per ordinary share and were fully paid up.

## 22. Called up share capital continued

### Share option schemes

As at 31 December 2004 certain senior executives and key individuals hold options to subscribe for up to 5.6m ordinary shares of 1p each between 2005 and 2014 at prices ranging between 1p per share and 215p per share. The number of shares subject to options, the periods in which they were granted and the periods in which they may be exercised are given below:

#### Premier Foods (Holdings) Limited Employee Share Scheme

Year of grant	Exercise price (pence)	Exercise period commencing	Exercise period ending	31 December 2004 Number	31 December 2003 Number
1999	146p	2000	2009	--	1,482,600
2002	146p	2003	2012	--	4,899,000
2003	146p	2004	2013	--	500,000
<b>Total</b>				--	<b>6,881,600</b>
<b>Weighted average exercise price</b>				--	<b>146p</b>

Options over ordinary shares of Premier Foods (Holdings) Limited were cash cancelled or "rolled over" into options over ordinary shares of Premier Foods plc at the IPO.

#### Premier Foods plc Executive Share Option Scheme

Year of grant	Exercise price (pence)	Exercise period commencing	Exercise period ending	31 December 2004 Number	31 December 2003 Number
2004	1p	2005	2012	<b>2,567,377</b>	--
2004	1p	2005	2013	<b>319,723</b>	--
2004	1p	2005	2014	<b>63,945</b>	--
2004	215p	2005	2014	<b>2,643,813</b>	--
<b>Total</b>				<b>5,594,858</b>	--
<b>Weighted average exercise price</b>				<b>102p</b>	--

## 23. Share premium and other reserves

	Group				Company			
	Share premium account £m	Revaluation reserve £m	Merger reserve £m	Profit and loss reserve £m	Total £m	Share premium account £m	Profit and loss reserve £m	Total £m
At 1 January 2004	10.0	4.0	(136.8)	(194.0)	(316.8)	--	--	--
Issue of shares pursuant to group reconstruction (a)	--	--	--	--	--	<b>10.0</b>	--	<b>10.0</b>
Capitalisation of the Group's loan notes by issue of shares (b)	<b>203.4</b>	--	--	--	<b>203.4</b>	<b>203.4</b>	--	<b>203.4</b>
Shares issued through public offer for cash (c)	<b>117.9</b>	--	--	--	<b>117.9</b>	<b>117.9</b>	--	<b>117.9</b>
Issue expenses	<b>(10.1)</b>	--	--	--	<b>(10.1)</b>	<b>(10.1)</b>	--	<b>(10.1)</b>
Shares issued to HMTFPL (d)	<b>(0.9)</b>	--	--	--	<b>(0.9)</b>	<b>(0.9)</b>	--	<b>(0.9)</b>
Shares issued to Directors (e)	<b>0.6</b>	--	--	--	<b>0.6</b>	<b>0.6</b>	--	<b>0.6</b>
Share options rolled-over (f)	--	--	--	<b>6.3</b>	<b>6.3</b>	--	<b>4.3</b>	<b>4.3</b>
Profit for the year	--	--	--	<b>6.2</b>	<b>6.2</b>	--	<b>7.9</b>	<b>7.9</b>
Dividends	--	--	--	<b>(22.0)</b>	<b>(22.0)</b>	--	<b>(22.0)</b>	<b>(22.0)</b>
Dividend in specie from PFI No.3	--	--	--	--	--	--	<b>36.7</b>	<b>36.7</b>
Net exchange adjustments	--	--	--	<b>(1.9)</b>	<b>(1.9)</b>	--	--	--
<b>At 31 December 2004</b>	<b>320.9</b>	<b>4.0</b>	<b>(136.8)</b>	<b>(205.4)</b>	<b>(17.3)</b>	<b>320.9</b>	<b>26.9</b>	<b>347.8</b>

(a) 1,000 1p ordinary shares were issued to HMTFPL in exchange for the entire issued share capital of PFI No.3 (see notes 1 and 22(ii));

(b) 95,036,105 1p ordinary shares were issued at a premium of 214p per share in consideration for the capitalisation of the Group's loan notes amounting to £204.3m;

### 23. Share premium and other reserves continued

- (c) 55,114,083 1p ordinary shares were issued at a premium of 214p per share;
- (d) An amount of £893,275.33 was capitalised and applied in paying up in full at par 89,327,533 unissued ordinary shares and allotting and issuing 17,861,934,213 ordinary shares in respect of each ordinary share held by HMTFPL;
- (e) Share premium related to the issue of shares to executive and non-executive directors are as follows:
- 265,115 ordinary shares at a premium of 106.5p per share, and
  - 144,843 ordinary shares at a premium of 214p per share (note 22);
- (f) Share premium in respect of "rolled-over options" was granted in respect of certain outstanding options under the Premier Foods (Holdings) Limited Employee Share Option Scheme.

### Goodwill eliminated against reserves

Cumulative goodwill relating to acquisitions made prior to 1999, which were eliminated against reserves, amounted to £213.3m as at 31 December 2004 and 2003.

### 24. Sale of subsidiary undertakings

On 23 July 2004 the Group disposed of Hilldown Holland BV and its subsidiary undertakings, including Materne to Financière Materne S.A.S. and Materne Luxembourg Sarl, affiliates of HMTFPL, the Company's principal shareholder prior to IPO.

The net assets on the date of disposal and the consideration received were as follows:

	£m
Intangible assets	5.0
Tangible fixed assets	11.9
Investments	0.2
Stock	15.0
Debtors	24.4
Creditors: amounts falling due within one year	(32.1)
Provisions for liabilities and charges	(1.9)
Net assets disposed of	<b>22.5</b>
Cash consideration	35.5
Expenses incurred on disposal	(0.7)
	34.8
Cash disposed of upon sale of subsidiary undertakings	(0.6)
	<b>34.2</b>
Profit on sale of subsidiary undertakings	<b>11.7</b>

**25. Cash flow from operating activities**

(a) Reconciliation of operating profit to net cash inflow from operating activities:

	2004 £m	2003 £m
Continuing operations		
Operating profit before operating exceptional items	97.3	76.4
Depreciation	18.6	21.2
Amortisation of intangible assets	10.1	6.8
Amortisation of pension prepayment	-	2.4
Decrease/(increase) in stock	7.0	(4.4)
(Increase)/decrease in debtors	(16.4)	14.9
Decrease in creditors	(1.4)	(7.7)
Payment relating to merger of pension schemes	(10.0)	-
Payments relating to exceptional items	(8.6)	(10.3)
Exchange movement in working capital	-	1.3
Net cash inflow from continuing operations	96.6	100.6
Discontinued operations		
Operating profit before operating exceptional items	2.0	2.7
Depreciation	1.1	2.2
Amortisation of intangible assets	0.1	0.3
Payments relating to exceptional items	-	(0.8)
Decrease/(increase) in stock	2.8	(0.8)
Increase in debtors	(0.8)	(1.8)
(Decrease)/increase in creditors	(3.0)	8.2
Exchange movement in working capital	(0.4)	(0.7)
Net cash inflow from discontinued operations	1.8	9.3
Total net cash inflow from operating activities	98.4	109.9

(b) Reconciliation of movements in net debt:

	At 1 January 2004 £m	Cash flow £m	Issued shares for cash £m	Capitalisation of loan notes £m	Other non-cash changes £m	At 31 December 2004 £m
Cash in hand and at bank	28.1	(15.6)	-	-	-	12.5
Overdrafts	(10.8)	0.9	-	-	-	(9.9)
	17.3	(14.7)	-	-	-	2.6
Bank debts due after one year	(690.4)	38.5	98.7	204.3	(11.1)	(360.0)
Bank debts due within one year (excluding overdrafts)	(34.2)	14.2	-	-	-	(20.0)
Other non-bank debts	(0.1)	-	-	-	-	(0.1)
	(707.4)	38.0	98.7	204.3	(11.1)	(377.5)
Debt issuance costs	13.5	-	-	-	(6.3)	7.2
Net debt	(693.9)	38.0	98.7	204.3	(17.4)	(370.3)

## 26. Operating lease commitments

The Group had lease agreements in respect of land and buildings and vehicles, plant and machinery, for which the payments extend over a number of years.

	2004		2003	
	Land and buildings £m	Vehicles, plant and machinery £m	Land and buildings £m	Vehicles, plant and machinery £m
<i>Annual commitments under non-cancellable operating leases expiring</i>				
Within 1 year	0.8	0.8	0.5	0.4
Within 2 to 5 years	0.1	1.9	0.2	2.5
After 5 years	0.3	–	0.7	–
<b>Total operating lease commitments</b>	<b>1.2</b>	<b>2.7</b>	<b>1.4</b>	<b>2.9</b>

The Company has not entered into any operating lease commitments at the year end.

## 27. Capital commitments

	Group	
	2004 £m	2003 £m
Contracts placed for future capital expenditure not provided in the financial statements	2.0	5.0

The Company has not entered into any capital commitments at the year end.

## 28. Contingent liabilities

### Sudan 1 product recall

On 18 February 2005, the Food Standards Agency initiated a recall of a number of products, which had been identified as possibly being contaminated with a dye "Sudan 1" not authorised for use in food products. The dye was traced to a batch of chilli powder supplied to the Group, which was used by the Group in the manufacture of Worcester sauce. The Group used the Worcester sauce in the manufacture of three other products and supplied Worcester sauce to a number of retail and food ingredient customers. A number of the Group's customers have indicated that they intend to claim for their costs associated with the product recall. These claims may comprise claims for damage to their own products, the costs of recalling and destroying recovered product and claims for consequential loss among others.

Given the nature of the recall, the limited number of claims that have been received at this stage and the intrinsic uncertainty involved in such situations, it has not been possible to quantify fully the claims. However, the Company has made a preliminary assessment of the quantum and nature of the claims based on a set of assumptions reflecting management's current view of the situation and after having taken appropriate legal advice.

At this time, based on this assessment, its own insurance position and its potential claims against its suppliers and their own insurers, the Group does not believe that it has any material financial exposure.

### Legal proceedings

A claim for £658,000 has been made against Premier International Foods UK Limited by Exel UK Limited (formerly known as Tibbett & Britten Limited) ("Exel") pursuant to indemnities due under an asset sale agreement (the "ASA"). Exel further claimed unquantified damages arising out of an alleged loss of revenue for business Exel claims it should have received under a related distribution agreement (the "DA"). The dispute between the parties regarding the ASA has effectively been settled and certain payments have been made in respect of the indemnities. Premier International Foods UK Limited has challenged both the liability for the loss under the DA and the potential quantum of damages that the alleged loss of revenue is greatly exaggerated owing to errors in Exel's calculations.

Premier International Foods UK Limited has asserted a counterclaim for breach of contract by Exel in connection with Exel's obligations to manage pallets hired from GKN Chep under the DA. A Case Management Conference was held on 15 December 2004 at which the trial timetable was set, providing for a trial during October and November 2005. This action is ongoing and the directors consider that appropriate accounting provision has been made in respect of this matter.

## 28. Contingent liabilities continued

### Guarantees

On 28 June 2002, Premier Ambient Products (UK) Limited, a subsidiary of Premier Foods Investments Limited entered into a sale and purchase agreement with Ardnure Investments Limited for the sale and purchase of the entire share capital of Pastam Limited, a company registered in the Republic of Ireland, which had secured the right to acquire the ambient food business in the Republic of Ireland of Nestlé SA. Premier Financing Limited, a subsidiary undertaking of the Group has guaranteed minimum royalty payments due from Pastam Limited to Nestlé SA, should Pastam Limited be placed into receivership. In turn, Pastam has signed a deed of indemnity, whereby it will indemnify Premier Financing Limited for any loss suffered should the guarantee be called upon, and has granted Premier Ambient Products (UK) Limited a power of attorney to terminate the license, should a receiver be appointed to Pastam Limited. The maximum exposure to Premier Financing Limited under this guarantee is estimated at 31 December 2004 to be €4.2m. This exposure is reduced by €0.3m per annum until 2017 and the exposure is limited to €0.6m after 2017.

There were no other material contingent liabilities at 31 December 2004.

### 29. Related party transactions

Prior to the IPO HMTFPL had a controlling interest in the Group. As a consequence of which a number of related party arrangements existed between the Group and HMTFPL and its affiliates, which included Hicks, Muse & Co Partners L.P. ("Hicks, Muse & Co."). Save as disclosed elsewhere in these financial statements, details of these arrangements with HMTFPL and its affiliates are shown below:

#### Monitoring and Oversight agreement

In 1999, Premier Foods Holdings Limited and Premier Financing Limited entered into a 10-year agreement (the "Monitoring and Oversight agreement") with Hicks, Muse & Co. pursuant to which the Group pays Hicks, Muse & Co. an annual fee of £1.2m for providing financial oversight and monitoring services to the Group. The annual fee is adjustable at the end of each financial year to an amount equal to one tenth of one per cent of the Group's budgeted consolidated annual net sales, but in no event may the fee be less than £1.2m. In addition, the Group has agreed to indemnify Hicks, Muse & Co. and its shareholders and their respective directors, officers, agents, employees and affiliates from and against all claims, actions, proceedings, demands, liabilities, judgements, assessments, losses and costs, including fees and expenses, arising out of or in connection with the services rendered by Hicks, Muse & Co. under the Monitoring and Oversight agreement. The Monitoring and Oversight agreement makes available to the Group the resources of Hicks, Muse & Co. concerning a variety of financial and operational matters. The services that had been provided until IPO, when the agreement was terminated, could not otherwise be obtained by the Group without the addition of personnel or the engagement of outside professional advisers. In management's opinion, the fees provided for under the agreement reasonably reflect the benefits received by the Group. The Group paid £0.6m and £1.2m in the years ended 31 December 2004 and 2003 respectively under the Monitoring and Oversight agreement.

The Monitoring and Oversight agreement was terminated on 23 July 2004.

#### Financial Advisory agreement

In 1999, Premier Brands Foods Limited, Premier Financing Limited and Hicks, Muse & Co. entered into an agreement ("the Financial Advisory agreement") pursuant to which Hicks, Muse & Co. will be entitled to receive a fee equal to 1.5% of the transaction value for each acquisition, sale, merger, recapitalisation, restructuring or other similar transaction involving the Group. The Financial Advisory agreement makes available to the Group the resources of Hicks, Muse & Co. concerning a variety of financial and operational matters. The services that had been provided until IPO, when the agreement was terminated, could not otherwise be obtained by the Group without the addition of personnel or the engagement of outside professional advisers. In management's opinion, the fees provided for under the Financial Advisory agreement reasonably reflect the benefits received by the Group. The Group paid £nil and £1.6m in the years ended 31 December 2004 and 2003 respectively under the Financial Advisory agreement.

The Financial Advisory agreement was terminated on 23 July 2004.

## 29. Related party transactions continued

### Golden Share

A Golden Share was issued by Premier Financing Limited with voting rights, which entitled the holder of the Golden Share to block the passing of resolutions for the winding-up or administration of Premier Financing Limited or resolutions approving other matters that would constitute a breach of the Senior Credit Facility. Upon repayment of the Senior Credit Facility during the year (see note 19(b)), the Golden Share was automatically converted at IPO into a deferred ordinary share of Premier Financing Limited with limited rights.

At the date of the IPO HMTFPL reduced its stake in the ordinary share capital of the Company to approximately 20%. In addition, they appointed Mr. Lyndon Lea as a non-executive director of the Company.

On 15 October 2004 HMTFPL sold all its interests in the ordinary share capital of the Company.

### Transactions with Burton's Foods Limited ("Burton's")

#### Directors' relationship with Burton's

Mr Robert Schofield currently serves as the non-executive chairman of Burton's. Mr Paul Thomas served as a director of Burton's until 2 July 2004. Mr Lyndon Lea currently serves as a non-executive director of Burton's and the Company.

#### Cadbury Biscuits agreement

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

#### Chocolate supply agreement

An agreement, dated 29 January 2001, was entered into between Burton's and Premier International Foods UK Limited whereby Premier International Foods UK Limited agreed to buy its entire requirement for Cadbury chocolate products from Burton's so long as Burton's continues to be party to any agreements with Cadbury Limited in relation to the manufacture of Cadbury chocolate products. The consideration payable is determined according to a specified price per tonne which shall remain valid until 31 December 2006 and shall be agreed between the parties for each year thereafter. The value of purchases by the Group from Burton's were £0.5m and £0.7m for the years ended 31 December 2004 and 2003 respectively.

#### Cocoa products purchasing arrangements

Premier International Foods UK Limited and Burton's have agreed to cooperate in relation to certain aspects of their respective Cocoa products purchasing arrangements with Cadbury Limited. In particular the parties undertake to agree annual budgets for cocoa bean prices and cocoa butter ratios which are used as inputs into the prices of the cocoa products, and to issue joint instructions to Cadbury Limited in respect of their forecast demands for cocoa products. Burton's made a payment of £1.4m and £0.6m to Premier International Foods UK Limited in the years ended 31 December 2004 and 2003 respectively.

#### Sugar supply agreements

A strategic partnership agreement, dated 5 December 2003, was entered into between Chivers Hartley Limited, H.L. Foods Limited, Premier Ambient Products (UK) Limited and Premier International Foods UK Limited (together the "Premier Foods Grouping"), and British Sugar plc and Burton's, in relation to the joint purchase of sugar for the calendar years 2004 and 2005. Sugar purchases are made on a fixed prices per tonne basis, subject to certain discounts and adjustments. British Sugar plc guarantees that the terms of this agreement will result in a specific per annum saving to the Premier Foods Grouping and Burton's.

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## 29. Related party transactions continued

### Agreement in relation to distribution of Burton's Biscuits products in France

An agreement, dated 29 January 2001, was entered into between Premier Brands France SA and Burton's whereby Premier Brands France SA was appointed Burton's exclusive distributor for the promotion and sale of certain chocolate biscuit products in France. This agreement renews automatically for continuous periods of two years unless terminated by either party giving the other six months' written notice. Premier Brands France SA shall buy the products at specified prices, and are liable for all taxes, imports and duties. The value of purchases by the Group from Burton's were £4.5m and £4.6m in the years ended 31 December 2004 and 2003 respectively.

### Sublease of offices at Centrium Business Park, St. Albans

Premier Brands Foods Limited, a subsidiary undertaking, sublet office space at Centrium Business Park, St. Albans to Burton's. The sublet income is for duration of 15 years at an annual rent of £163,000 per annum with the first year rent-free. The amount received in 2004 was £40,750 (2003: £nil).

### Sale of freehold land and buildings

In January 2003, surplus land and buildings at the Moreton site were transferred to Burton's in exchange for the receipt of a warehouse at Risley, near Warrington. The properties at Moreton and Risley were both valued at £3.0m by an independent third party.

## 30. Post balance sheet events

### Birds acquisition

On 13 February 2005 the Group completed the acquisition of the Birds desserts business from Kraft Foods UK Limited for a consideration of £70.0m. Kraft Foods UK Limited is continuing to manufacture products on the Group's behalf until late summer, when the production will be transferred to the Group.

### Sudan product recall

On 18 February 2005, the Food Standards Agency initiated a recall of a number of products, which had been identified as possibly being contaminated with a dye "Sudan 1" not authorised for use in food products. The dye was traced to a batch of chilli powder supplied to the Group, which was used by the Group in the manufacture of Worcester sauce. The Group used the Worcester sauce in the manufacture of three other products and supplied Worcester sauce to a number of retail and food ingredient customers (see note 28 for further details).

**31. Principal subsidiary undertakings**

Subsidiary undertakings	Country of incorporation or registration and principal operations	Nature of business	Effective interest in ordinary share capital 31 December 2004	Effective interest in ordinary share capital 31 December 2003
<b>Operating subsidiaries</b>				
Chivers Hartley Limited	United Kingdom	Spreads and pickles manufacturing	100%	100%
H.L. Foods Limited	United Kingdom	Food canning and processing	100%	100%
Jonker Fris BV	The Netherlands	Food canning and processing	100%	100%
Materne Boin S.A.S.	France	Spreads and desserts manufacturing	–	100%
MBM Produce Limited	United Kingdom	Potato processing and grading	100%	100%
Premier Ambient Products (UK) Limited	United Kingdom	Spreads, pickles, vinegar, jelly and desserts manufacturing	100%	100%
Premier International Foods UK Limited	United Kingdom	Hot and cold beverages manufacturing	100%	100%
<b>Other subsidiaries</b>				
Premier Brands Foods plc (renamed from Premier Foods plc on 2 July 2004)	United Kingdom	Financing	100%	100%
Premier Financing Limited	United Kingdom	Financing	100%	100%
Premier Foods (Holdings) Limited	United Kingdom	Intermediate holding company	100%	100%
Premier Foods Investments Limited	United Kingdom	Intermediate holding company	100%	100%
Premier Foods Investments No.1 Limited	United Kingdom	Intermediate holding company	100%	–
Premier Foods Investments No.2 Limited	United Kingdom	Intermediate holding company	100%	–
Premier Foods Investments No.3 Limited	United Kingdom	Intermediate holding company	100%	–

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

All principal subsidiary undertakings have the same year end as Premier Foods plc. All the above companies have been included in the Group consolidation. The companies listed above are those that materially affect the results and the assets of the Group. A full list of subsidiary undertakings is available from the Company Secretary.

## Four year financial summary – unaudited

	2001 £m	2002 £m	2003 £m	2004 £m
Combined and consolidated, condensed profit and loss information				
Continuing business				
Turnover	741.4	773.2	773.8	<b>842.2</b>
Operating profit before operating exceptional items	59.9	75.9	76.4	<b>97.3</b>
Operating profit after operating exceptional items	51.4	61.5	65.9	<b>71.9</b>
EBITA (a)	62.1	82.4	85.6	<b>107.4</b>
Total business				
Operating profit after exceptional items	22.9	59.2	70.1	<b>87.0</b>
Net interest payable	(52.3)	(46.4)	(70.4)	<b>(78.3)</b>
(Loss)/profit on ordinary activities before tax	(29.4)	12.8	(0.3)	<b>8.7</b>
Tax credit/(charge) on (loss)/profit on ordinary activities before tax	0.4	2.1	8.9	<b>(2.5)</b>
(Loss)/profit for financial year	(29.0)	14.9	8.6	<b>6.2</b>
Combined and consolidated, condensed balance sheet information				
Fixed assets	137.8	249.2	343.8	<b>322.0</b>
Current assets	292.0	303.0	275.9	<b>230.7</b>
Creditors falling due within one year	(223.1)	(230.4)	(235.6)	<b>(201.1)</b>
Net current assets	68.9	72.6	40.3	<b>29.6</b>
Total assets less current liabilities	206.7	321.8	384.1	<b>351.6</b>
Creditors falling due after more than one year	(368.6)	(630.4)	(681.8)	<b>(354.9)</b>
Provisions for liabilities and charges	(18.3)	(20.1)	(19.1)	<b>(11.6)</b>
Total shareholders' deficit	(180.2)	(328.7)	(316.8)	<b>(14.9)</b>
Net debt (b)	360.4	622.4	707.4	<b>377.5</b>
Other financial information				
Depreciation and amortisation	18.6	26.0	32.9	<b>29.9</b>
Capital expenditure (c)	5.2	15.1	21.0	<b>26.9</b>
Net cash inflow from operating activities (d)	59.5	86.3	100.6	<b>96.6</b>

(a) EBITA represents operating profit before amortisation and exceptional items. EBITA is not a measurement of performance under UK GAAP and you should not consider EBITA as an alternative to operating income or any other measures of performance prepared under generally accepted accounting principals. Accordingly, EBITA has been disclosed in this document to permit a more complete and comprehensive analysis of the Group's performance relative to other companies and year on year.

(b) Net debt represents the Group debt net of cash prior to the recognition of capitalised debt issuance costs.

(c) Capital expenditure represents cash expenditure on tangible fixed assets, net of sales and other proceeds.

(d) Net cash inflow relates only to continuing business.

The summary presented above only includes information for four years ended 31 December 2004. The directors consider that restating the information for the year 2000 was not justified given the costs that would be involved in completing this exercise.

## Corporate information

### Company Secretary and registered office

Paul Thomas  
Premier Foods plc  
Premier House  
Centrium Business Park  
Griffiths Way  
St Albans  
Hertfordshire AL1 2RE

### Principal bankers

J. P. Morgan plc  
125 London Wall  
London EC2Y 5AJ

### Financial PR adviser

Citigate Dewe Rogerson  
3 London Wall Buildings  
London Wall  
London EC2M 5SY

### Registrar and transfer office

Lloyds TSB Registrars  
The Causeway  
Worthing  
West Sussex BN99 6DA

### Corporate brokers

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

Hoare Govett Limited  
250 Bishopsgate  
London EC1A 1HQ

### Investor relations contact

Gwyn Tyley  
Premier Foods plc  
Premier House  
Centrium Business Park  
Griffiths Way  
St Albans  
Hertfordshire AL1 2RE  
e-mail: gwyn.tyley@premier foods.co.uk  
Telephone: +44 1727 815870

### Auditors

PricewaterhouseCoopers LLP  
1 Embankment Place  
London WC2N 6RH

### Lawyers

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

### Financial calendar 2005

(All future dates may be subject to change)

Preliminary dividend date details

Announcement date 2 March 2005  
Ex dividend date 4 May 2005  
Record date 6 May 2005  
Annual General Meeting date 26 May 2005  
Payment of dividend 31 May 2005

Interim dividend date details

Announcement date 6 September 2005  
Ex dividend date 26 October 2005  
Record date 28 October 2005  
Payment of dividend 25 November 2005

## Notice of Annual General Meeting

Notice is hereby given that the first Annual General Meeting of Premier Foods plc ("the Company") will be held on Thursday 26 May 2005 at 2.00 pm at Haberdashers' Hall, 18 West Smithfield, London EC1A 9HQ to consider the following resolutions:

### Ordinary resolutions

#### Resolution 1

That the reports of the directors and auditors and the audited accounts of the Company for the year ended 31 December 2004 be received.

#### Resolution 2

That the final dividend of 9p per ordinary share in the Company recommended by the directors be declared.

#### Resolution 3

That the directors' remuneration report for the year ended 31 December 2004 be approved.

#### Resolution 4

That Robert Schofield be re-elected as a director.

#### Resolution 5

That Paul Thomas be re-elected as a director.

#### Resolution 6

That David Kappler be re-elected as a director.

#### Resolution 7

That David Felwick CBE be re-elected as a director.

#### Resolution 8

That Sharon Hintze be re-elected as a director.

#### Resolution 9

That Ian McHoul be re-elected as a director.

#### Resolution 10

That Ian Ramsay be re-elected as a director.

#### Resolution 11

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

#### Resolution 12

That the amendments to the rules of the Premier Foods plc Long-Term Incentive Plan ("the LTIP") which are marked on the copy of the rules of the LTIP produced to the meeting and initialled by the Chairman of the meeting for the purposes of identification (and which are summarised in the notes to the notice of this meeting) be and are hereby authorised and that the directors be and are hereby authorised to do all such acts and things as may be necessary to carry the same into effect.

#### Resolution 13

That the Company be and is hereby authorised:

(a) to make Donations to EU Political Organisations not exceeding £25,000 in total; and

(b) to incur EU Political Expenditure not exceeding £25,000 in total;

during the period ending at the conclusion of the Annual General Meeting of the Company in 2006. For the purposes of this resolution, "Donations", "EU Political Organisations" and "EU Political Expenditure" have the meanings set out in section 347A of the Companies Act 1985.

#### Resolution 14

That Premier Ambient Products (UK) Limited, being a wholly-owned subsidiary of the Company, be and is hereby authorised:

(a) to make Donations to EU Political Organisations not exceeding £25,000 in total; and

(b) to incur EU Political Expenditure not exceeding £25,000 in total;

during the period ending at the conclusion of the Annual General Meeting of the Company in 2006. For the purposes of this resolution, "Donations", "EU Political Organisations" and "EU Political Expenditure" have the meanings set out in section 347A of the Companies Act 1985.

#### Resolution 15

That HL Foods Limited, being a wholly-owned subsidiary of the Company, be and is hereby authorised:

(a) to make Donations to EU Political Organisations not exceeding £25,000 in total; and

(b) to incur EU Political Expenditure not exceeding £25,000 in total;

during the period ending at the conclusion of the Annual General Meeting of the Company in 2006. For the purposes of this resolution, "Donations", "EU Political Organisations" and "EU Political Expenditure" have the meanings set out in section 347A of the Companies Act 1985.

#### Resolution 16

That Chivers Hartley Limited, being a wholly-owned subsidiary of the Company, be and is hereby authorised:

(a) to make Donations to EU Political Organisations not exceeding £25,000 in total; and

(b) to incur EU Political Expenditure not exceeding £25,000 in total;

during the period ending at the conclusion of the Annual General Meeting of the Company in 2006. For the purposes of this resolution, "Donations", "EU Political Organisations" and "EU Political Expenditure" have the meanings set out in section 347A of the Companies Act 1985.

**Resolution 17**

That MBM Produce Limited, being a wholly-owned subsidiary of the Company, be and is hereby authorised:

- (a) to make Donations to EU Political Organisations not exceeding £25,000 in total; and
- (b) to incur EU Political Expenditure not exceeding £25,000 in total;

during the period ending at the conclusion of the Annual General Meeting of the Company in 2006. For the purposes of this resolution, "Donations", "EU Political Organisations" and "EU Political Expenditure" have the meanings set out in section 347A of the Companies Act 1985.

**Resolution 18**

That the directors be generally and unconditionally authorised under Section 80 of the Companies Act 1985 to allot relevant securities (as defined in that Act) up to an aggregate nominal value of £816,295. This authority will expire at the conclusion of the next Annual General Meeting or, if earlier, 15 months from the date of this resolution. However, before this authority expires, the Company may make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the directors may allot relevant securities under such an offer or agreement as if the authority had not expired.

**Special resolutions****Resolution 19**

That, provided that resolution 18 in the notice of this meeting has been passed, the directors be empowered under Section 95 of the Companies Act 1985 to allot equity securities (as defined in that Act) for cash pursuant to the authority conferred by that resolution as if Section 89(1) of that Act did not apply to any such allotment, provided that this authority shall be limited to:

- (a) the allotment of equity securities in connection with a rights issue, open offer or any other pre-emptive offer in favour of ordinary shareholders where the equity securities respectively attributable to the interests of all ordinary shareholders are proportionate as nearly as may be to the respective number of ordinary shares held or deemed to be held by them, subject to such exclusions or other arrangements as the directors may deem necessary or expedient to deal with fractional entitlements, legal or practical problems arising in any overseas territory, the requirements of any regulatory body or stock exchange or any other matter whatsoever; and

- (b) the allotment (otherwise than pursuant to sub-paragraph (a) above) of equity securities up to an aggregate nominal value of £122,444

and shall expire at the conclusion of the next Annual General Meeting or, if earlier, 15 months from the date of this resolution. The Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities under such an offer or agreement as if the power had not expired.

**Resolution 20**

That the Company be generally and unconditionally authorised to make market purchases (within the meaning of Section 163(3) of the Companies Act 1985) of not more than 24,488,867 ordinary shares of 1p each in its share capital at a price per share of not less than 1p per share and not more than 5% above the average of the middle market price for an ordinary share taken from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which such shares are contracted to be purchased (in each case exclusive of any expenses). This authority will expire at the conclusion of the next Annual General Meeting of the Company or, if earlier, 15 months from the date of this resolution. However, before this authority expires, the Company may agree to purchase ordinary shares where the purchase will or may be completed, either fully or partly, after the authority expires and the Company may purchase such ordinary shares as if the authority had not expired.

By Order of the Board

**Paul Thomas**

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

17 April 2005

## Recommendation

Your directors are of the opinion that the resolutions to be proposed at the Annual General Meeting are in the best interests of shareholders as a whole and recommend you to vote in favour of them. They will be doing so in respect of their own beneficial shareholdings.

## Explanation of resolutions

**Resolution 1: To receive the report and accounts**

The directors are required to present to the meeting the directors' and auditors' reports and the accounts for the year ended 31 December 2004.

**Resolution 2: To declare a dividend**

The proposed 2004 final dividend of 9p per share will be paid on 31 May 2005 to shareholders who are on the register on 6 May 2005. The final dividend will be paid in cash to all shareholders.

**Resolution 3: To approve the directors' remuneration report**

The Board is required to present the directors' remuneration report to shareholders for approval at the meeting. The remuneration report is set out on pages 23 to 31. The Board considers that appropriate executive remuneration plays a vital part in helping to achieve the Company's overall objectives. The vote will have advisory status in respect of the remuneration policy and overall remuneration packages and is not specific to individual levels of remuneration.

**Resolutions 4 to 10: To re-elect Robert Schofield, Paul Thomas, David Kappler, David Felwick CBE, Sharon Hintze, Ian McHoul and Ian Ramsay**

Article 115 of the Company's Articles of Association allows the Board to appoint a person to the Board during the year, subject to them being re-elected at the subsequent Annual General Meeting. The above named directors accordingly offer themselves for re-election. Lyndon Lea and George Sewell are shown in the report and accounts, which were finalised on 18 March 2005, as directors of the Company. They have subsequently notified their intention to resign as directors from the conclusion of this Annual General Meeting and are therefore not proposed for re-election.

Directors' biographical details are shown on page 14.

**Resolution 11: Reappointment and remuneration of auditors**

This resolution proposes the reappointment of PricewaterhouseCoopers LLP as auditors, and permits the directors to fix their remuneration.

**Resolution 12: The Premier Foods plc**

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

The LTIP was adopted prior to and conditional upon Admission. The intention is for the first awards to be made under the LTIP shortly after the 2005 Annual General Meeting.

Participants in the LTIP are given an award at the outset, over a specified number of shares. The vesting of the award is subject to the satisfaction of a performance target. At the end of the performance measurement period, award holders are granted an option. The number of shares in respect of which the option is granted is determined by reference to the extent to which the performance conditions attaching to the original award have been met.

It is proposed that a number of amendments be made to the LTIP to bring it into line with best practice. The proposed amendments which require shareholder approval are summarised below:

1. There is currently no limit on individual awards in the LTIP rules. To comply with best practice, an individual limit will now be added to the effect that the value of shares subject to awards given to a participant in any financial year under the LTIP will not normally exceed 100% of salary. However, in exceptional circumstances, the Remuneration Committee may award shares with a value of up to 200% of salary.
2. The cessation of employment provisions will be amended to reflect best practice as follows:
  - (i) **Good leavers**  
if a participant ceases to be employed by the Company by reason of death, injury, disability, retirement (at his contractual retirement age or at an earlier age with the agreement of his employing company), redundancy or because the business or company for which he works is sold out of the Group during the performance measurement period, the number of shares subject to his award that may be transferred to him (or, in the event of his death, his personal representatives) shall be determined by the Remuneration Committee (which may take into account the period of time that has elapsed since the award was granted and the extent to which the performance targets had been met at the time of cessation of employment).
  - (ii) **Other leavers**  
if a participant ceases employment other than by reason of death or for one of the "good leaver" reasons mentioned above during the performance measurement period, any awards he holds will lapse unless the Remuneration Committee determine otherwise.

**Resolution 13 to 17: Political donations**

The Companies Act 1985 requires companies to obtain shareholder authority before they can make donations to EU political organisations (which includes UK political parties). The definition of political donations used in the Act is very broad and, as a result, it may have the effect of covering a number of normal business activities that would not be thought to be political donations in the usual sense. Such activities are not designed to support any political party nor to influence public support for a particular party. To avoid any possibility of inadvertently contravening the Act, the directors consider that it would be prudent to follow the procedures specified in the Act to obtain shareholder approval for the Company and its wholly-owned subsidiaries Premier Ambient Products (UK) Limited, HL Foods Limited, Chivers Hartley Limited and MBM Produce Limited each to make donations to EU political organisations of up to £125,000 in total and to incur EU political expenditure of up to £125,000 in total. The Company's policy remains that it does not, directly or through any subsidiary, make what are commonly regarded as donations to any political party and the authority being requested from shareholders is not designed to change this policy.

**Resolutions 18 and 19: Authority to allot shares and disapplication of pre-emption rights**

Under Section 80 of the Companies Act 1985, the directors cannot generally allot shares in the Company unless they are authorised to do so by the Company in general meeting. Resolution 18 will authorise the directors to allot new shares up to a nominal value of £816,295, representing one-third of the issued share capital of the Company as at the date of this notice. The authority will expire at the conclusion of the next Annual General Meeting or, if earlier, 15 months from the date of passing of this resolution. The directors have no present intention of issuing shares, except as needed to satisfy the exercise of options under the Company's employee share schemes.

If shares are to be allotted for cash, Section 89 of the Companies Act 1985 requires those shares to be offered first to existing shareholders in proportion to the number of shares held by them. This right of shareholders is commonly known as a pre-emption right. The directors believe that in certain circumstances it will be in the interests of the Company for shares to be allotted for cash otherwise than in accordance with shareholders pre-emption rights. Under resolution 19, the directors will remain subject to constraints on the issue of shares for cash. Unless they comply with the pre-emption procedure under Section 89 of the Companies Act, they will be able to issue such shares for cash only:

- in connection with a rights issue, open offer or other pre-emptive offer, or;
- up to £122,444, representing approximately 5% of the nominal value of the Company's issued share capital as at 17 April 2005.

**Resolution 20: To authorise the Company to purchase its own shares**

This resolution is intended to give the directors the authority to make market purchases of up to 24,488,867 shares representing approximately 10% of the issued share capital at the date of this notice. The authority will expire at the conclusion of the 2006 Annual General Meeting, although the directors intend to seek renewal of the authority at each Annual General Meeting. The Board has no immediate intention of exercising this authority. Moreover purchases will only be made if they would be in the best interests of shareholders generally. As at the date of this notice there were options outstanding over 5,594,858 shares in the Company, representing 2.28% of the issued share capital at that date. If the authority proposed to be given by this resolution were used in full, these would represent 2.54% of the resulting issued share capital. There are no warrants outstanding.

**Attendance and voting**

Only those shareholders who are registered on the Company's share register at 6.00 pm on 24 May 2005 shall be entitled to attend the Annual General Meeting and to vote in respect of the number of shares registered in their names at that time. Changes to entries on the share register after 6.00 pm on 24 May 2005 shall be disregarded in determining the rights of any person to attend or vote at the meeting.

Please bring with you the accompanying Admission Card. It will facilitate your right to attend, speak and vote, and will speed your admission. Please keep it until the end of the meeting. The meeting will commence at 2 pm and light refreshments will be available from 1.30 pm and also after the conclusion of the meeting.

Whether or not you intend to attend the Annual General Meeting, you are requested to complete the enclosed Form of Proxy and return it to the Company's registrars at the following address: Response Licence No. SEA 10855, Lloyds TSB Registrars, The Causeway, Worthing BN99 6ZX as soon as possible and in any event so as to be received no later than 48 hours before the time appointed for the Annual General Meeting. The completion and submission of a Form of Proxy will not prevent you from attending and voting in person if you so wish.

You may also find it helpful to bring your Annual Report with you so that you can refer to it at the meeting.

If you do not wish, or are unable, to attend, you may appoint either the Chairman of the meeting or one or more persons of your choice to act on your behalf and to vote in the event of a poll. That person is known as a "proxy". You are advised to use the enclosed Form of Proxy to appoint a proxy.

A proxy need not be a shareholder and may attend and vote on behalf of the shareholder who appointed him or her.

At the meeting, the proxy can act for the member he or she represents. This includes the right to join in or demand a poll. The proxy is also valid for any adjournment of the meeting.

Please mark the appropriate box alongside each resolution on the Form of Proxy to indicate whether you wish your votes to be cast "for", or "against", or whether you wish to withhold your vote from that resolution. Unless you give specific instructions on how to vote on a particular resolution, your proxy will be able, at his or her discretion, either to vote "for" or "against" that resolution or to withhold from voting.

Before posting the form to the registrar, please check that you have signed it. In the case of joint holders, any of you may sign it.

Forms of Proxy must be received in the offices of the Company's registrars no later than 2 pm on 24 May 2005. Any Form of Proxy received after this time will be void.

The register of directors' interests, copies of their service contracts or letters of appointment and the rules of the Premier Foods plc long term incentive plan ("the LTIP"), incorporating the proposed amendments will be available for inspection at the registered office of the Company during usual business hours between the date of this notice and the Annual General Meeting and at the venue of the Annual General Meeting for 15 minutes prior to the commencement of the meeting and until its conclusion. The rules of the LTIP incorporating the proposed amendments will also be available for inspection at the offices of Deloitte & Touche LLP, 180 Strand, London WC2R 1BL during usual business hours between the date of this notice and the Annual General Meeting.

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**Premier Foods plc**

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