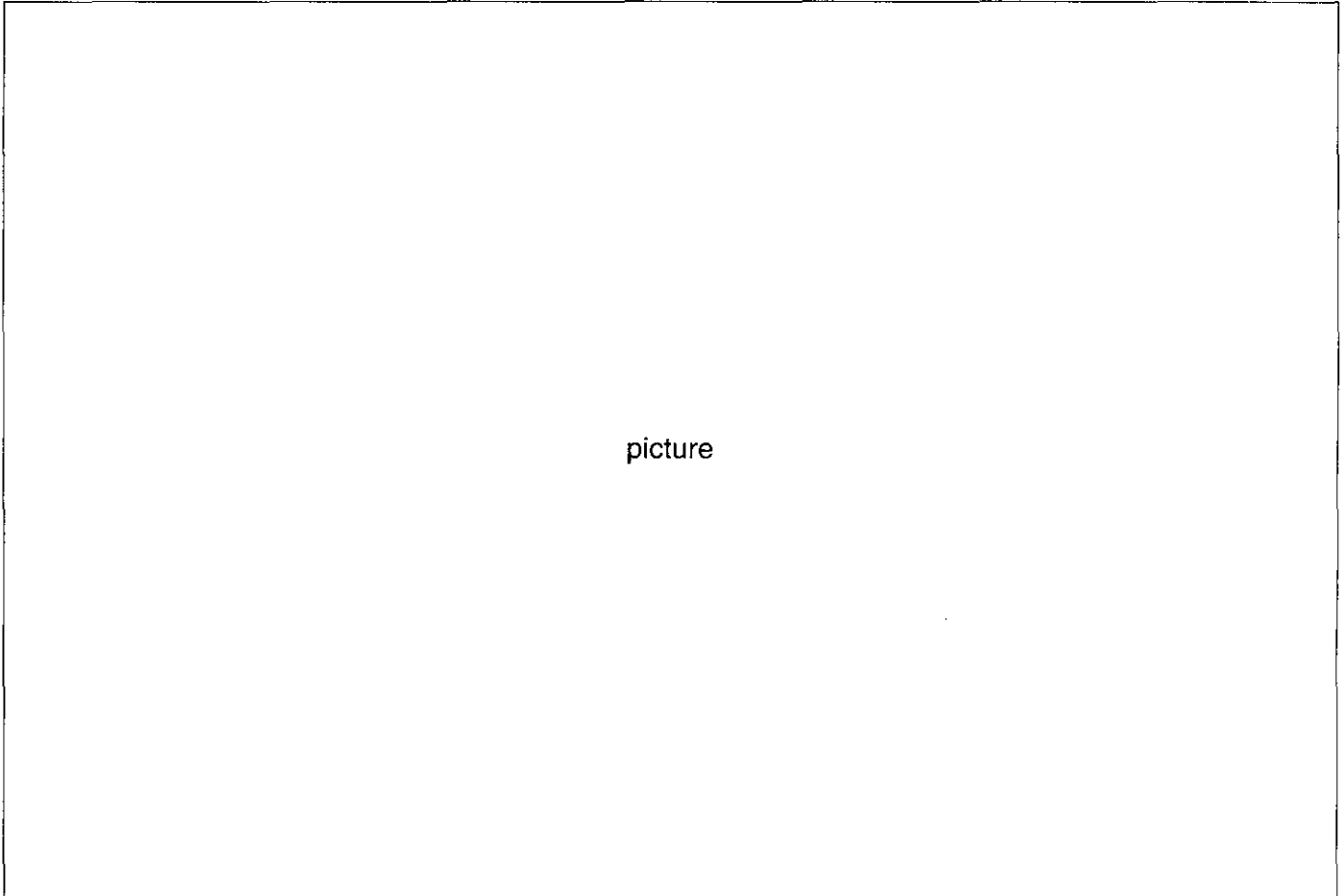


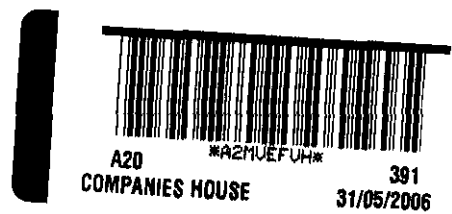


Company No 5160050



picture

**Premier Foods plc**  
Annual Report 2005



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COMPANIES HOUSE

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31/05/2006

Financial highlights:

**£789.7 +6.0%**

Turnover

**£603.8m +1.6%**

Like-for-like grocery turnover

**£108.4m +13.3%**

Trading profit

**£95.3m +18.2%**

Operating profit

**15.0p**

Earnings

per share – continuing

**14.25p**

Dividends

per share

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Premier Foods is a leading supplier of foods and beverages to the UK retail grocery and foodservice markets. We operate a broad portfolio of market-leading branded products and supply retailer brand products in the following product groups:

Convenience Foods,  
Pickles, Sauces & Meat-Free  
50.2% Group sales

Spreads, Desserts & Beverages  
36.3% Group sales

Fresh Produce  
13.5% Group sales

# A year of progress

## Chairman's statement

picture

I am pleased to report that this has been another successful year for the Group with increased like-for-like sales and operating margins, and a strengthened brand portfolio. At the time of writing my statement in last year's Annual Report, the Group had recently suffered a major fire at its Bury St Edmunds factory, an inventory overhang leading to reduced sales in January 2005 and was involved in the "Sudan 1" recall initiated by the Food Standards Agency.

The management and employees responded splendidly to these challenges whilst continuing to drive the business forward through organic development and strengthening the brand portfolio.

### **Organic development**

The highlight of the Group's branded development was the growth of our "drive" brands whose sales grew by 10% over the year. Sales grew, on a pro forma basis, by 2.8%. Like-for-like trading profit margins also improved in line with our target of 50 basis points through the improvement in our branded sales mix and efficiencies in manufacturing and logistics.

The most significant launch in the year has been that of *Branston Beans*. Following the transfer of ownership of HP Foods to *Heinz* in August 2005, the Group considered it unlikely that its licence to use the *HP* brand on canned beans and pasta, due to expire in March 2006, would be renewed. It was a fantastic achievement by all the management and employees concerned that they were able to develop the concept, recipe, consumer rationale and present the products to the retailers in only 11 weeks. The launch has gone very well and these excellent products have been received very positively by consumers and retailers.

The performance of our potatoes business was disappointing during 2005. This was primarily due to contracts lost at the end of 2004 as a result of retailers consolidating their supplier base. Management has worked hard during the year to stabilise the business, reduce its cost base and realign its product range with its customers. This has been successfully completed and the business has recently started to regain contracts.

### **Acquisitions and disposals**

The Group constantly monitors the performance and trading environment of all its brands and businesses. It seeks to add strong brands and market positions to its portfolio and it is also prepared to sell those brands and businesses where the value to the Group can be improved through disposal.

In line with the Group's strict strategic and financial criteria, the Group acquired the *Bird's* desserts business in February 2005, the UK's leading meat alternative brand *Quorn* in June and the UK's second largest meat alternative brand, *Cauldron*, in October. The focus of the acquisition of the *Bird's* business was the synergies achievable through adding the category-leading *Bird's* and *Angel Delight* brands to our existing Desserts business. *Quorn* and *Cauldron* are the leading brands in the meat-alternative category which benefits from the increasing focus of the UK consumer on healthier eating. The acquisition of both of these businesses enhances the growth prospects for the Group and gives us a unique understanding of this fast-growing category.

# 14.25p

Dividend per share

The Group had made significant progress over the last five years developing the profitability and competitiveness of its tea business. However, during the year, it was identified that the opportunities to develop the business further were restricted by its lack of vertical integration when compared to its main competitors and the long-term decline of the tea category in the UK market. As a result, the Group decided to dispose of the business, which it completed in October 2005. In addition, a review of the Group's Netherlands-based convenience foods business, Jonker Fris, concluded that it did not have sufficient scale to compete effectively in the European convenience foods market and it was therefore sold in December 2005.

#### **Employees**

I would like to thank all employees for their efforts towards the performance of the Group this year and particularly for their tremendous response to the challenges presented in rebuilding the Bury St Edmunds factory after the fire at the end of 2004. Also in implementing an enhanced raw materials testing regime following the Sudan 1 product recall, the launch of *Branston Beans* and integrating our acquisitions whilst not losing focus on driving the organic growth of the business. Their response to all these challenges serves to exemplify the "can do" attitude of all our employees.

#### **Dividends**

The directors are pleased to recommend the payment of a final dividend in respect of the year ended 31 December 2005 of 9.50p per share which, together with the interim dividend of 4.75p per share already paid, makes a total of 14.25p. The final dividend will be paid on 7 July 2006 to shareholders on the register on 9 June 2006. The directors intend to maintain a policy of increasing dividends in line with our mid single-digit organic earnings growth target.

#### **Board changes**

I would like to thank Lyndon Lea and George Sewell who resigned from the Board at the conclusion of the last annual general meeting, in May 2005, for their contribution.

#### **Looking to the future**

The trading environment for food companies continues to be tough and inflationary pressures remain a concern. However, the Board is confident that the right management and strategy are in place to build on the excellent progress made during 2005 towards our objective of becoming the leading supplier of grocery products in the UK.

**David J Kappler**  
Chairman

# Delivering a simple strategy

## Chief Executive's summary

picture

### Description of the business

Premier Foods is a leading UK supplier to the retail grocery and foodservice markets with its broad portfolio of market leading brands and retailer branded products. It is our ambition to provide our customers category leadership where we operate and to drive our scale further in the UK market.

### Strategy

The Group's strategy is centred upon growing our branded sales through a combination of innovation and refreshment of classic British brands. We use retailer brands to support this strategy by increasing our scale with our customers and driving our manufacturing efficiency. In addition we actively seek to acquire strong brands with a UK focus to strengthen our brand portfolio.

### Operational review

£m	2005 £m	2004 £m
Sales		
Grocery	<b>683.4</b>	594.4
Fresh Produce	<b>106.3</b>	150.3
Total sales	<b>789.7</b>	744.7

For 2005, the Board is pleased to report another year of robust financial performance and progress for the Group. Our drive brands have performed well with overall growth of 10%. We have launched *Branston* relishes, beans and pasta, *Loyd Grossman* "creamy" pasta sauces, pesto and chutneys and *Ambrosia* rice and custard with fruit sauce. We transferred our jelly products to the *Hartley's* brand and launched *Hartley's* fruit smoothies and bars and our newly acquired *Quorn* brand benefited from the launch of 26 new products.

The trading environment for the food retailers and food manufacturers remains very competitive. Our strategy is to try to work closely with our customers by focusing on exciting product innovations and promotions to reinvigorate the categories in which we operate.

### Acquisitions and disposals

During 2005 we acquired four businesses and sold two. In February 2005, we acquired the *Bird's* and *Angel Delight* brands to complement our *Ambrosia* and *Hartley's* desserts brands. In June 2005 we bought Marlow Foods, owner of the *Quorn* brand and in October 2005 *Cauldron Foods* giving us the two leading brands in the fast-growing "meat-free" category. In September 2005 we bought FW Gedneys to extend our potatoes business to include other fresh produce. The integration of these businesses has gone well and the brands have performed in line with our expectations.

However, we also continuously monitor the operational performance and strategic positioning of all of our brands and businesses. As a result we disposed of our Tea business and Jonker Fris convenience foods business.

### Business resilience

Overall, we have been delighted by the resilience of the business in withstanding a number of significant trading and one-off events in the last 18 months. In October 2004, a fire at our Bury St Edmunds factory disrupted production of our pickles and cooking sauce products. We were pleased to get the factory back into full production by the Easter of 2005. In the spring, we were involved in a major product recall resulting from the contamination of raw materials supplied to us, which contained the dye Sudan 1, and which were used in a range of products manufactured by the Group. We responded to this issue by taking a range of positive steps and initiatives to address the concerns that affected the Group and the wider food retail market. After a year's comprehensive

Trading profit up  
**13.3%**

investigation with full cooperation and assistance of Premier people, I can report that the relevant authorities concluded to take no action against Premier. This supports the view I explained at the time that Premier had always acted with integrity and that the issue was clearly a general industry concern. In addition, the business has responded strongly to the challenges of unexpectedly lower sales in January 2005, exceptionally mild autumn weather and significant levels of energy and utility cost inflation.

In addition to these issues we have significantly extended our Knighton factory to be able to take on production of the *Bird's* products acquired in February 2005 and launched new *Branston Beans* in the final quarter to mitigate the risk to the business that the licence under which we have marketed *HP* beans and pasta would not be renewed on its expiry in March 2006.

#### **Enhancing reporting to shareholders**

The Group has again improved the extent and clarity of information provided to shareholders. In this report in 2005, we have:

- provided an in-depth explanation of trading and financial performance, along with background information for both new and existing investors in our revised business review on pages 16 to 21;
- developed a cohesive and efficient approach to achieve the Group's corporate governance objectives, as outlined on pages 30 to 37;
- following a risk-based review of the Group's businesses during the year, explained improvements in our approach to risk management, such as the establishment of the risk review group on page 33;
- incorporated our principles of good corporate social responsibility within the objectives of the risk review group to ensure we meet the operational and information reporting challenges facing the Group and other public companies, outlined on pages 34 to 37;
- reviewed the composition of the Board and our responsibilities to shareholders, explained on pages 30 to 32 and
- explained our underlying remuneration principles and senior management incentive plans in our directors' remuneration report on pages 38 to 44.

#### **Outlook**

Overall trading performance for the year to the date of this report has been in line with expectations. The trading environment remains highly competitive and energy related inflationary pressure remains a concern. However, we are confident that we will continue to develop the business in line with our strategy, focusing on driving our branded sales growth whilst maintaining a tight control on our cost base.

**Robert Schofield**  
Chief Executive

picture

## **The Branston story**

Our approach to business challenges is different and rapid! The factory fire at the end of 2004 and the resulting public concern about its ability to buy *Branston* in time for Christmas, reinforced our belief that *Branston* as a brand, had a unique place in the hearts of the British Nation! Renowned for its tangy, sweet pickle and great taste, the brand had the ability to grow even further. We are building on this by modernising and stretching into new areas outside its traditional base.

We've had a busy year with exciting innovations: modern packaging for sweet pickle (new jar shape), TV advertising for our squeezezy range and a hugely successful launch of a relish range (four exciting flavours), which gained brand leadership almost immediately.

Further research showed that the brand could expand even further and in the last quarter we successfully entered the beans and pasta markets. An innovative approach was needed for success: the project was developed and launched in an amazing 11 week period. New great tasting products were made and advertising created and aired. We were so confident of our superior quality that we even asked the Nation to vote for the best tasting beans in our "Great British Bean Poll". 750,000 votes were cast and *Branston* won with a staggering 76%! Of course!

The brand has grown to over £28m in the year as a result of **bringing out the Branston!**

picture

### **The Loyd Grossman story**

Created and launched in 1995, the Loyd Grossman brand provides inspiration for mealtimes everyday in an ever increasing number of households. Uncompromising in approach, this premium brand has gained a reputation for raising the bar in taste and quality – developing a very loyal following. Keeping the momentum of recipe and flavour innovation has been vital, with new seasonal variations (pasta sauces) and product launches into creamy Italian sauces, pesto and chutney markets. Each product has the look, taste, aroma and unique twist that you'd expect from Loyd Grossman.

Detailed understanding of our consumer base and their lifestyles has enabled us to take our innovative approach to food development into our consumer communications. We tested some new ways of introducing new people to our brand and used these results to mould our advertising and sampling activities.

This enabled a further step-up in household penetration. In 2005 we've seen the brand grow its household base by 500,000, sales by 22% and market share to 8.7% – becoming the number 3 brand within the cooking sauce market.

Loyd Grossman – **Truly inspired eating!**

picture

## **The Ambrosia story**

We acquired the Ambrosia brand from Unilever at the end of 2003 because we recognised it as an iconic British brand, loved by consumers for its unique creamy taste but in need of some nurturing to unlock its real growth potential.

Since then we've been busy developing and investing in the brand – modernising and redesigning the packaging and launching new products (to target snacking and out of home consumption) and putting the brand back on TV for the first time in more than five years.

All of these plans and activities are underpinned by an in-depth understanding of the brand – how people engage with Ambrosia emotionally (it makes them “feel good inside”), what unique properties it has (its creamy, filling and comforting), its inherent healthiness (low fat and a good source of calcium) – so we're confident of delivering against our vision of turning Ambrosia into an “everyday delicious dessert”.

Indeed we're already starting to see the results of all this nurturing – last year we sold 12% more Ambrosia than the previous year, our brand share was up 8% and the number of households buying Ambrosia in individual snack pots was up 12%.

**It's making me feel good inside!**

picture

## **The Quorn story**

Through the acquisition in June 2005 of *Quorn* we are seeking to broaden the range of “healthy eating” options that we offer to consumers in one of the fastest growing food sectors.

*Quorn* products are unique, containing our own special ingredient called mycoprotein. Mycoprotein is low in fat, high in fibre, has no cholesterol and is a great source of quality protein. *Quorn* products have developed a reputation for good taste, health, convenience and nutrition. Now with over 80 great tasting lines they are no longer just eaten by vegetarians – in fact about 50% of all purchases are by people who simply want to eat more healthily.

Against this background, we have invested in getting people to understand the benefits of the brand and to taste it for themselves – through exciting new product development, TV advertising and lots of sampling.

It seems that people are constantly surprised by *Quorn* with 420,000 more people buying the brand this year, sales up 8% and the brand breaking the £100m retail sales barrier.

**Go on... “Try Quorn. It might surprise you!”**

picture

## **Operating efficiency**

Underpinning our brand management skills is a rigorous approach to cost control. The production team is focused on plant optimisation, versatility as part of risk management and efficiency improvements in every aspect of what we do. Strategic capital investment in projects supports these objectives as well as seeking to improve our environmental performance. The pursuit of ever more rapid product changeover times allows us to react quickly to peaks in demand supporting promotional activity and provides **the scale economies our strategy demands.**

# Business review

Ambition to be  
**No.1**  
In the UK retail and  
grocery foodservice  
market

## Principal activities

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

## Background to the business

In the main, the UK food retail market is comprised of well-known major retailers and smaller convenience stores. Whilst the smaller operations offer some additional distribution channels for our branded products the greater volume of sales comes from the major retailers who stock our brands and their own branded products. The food retail market is highly competitive demanding consistent product quality and reliable supply whilst seeking more competitive pricing and innovative new products. Suppliers look to generate economies of scale to reduce production costs to support promotional activity, investment in building brand awareness with the consumer and new product development. We also supply the food service, cash & carry and food manufacturing markets in the UK and a small proportion of our sales are through exports.

In general, supply to the UK food retail market is influenced by macro-economic factors such as consumer confidence, consumer price inflation, commodity and utility prices and sector wage inflation. A more detailed discussion of the factors affecting our business can be found on pages 33 to 37.

We focus on growing our iconic British brands through product innovation and brand extension supported by efficient manufacture and distribution. We categorise our brands into "Drive", "Core" and "Classic" depending on the potential growth of the brand. This determines the level of consumer marketing, promotional investment and new product development that we put behind each brand. Over time, it is our aim to increase the share of total sales provided by our branded products to 75% of our Grocery sales.

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

## Operating review – continuing operations

	2005 £'m	2004 £'m	
Sales			
Grocery	<b>683.4</b>	594.4	15.0%
Fresh Produce	<b>106.3</b>	150.3	(29.3%)
Total sales	<b>789.7</b>	744.7	6.0%
Trading profit*	<b>108.4</b>	95.7	13.3%
Amortisation of intangibles	<b>(6.3)</b>	(2.8)	125.0%
Effect of change in pension assumptions	–	3.4	–
Operating profit before exceptional items	<b>102.1</b>	96.3	6.0%
Exceptional items	<b>(6.8)</b>	(15.7)	(56.7%)
Operating profit	<b>95.3</b>	80.6	18.2%

\*Trading profit represents operating profit before exceptional items, amortisation and the effect of changes in pension assumptions

In 2005, Premier has achieved another year of branded sales growth and improved operating margins. In addition, we have strengthened our brand portfolio with the acquisitions of *Bird's*, *Quorn* and *Cauldron* and the disposal of our Tea and Jonker Fris businesses.

Our strategy is based upon growing the sales of our branded portfolio, whilst maintaining the benefits derived from also supplying retailer branded products and driving efficiency improvements and cost reductions to improve our operating profit margins. Overall, continuing operations generated sales growth of 6%, based on a like-for-like growth in *Grocery* of 2% and the strong contributions from *Bird's* and *Quorn*, which have been offset by a weaker performance from our *Fresh Produce* business. We increased the marketing spend on our existing brand portfolio by £5.0m to £27.7m, of which £3.5m was spent during the fourth quarter of the year launching our new *Branston Beans*. This increased marketing spend fuelled strong sales growth for our drive brands: *Loyd Grossman* grew 22%, *Branston* 14% (excluding *Branston Beans*), *Ambrosia* 12% and *Hartley's* 1%. In addition, we spent £6.3m marketing the brands acquired in the year which helped to generate pro forma year-on-year growth of 8% for *Quorn* and 9% for *Cauldron*.

Overall, we have been delighted by the resilience of the business in withstanding a number of significant trading and one-off events in the last eighteen months. In October 2004, a fire at our Bury St Edmunds factory disrupted production of our pickles and cooking sauce products. We were pleased to get the factory back into full production by the Easter of 2005. In the spring, we were involved in a major product recall resulting from the contamination of raw materials supplied to us, which contained the dye Sudan 1, and which were used in a range of products manufactured by the Group. We responded to this issue with a number of initiatives to address the concerns that affected the Group and the wider food production industry. In addition, the business has responded strongly to the challenges of the trading impact of an inventory overhang in January 2005, exceptionally mild autumn weather and significant levels of energy and utility cost inflation.



picture

As we indicated at the time of our interim announcement, sales for our potato business were significantly lower than in 2004 as a result of lower market prices and volumes and this continued during the second half of the year. During 2005, we realigned the business with its customer base through the acquisition of the Gedney's fresh produce business and adjusted the business' cost base through the closure of two of its four remaining packing facilities. This will ensure that we will enter 2006 as an efficient and competitive supplier of a broad range of fresh produce. Following the acquisition of Gedney's we have renamed this segment "Fresh Produce".

In 2005, we conducted a strategic review of our Tea and Jonker Fris businesses and concluded that the success and future competitiveness of those businesses could be better served by alternative ownership and, accordingly, we disposed of the businesses in October and December 2005 respectively. The net effect of acquisitions and disposals during the year is an increase in the pro forma share of Grocery sales from branded products of 6% to approximately 61%. Simultaneously, we have fully integrated Bird's into our business during the year and have made excellent progress on the integration of Quorn and Cauldron over the second half.

**61%**  
Grocery sales from  
branded products

#### Continuing operations – Grocery

	2005 £m	2004 £m	
Sales	<b>683.4</b>	594.4	15.0%
Like-for-like sales*	<b>603.8</b>	594.4	1.6%
Trading profit	<b>107.9</b>	90.0	19.9%
Like-for-like trading profit*	<b>94.9</b>	90.0	5.4%

\*Like-for-like represents results from continuing operations excluding results from acquisitions and disposals.

#### Convenience Foods, Pickles, Sauces and Meat-Free

	2005 £m	2004 £m	
Sales	<b>396.7</b>	347.5	14.2%
Like-for-like sales	<b>347.1</b>	347.5	(0.1%)
Trading profit	<b>40.8</b>	34.6	17.9%
Like-for-like trading profit	<b>34.3</b>	34.6	(0.9%)

Sales in our Convenience Foods, Pickles, Sauces and Meat-Free product group has demonstrated a resilient performance throughout 2005 with like-for-like sales of £347.1m (2004: £347.5m) and like-for-like trading profit of £34.3m (2004: £34.6m). This product group has seen strong growth in the Branston, excluding Branston Beans, (up 14%) and Loyd Grossman brands (up 22%), offset by lower sales from our smaller, mature brands and own label convenience foods. This performance has been achieved despite the effect of lower sales in January 2005 due to the high level of inventory on hand after the Christmas 2004 trading period and the effect of a mild autumn which has particularly affected the sales of "warming" soups and convenience meals. Like-for-like trading profit was flat at £34.3m after spending an additional £3.5m on marketing for the launch of Branston Beans and after absorbing significant cost inflation particularly in relation to tin-plate and energy related utility costs.



picture

We have put significant efforts behind our *Branston* brand during the year. At the start of the year, following the fire at our Bury St Edmunds factory in October 2004, our primary focus was on the rebuilding of production and distribution of the core *Branston* sweet and sour pickle ranges. We launched a new range of *Branston* relishes in March 2005, which achieved a category-leading position within two months of their launch. Finally, in October, we launched a new range of *Branston Beans* and *Pasta* in anticipation of the expiry of our *HP* licence, which is due in March 2006. The launch has been extremely successful with *Branston beans* gaining a 7% value market share within three months of launch.

In 2005, again following a period of rebuilding production and distribution after the Bury St Edmunds fire, we extended our *Loyd Grossman* range to include Pesto and "Creamy" sauces, which helped to consolidate *Loyd Grossman* as the third largest cooking sauce brand in the UK. The continued strong growth in 2005 means that the *Loyd Grossman* brand has now more than trebled in size over the last five years.

picture

### Meat-Free

	2005** £m	2004 £m	
Sales	<b>49.6</b>	–	
Trading profit	<b>6.5</b>	–	

Pro forma 12 months	2005 £m	2004 £m	
Sales	<b>99.8</b>	92.7	7.7%
Trading profit	<b>11.2</b>	8.1	38.3%

\*\* "Meat-Free" includes *Quorn* (29 weeks) and *Cauldron* (9 weeks) in 2005

Sales from the *Meat-Free* business have been included for the first time this year following the acquisition of Marlow Foods (owner of the "*Quorn*" brand) in June and *Cauldron* in October 2005. The combined business has generated sales of £49.6m and trading profit of £6.5m.

On a pro forma basis, the *Meat-Free* business generated growth in sales and trading profit of 7.7% to £99.8m (2004: £92.7m) and 38.3% to £11.2m (2004: £8.1m), respectively. This performance is consistent with our growth and profitability assumptions at the time of acquisition and we believe the business is well positioned to capitalise on the growth in its markets, which will result from the shift in consumer trends towards healthier eating and provide a growth platform for the business.

Following these acquisitions, the Group's knowledge of and access to the vegetarian and meat alternative markets is now unique amongst its competitors. Following the acquisition of *Quorn*, we increased the marketing spend on the brand, with two additional bursts of TV advertising, and increased the level of new product development to continue driving the brand's strong sales growth. During 2005 household penetration increased from 16.5% to 18.2%, equating to an additional 420,000 households now eating *Quorn*. The integration of the *Quorn* and *Cauldron* businesses has proceeded well with the sales, marketing and operations functions now fully integrated into Premier's management structures.

### Spreads, Desserts and Beverages

	2005 £m	2004 £m	
Sales	<b>286.7</b>	246.9	16.1%
Like-for-like sales	<b>256.7</b>	246.9	4.0%
Trading profit	<b>67.1</b>	55.4	21.1%
Like-for-like trading profit	<b>60.6</b>	55.4	9.4%

Our *Spreads, Desserts and Beverages* product group has performed well. Total sales grew by 16.1%, with like-for-like sales growth of 4% underpinning the additional sales from the *Bird's* business which was acquired in February 2005. Like-for-like trading profit grew by 9.4% to £60.6m (2004: £55.4m) and total trading profit, including *Bird's*, grew by 21.1% to £67.1m.

The like-for-like growth has been driven by *Ambrosia* with the introduction of new "fruit layer" custard and rice, the growth of "snacking" formats and new own label contracts. Sales for the acquired brands are in line with our expectations at the time of the acquisition.

The transfer of production of the *Bird's* and *Angel Delight* brands to our Knighton factory was completed in December 2005. From the acquisition in February through to the commissioning of the new lines in December, we incurred additional costs as we sourced production from Kraft. These costs ceased on the transfer of production and have been treated as exceptional because of their non-recurring nature.

**16.1%**  
Growth in sales for  
Spreads, Desserts  
and Beverages

#### Fresh Produce

	2005 £m	2004 £m	
Sales	<b>106.3</b>	150.3	(29.3%)
Like-for-like sales	<b>94.2</b>	150.3	(37.3%)
Trading profit	<b>0.5</b>	5.7	(91.2%)
Like-for-like trading profit	<b>0.4</b>	5.7	(93.0%)

Sales in our *Fresh Produce* business have reduced by 29.3% to £106.3m (2004: £150.3m) and trading profit by 91.2% to £0.5m (2004: £5.7m). This result is disappointing, having arisen as a result of the poor general trading environment, lower overall market prices and the effect of contracts lost at the end of 2004 as a result of supplier consolidation in this category by the major multiple grocery retailers. Following on from the initial phase of operational restructuring in 2004, we have further reviewed the cost structure and packing capacity of the business and have reduced its operating cost base through the closure of two of the remaining four packing facilities.

We have also realigned the business with its customers' requirements through the acquisition of the Gedney's fresh produce business in September 2005 which has widened the fresh produce offering to our customers. This ensured that we entered 2006 as an efficient and competitive supplier of a broad range of fresh produce.

#### Discontinued operations

	2005 £m	2004 £m	
Sales	<b>77.2</b>	152.1	(49.2%)
Trading Profit	<b>8.6</b>	14.6	(41.1%)

On 30 October, the Group disposed of its tea business for £80.2m. On 7 December, the Group disposed of its Netherlands-based convenience foods business, Jonker Fris, for £4.4m. The results for these businesses during the period of our ownership in 2005 together with the profit or loss on disposal are presented as the result for 2005, net of tax from discontinued operations. This total amount is compared with the results for these businesses and our French spreads business Materne, which was disposed of in 2004.

#### Business outlook

Overall trading performance for the year to date has been in line with expectations. The trading environment remains highly competitive and energy related inflationary pressure remains a concern. However, we are confident that we will continue to develop the business in line with our strategy, focusing on driving our branded sales growth whilst retaining a tight control on our cost base.

# Financial review

Turnover up  
**6.0%**

For the first time, the annual results of the Group have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS"). We have disclosed comparative financial information as reconciled to that formerly presented under UK GAAP on our website, available at [www.premierfoods.co.uk](http://www.premierfoods.co.uk). The impact of conversion to IFRS has had no cash impact.

Since the publication of the interim results no further adjustments have been made to the information previously disclosed, other than to reflect the classification of results of the continuing and discontinued operations of the Group. As explained in more detail in note 10, on 30 October the Group disposed of its Tea business, followed by the disposal of its Jonker Fris subsidiary on 7 December. In accordance with IFRS 5, the results of both activities have been presented as discontinued operations for the entire period of ownership in 2005 and 2004. For 2004, discontinued operations also include the results of *Materne*, our French spreads business sold in July 2004.

## Income Statement – continuing operations

### Sales

Sales generated by the Group's continuing operations increased by 6.0% to £789.7m (2004: £744.7m). The most significant components of this movement were the additional sales arising from our acquisitions of *Bird's*, *Quorn* and *Cauldron*, offset by the reduction in sales at MBM, our Potatoes business, as a result of weaker market pricing and the loss of contract volume. Total Grocery sales increased by 15% to £683.4m, with like-for-like sales, stated before the impact of acquisitions, increasing by 1.6% to £603.8m. This was the result of the strong trading in the Grocery business in the fourth quarter, compared with the weak trading in conditions experienced in January and an un-seasonally warm Autumn.

### Acquisitions

In the current year, much progress has been achieved towards the full integration of each of the brands and businesses acquired during 2005, and as such it is anticipated that these businesses will continue to deliver incremental sales and profit at levels consistent with the Group's expectations at the time of acquisition. In addition, we expect that the transfer of production of *Bird's* to our Knighton site that was completed in December 2005 will generate a level of incremental cost saving in line with the targets set at the time of its acquisition. For the purposes of comparability, we have presented the additional cost of sourcing production from Kraft as exceptional costs during 2005 (see note 5).

For 2005, the contributions generated during the period of our ownership of *Quorn* (29 weeks) and *Cauldron* (9 weeks) are in line with our expectations at the date of each acquisition, with *Quorn* generating trading profit of £6.0m. We have integrated the *Quorn* and *Cauldron* sales and marketing functions into existing Premier structures to maximise the sales growth and profitability in our ownership of the leading two Meat-Free brands in the market. We continue to consider actively opportunities to acquire new brands, based on a strict set of strategic and financial criteria.

### Gross profit

Gross profit for 2005 was £206.4m, an increase of 15.7% over 2004. On a like-for-like basis total gross margins stated prior to *Bird's* transitional manufacturing costs were 25.8%, up from 24.2% in 2004. This improvement primarily reflects the benefit of significant capital investment in production efficiency, a reduction in depreciation charged following a review of the estimated useful economic life of our assets and the write off of assets damaged in the fire at our Bury St Edmunds factory supplemented by a strong performance from our drive brands. The overall increase reflects this like-for-like performance coupled with the strong gross profit margins of our acquisitions and the effect of the disposals of the Tea business and Jonker Fris.

#### Selling and distribution costs

Selling and distribution expenses were £73.7m for 2005, an increase of 16.2% compared to 2004. On a total like-for-like basis, selling and distribution expenses decreased by £1.0m, reflecting an increase of £5.0m on marketing spend relating to primarily our *Branston Beans* launch offset by logistics cost savings made within Grocery and Fresh Produce.

#### Administrative costs

Administrative expenses were £39.8m in 2005, an increase of 6.4% compared to in 2004. On a total like-for-like basis administrative expenses before amortisation and exceptional items increased by £0.5m primarily due to the impact of share-based payment costs of £1.1m offset by the rationalisation of property and other fixed costs in Fresh Produce of £1.0m. Amortisation of intangible assets increased to £6.3m in 2005 (2004: £2.8m), primarily due to the acquisitions of *Bird's* and Quorn.

#### Other operating income

Other operating income amounted to £2.4m comprising £0.9m of fair value movements on ongoing forward foreign exchange contracts and £1.5m of income under our business interruption insurance in relation to the fire at Bury St Edmunds. Under IAS 39, changes in the fair value of unsettled forward foreign exchange contracts that are not designated as hedges are now recorded outside of cost of sales and are recorded as other operating income or expense. The net economic impact remains the same.

#### Operating profit

Operating profit before exceptional items for the continuing business was £102.1m for 2005, an increase of £5.8m, or 6.0%, compared to 2004. Operating profit after exceptional items increased by 18.2% to £95.3m.

#### Exceptional items

Exceptional items are not explicitly addressed in IFRS. Accordingly the Group has defined exceptional items as those items of financial significance to be disclosed separately, in order to assist in understanding the financial performance achieved and in making projections of future results. These items relate to events or circumstances that are non-recurring in nature. Exceptional items for the period reflect the aggregate effect of a number of non-recurring events, resulting in a net expense of £6.8m compared to £15.7m in the prior year. The principal elements of the charge for the current period relate to the costs associated with the integration of the *Bird's* business, the rationalisation of our operations at MBM, the Sudan 1 product recall and the impact of the insurance claim for the Bury St Edmunds fire (see note 5).

#### Pensions

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

In this context, the Group monitors the scheme-specific demographic characteristics of members, along with the discount rates, returns on equity, inflation and assumptions about the rate of future salary increases. As at 31 December 2005, on an IAS 19 "Employee Benefits" basis, in aggregate the Group's pensions are in deficit (net of related deferred tax asset) by £59.1m. We have revised the assumptions used in determining the IAS19 liabilities to reflect changes in the economic environment and the scheme as at 31 December 2005. These assumptions, detailed in note 24, continue to be monitored on a regular basis.

**18.2%**  
Growth in  
operating profit

#### Interest

Interest payable for the business of £51.5m comprised net cash interest payable of £42.4m, the write-off of debt issuance costs arising on the re-negotiation of borrowings in 2005 of £6.3m, the regular amortisation of debt issuance costs of £1.7m and the impact of movements in the fair value of interest rate swaps of £1.1m.

The net interest payable of £43.5m, after interest income of £8.0m represents a significant saving on the prior year cost of £78.3m. The saving is a consequence of the new financing structure put in place at the time of the IPO in July 2004. At the time of the acquisition of Marlow Foods in June 2005, the Group carried out a further re-financing exercise to fund the acquisition, its future investment programmes and its ongoing working capital requirements. This resulted in the write-off of £6.3m of un-amortised facility costs relating to the previous structure. Facility costs relating to the new credit facilities totalled £5.6m and are being amortised over the term of the new facilities. The Group continues to actively review the sources and cost of funds in the context of its short to medium-term investment opportunities with the intention of securing the lowest cost of financing for the level of gearing.

#### Taxation

The tax charge and effective rate of tax for continuing operations were £14.9m and 28.8% respectively, broadly in line with the rate anticipated for the full year. The underlying cash rate of tax paid for 2005 is 24%, reflecting the deductibility of goodwill arising on certain acquisitions and the acceleration of benefits available through ongoing capital expenditure programmes. Under IFRS, it is anticipated that the effect of an ongoing investment programme will be to maintain the effective cash rate of tax within a range of 25-26% in the medium term, with movements in deferred tax adjusting the income statement effective rate of tax to the UK statutory rate.

#### Discontinued operations

The Group continues to actively monitor the ongoing operational performance and strategic positioning of all its brands and product categories. As a result of this process, on 30 October 2005, the Group sold its Tea business to Apeejay Tea International for consideration of £80.2m and sold its Netherlands-based convenience foods business, Jonker Fris, to NPM on 7 December 2005 for consideration of £4.4m.

In aggregate, the Group recorded a profit on disposal of these businesses of £40.9m, a result that reflected the best value available to the Group. This profit, combined with the operating profits earned by each of the businesses during the Group's period of ownership (net of taxes), has been recorded as the result of discontinued operations in the income statement.

#### Earnings per share

Based on our performance for the year, basic earnings per share were 34.0p (2004: 9.9p). In accordance with IFRS and as a reflection of the impact of disposals in the year, basic earnings per share from continuing and discontinued operations were 15.0p per share (2004: 1.5p) and 19.0p per share (2004: 8.4p) respectively, significantly ahead of the prior year.

#### Dividend

Consistent with our stated dividend policy, on 7 March 2006 the Board recommended a final dividend of 9.50p per ordinary share (2004: 9.00p), resulting in a total dividend for 2005 of 14.25p per ordinary share. The final dividend payment, which totals £23.5m, is payable in July 2006. Under IFRS final dividends are recorded in the financial statements in the period in which they are declared.

15.0p  
Earnings  
per share – continuing

#### **Cash flow and borrowings**

In the year, the Group's net borrowings increased from £370.3m to £572.1m. After a cash inflow from operations of £73.9m, the primary components of the net outflow were acquisition cash flows (including repayment of Marlow Foods debt), net of disposals, of £194.2m, ongoing net capital expenditure of £36.2m, dividends of £33.8m and debt issuance costs of £5.6m.

Net cash generated by operating activities of £73.9m in 2005 compares with £28.5m in 2004, primarily reflecting an improvement in operating profit of £14.7m and a reduction of £23.1m in net interest payable.

Acquisition cash flows (including repayment of Marlow Foods debt) of £275.8m consist of the consideration and associated transaction costs of £72.1m, £172.0m and £27.1m for the purchase of *Bird's*, Marlow Foods and *Cauldron* within Grocery and £4.6m for Gedney's within Fresh Produce. The total consideration for Marlow Foods included £3.2m of acquisition related costs and included a payment of a cash sum of £118.6m (net of cash acquired), assumed borrowings of £53.4m and £4.1m of loan notes.

#### **Capital expenditure**

The Group operates a capital expenditure programme that is monitored within pre-defined financial targets, related to the performance of the Group, operating efficiency and growth characteristics of each investment. In 2005, the Group incurred net capital expenditure totalling £36.2m in relation to ongoing and acquired businesses. This was in addition to the re-build of our Bury St. Edmunds plant. This figure includes acquisition related capital expenditure of £6.0m spent on the relocation of *Bird's* production to our Knighton factory. We continue to review the capital demands of the business and consider the expenditure for 2005 to reflect a level of spend slightly ahead of our ongoing target level, as a result of a combination of recurring and non-recurring investment requirements.

#### **Impact of IFRS**

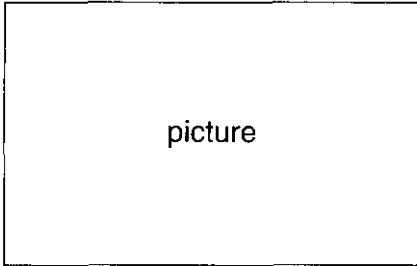
The consolidated financial statements of the Group are presented in accordance with IFRS. The Group has satisfactorily completed its conversion to IFRS. The impact on earnings has been limited to the accounting for the Group's foreign exchange and interest rate swaps, the amortisation of intangibles, pension accounting, accruals for employee incentive awards and deferred tax. There have also been a number of presentational changes to the income statement and balance sheet, but there has been no cash impact arising from any of these adjustments. IFRS will form the basis for all of our financial communications in the future.

Following our transition to IFRS, the Group conducted a review of the useful economic lives and residual values of its property, plant and equipment. As a consequence, and based upon independent valuation advice, we have revised the weighted average useful lives of our assets upwards, with the effect of reducing our current year and ongoing depreciation charge by £3.0m–£3.6m annually.

**Paul Thomas**  
Finance Director

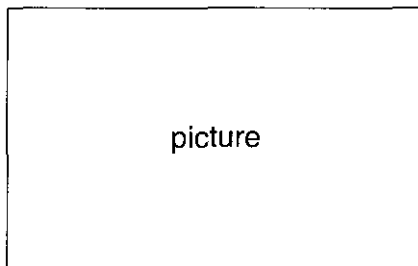
# Board of Directors & Senior Management

## Executive Directors



**Robert John Schofield** Aged 54

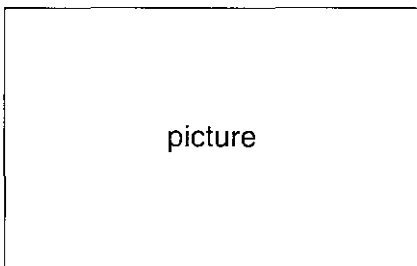
Joined the Group in 2001 taking responsibility for its branded business. He was appointed Chief Executive in January 2002. Robert Schofield has extensive manufacturing and operational experience gained at United Biscuits plc where he ultimately served as Managing Director of United Biscuits UK, directing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



**Paul Thomas** Aged 50

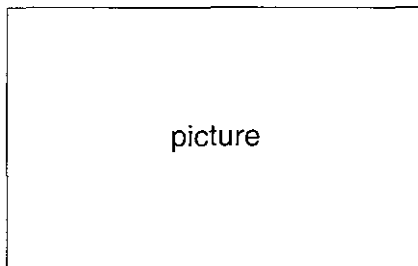
Joined the Group in 2002 as Finance Director. Prior to this he served as Finance Director of Coors Brewers (formerly Bass Brewers). Previously, he was the Director of Planning and Business Development in the retail division of Grand Metropolitan plc. He is a Chartered Accountant.

## Non-executive Directors



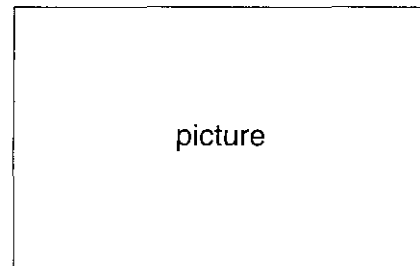
**David Kappler** Aged 59

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.



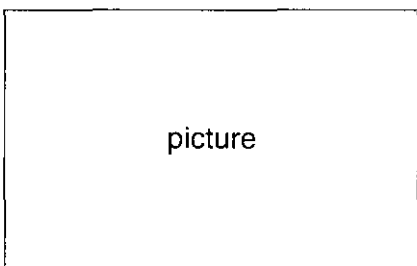
**David Felwick** CBE Aged 61

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.



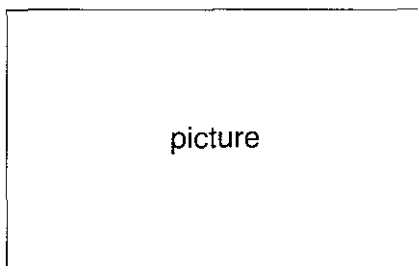
**Sharon Hintze** Aged 61

Joined the Group on flotation in 2004, she is currently a non-executive director of HSBC 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.



**Ian McHoul** Aged 46

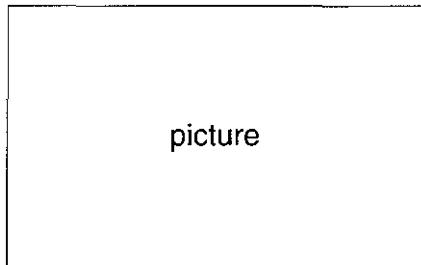
Joined the Group on flotation in 2004 and is currently the Group Finance Director of Scottish & Newcastle plc. He was previously the Finance and Strategy Director of the Innpreneur Pub Company Limited and prior to that he spent 10 years with Courage Limited and its parent company Foster's Brewing Group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



**Ian Ramsay** Aged 66

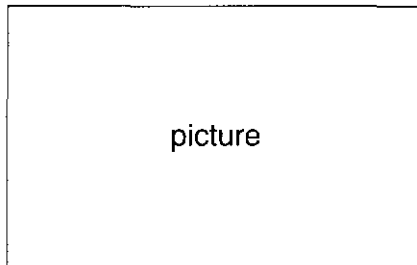
Joined the Group on flotation in 2004. Mr Ramsey was formerly President of European Operations and President of Europe, Africa and the Middle East at Bestfoods Europe. Prior to this, he was Senior Vice President of Finance and Human Resources.

## Senior Management



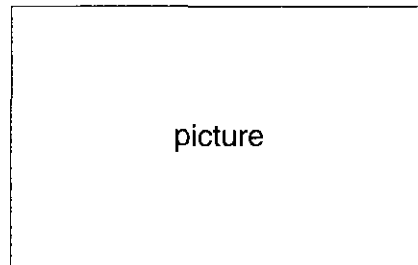
**Howard Beveridge** Aged 45

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



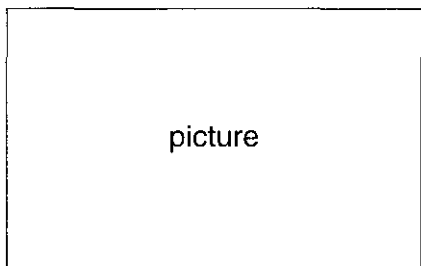
**Stephen Bolton** Aged 41

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



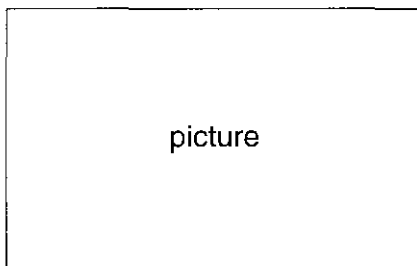
**Ian York** Aged 46

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.



**Ian Croxford** Aged 48

Joined the Group in 2003 as Group Operations Director. Prior to that, he served as the Managing Director for John Dewar's Whisky, a former subsidiary of Diageo. Previously, he held senior management roles in Associated British Foods, Allied Lyons and Tate & Lyle.



**Andrew Astin** 49

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

# Directors' report

The directors have pleasure in presenting the report and financial statements of Premier Foods plc and its subsidiaries for the year ended 31 December 2005.

## Principal activities

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

Details of its principal activities can be found on page 16.

## Business review

The Chairman's statement on pages 2 and 3, the Chief Executive's summary on pages 4 and 5 and the Business review on pages 16 to 21 provide a review of the business during the year and possible future developments.

## Financial statements

The audited financial statements are presented on pages 46 to 83.

## Profit and dividend

The profit on ordinary activities before tax for the year ended 31 December 2005 was £51.8m (2004: £2.3m). The directors are recommending a final dividend of 9.50p per share for the year ended 31 December 2005. Subject to shareholders' approval, the final dividend will be paid on 7 July 2006 to members on the register as at 9 June 2006.

## Shares

During the year, the ordinary share capital of the Company was increased to 247,841,161 ordinary shares of 1p each, allotted as a result of the exercise of options under the Company's share schemes. Details of share movements during the year are set out in note 25 to the financial statements on page 73. The Company has authority from shareholders to repurchase up to 10% of its own shares. This authority was not used during the year to 31 December 2005, nor in the period up to the publication of this report. The Board intends however to seek shareholder approval to renew this authority at the Annual General Meeting.

## Research and development

Research and development costs of £1.5m were incurred in continuing operations during the year, relating to salaries paid in the new-product development division.

## Land and buildings

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

## Donations

No donations were made to political parties. Details of charitable donations can be found on page 37.

## Directors

The present directors of the Company are listed on page 30 of the corporate governance report. On 26 May 2005 both Mr Lyndon Lea and Mr George Sewell resigned their directorships.

Details of the interests in the share capital of the Company of the directors in office as at 31 December 2005 are set out on page 42 of the directors' remuneration report.

## 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 income and expense and cash flows of the Group for that period. The directors confirm that appropriate accounting policies have been used and applied consistently, and reasonable and prudent judgements and estimates have been made in the preparation of the financial statements for the year ended 31 December 2005. The directors are required to prepare the financial statements on a going concern basis, unless inappropriate to presume that the Group will continue in the business, and have been properly prepared in accordance with the Companies Act 1985, and all applicable accounting standards have been followed. The directors are responsible for maintaining adequate accounting records that disclose with reasonable accuracy at any time, the financial position of the Company and the Group as to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps to prevent and detect fraud and other irregularities.

The directors of the Group have taken all necessary steps to ensure that the Group's auditors are aware of all relevant information and none of the directors are aware of any relevant information that has not been disclosed to the Group's auditors. The directors are responsible for maintaining the integrity of financial information which includes the Annual Report, together with other financial statements, presentations and announcements on the Group's website [www.premierfoods.co.uk](http://www.premierfoods.co.uk). Legislation in the UK concerning the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## Directors' indemnities

Article 225 of the Company's Articles of Association provides that every director, shall be entitled to be indemnified out of the assets of the Company against all costs, charges, losses, expenses and liabilities incurred by him in the actual or purported execution and/or discharge of his duties and/or the exercise or purported exercise of his powers and/or otherwise in relation to or in connection with his duties, powers or office including (without prejudice to the generality of the foregoing) any liability incurred by him in defending any proceedings, civil or criminal, which relate to anything done or omitted or alleged to have been done or omitted by him as an officer of the Company and in which decree or judgment is given in his favour or in which he is acquitted or in connection with any application under any statute for relief from liability in respect of any such act or omission in which relief is granted to him by the Court.

## Substantial shareholdings

As at 20 March 2006, 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	% of issued share capital
AXA Investment Managers UK Ltd	22,949,354	9.26%
Standard Life Investments (UK)	34,215,476	13.81%
Fidelity International Limited	7,194,951	2.90%
Legal & General Group plc	12,469,549	5.03%

### **Employment policies**

A summary of the Group's employment policies is set out on in the corporate social responsibility report on page 34.

### **Creditor payment policy**

Premier Foods plc is a holding company and had no amounts owing to trade creditors at 31 December 2005. The Group's creditor days outstanding at 31 December 2005 were 64 days (2004: 59 days) of purchases, based on the ratio of Group trade creditors at the end of the year to the amounts invoiced during the year by trade creditors.

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

### **Post balance sheet events**

There are no post balance sheet events.

### **Auditors**

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

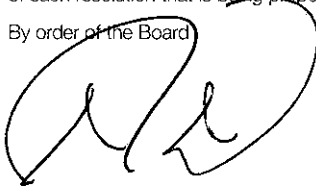
### **Going concern**

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

### **Annual General Meeting business**

The Annual General Meeting of the Company will be held at Haberdashers' Hall, 18 West Smithfield, London EC1A 9HQ on Thursday 11 May 2006 at 12.00 noon. The Notice convening the AGM appears on page 89, together with details of the business to be considered, and full explanations of each resolution that is being proposed.

By order of the Board



### **Andrew Astin**

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

Registered in England No. 5160050

7 March 2006

# Corporate governance

## Corporate governance

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

## Compliance statement

This report set out on pages 30 to 37 describes how the Group has applied the principles of good corporate governance as set out in section 1 of the Combined Code on Corporate Governance issued by the Financial Reporting Council in July 2003 (the "Combined Code"). In respect of the period from 1 January 2005 to 31 December 2005, the Board considers that the Group has complied with the provisions set out in the Combined Code.

## The Board

### Board structure

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

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

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

### Directors and their interests

The following directors held office during the year ended 31 December 2005:

Designation	Appointed	Resigned
David Kappler, Chairman	19 July 2004	
Robert Schofield, Chief Executive	22 June 2004	
Paul Thomas, Finance Director	22 June 2004	
David Felwick CBE, senior independent director	19 July 2004	
Sharon Hintze, non-executive director	19 July 2004	
Lyndon Lea, non-executive director	22 June 2004	26 May 2005
Ian McHoul, non-executive director	19 July 2004	
Ian Ramsay, non-executive director	19 July 2004	
George Sewell, non-executive director	19 July 2004	26 May 2005

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 42 to 44.

### Operation of the Board

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

The Board normally meets at least six times in each calendar year and also meets on other occasions as necessary. Meetings are usually held at the Company's head office, in St Albans, but the meetings also provide an opportunity for the Board as a whole to visit the Group's operating facilities. Details of the number of Board and Committee meetings and the attendance at those meetings is set out on page 31.

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 executive directors present.

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

The Chairman, David Kappler, is currently a non-executive director of HMV Group plc, Shire Pharmaceuticals Group plc and Intercontinental Hotels Group plc. The Board of Premier Foods plc is satisfied that these appointments do not conflict with the Chairman's ability to carry out his duties and responsibilities effectively for the Group. The biographies of the directors and members of the senior management team appear on pages 26 and 27.

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

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

## Meetings

The following table sets out the number of meetings of the Board and its Committees and individual attendances thereat during the financial year to 31 December 2005. In addition to the meetings detailed below, ad hoc Committees of the Board are convened for specific purposes from time to time. (\*Denotes attendance by invitation.)

	Group Board	Remuneration	Nomination	Audit
Number of meetings held	7	5	2	5
David Kappler	7	3*	2	4*
Robert Schofield	7	2*	1*	2*
Paul Thomas	7	2*	1*	5*
David Felwick CBE	6	5	2	4
Sharon Hintze	6	4	1	3
Ian McHoul	7	2*	2	5
Ian Ramsay	6	5	2	1*

Both Mr Lyndon Lea and Mr George Sewell who resigned on 26 May 2005 attended one Board meeting and one meeting of each of the Committees during 2005.

## 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 38 to 44), with the Company or any of its subsidiary undertakings.

## Remuneration

The 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 38 to 44.

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

## 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 AGM following their appointment.

There is also a process of rotation which ensures that no director holds office for more than three years without being reappointed at an Annual General Meeting (AGM) and also that at least one-third of directors will be required to retire and seek reappointment at each subsequent AGM. Consequently David Kappler, Sharon Hintze and Ian Ramsay offer themselves for re-election at the AGM to be held on 11 May 2006. The Nomination Committee has formally reviewed the performance, contribution and commitment of each of the above named directors retiring by rotation and has recommended their appointment to the Board.

## Board Committees

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

### Audit Committee

Ian McHoul chairs the Audit Committee. Its other members are David Felwick and Sharon Hintze, who replaced George Sewell after his resignation on 26 May 2005. 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 requested to confirm their independence at least annually. A formal policy has been developed and implemented, which ensures that the nature of the advice to be provided could not impair the objectivity of the external auditors' opinion on the Group's financial statements. The policy incorporates a fee limit, above which a formal tender process must be undertaken and approval of the Committee obtained prior to any proposed appointment. Additionally, the use of delegated authorities to appoint the external auditors is routinely reported to the Committee.

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

The Committee has approved a formal Whistle-blowing 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 directors' remuneration report on pages 38 to 44.

The directors' remuneration report sets out the status of the Company's compliance with the requirements of the Combined Code with regard to remuneration matters and includes a statement on the Company's policy on directors' and senior managers' remuneration, benefits, share scheme entitlements and pension arrangements set out on pages 38 to 44. A resolution to approve the directors' remuneration report will be proposed at the forthcoming AGM.

#### Nomination Committee

The Nomination Committee is chaired by David Kappler, and its other members are 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.

During 2005, the Nomination Committee established a process for Board appointments that it considers to be formal, rigorous and transparent. This process includes a review of the skills, experience and knowledge of the existing directors, to assess which of the potential shortlisted 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).

#### Performance and effectiveness reviews

In 2005, the Board introduced a system of performance evaluation of itself and its Committees combined with individual performance evaluation as described below:

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

#### Shareholders

##### Relations with shareholders

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

The interim and annual reports remain the primary means of communicating with the Company's shareholders, and the Group's website, [www.premierfoods.co.uk](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 Annual General Meeting.

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

## **Internal control**

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

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

The Board and Audit Committee have, throughout the year, reviewed the effectiveness of the internal control system including financial, operational, compliance control and risk management in accordance with the revised Code for the year to 31 December 2005.

Following last year's decision to establish an internal audit department, a Head of Internal Audit was appointed at the start of 2005. The principal role of the department is to review the effectiveness of the controls operating within the business by undertaking an agreed schedule of independent audits each year. The nature and scope of this annual audit programme is determined by the Audit Committee at the beginning of each calendar year and may be revised from time to time in circumstances such as the acquisition or disposal of a business or any other significant business development.

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

During the year, a comprehensive risk review exercise was undertaken across the business (including Marlow Foods, post its acquisition), involving individual members of the Operations Board and their management teams. The review was co-ordinated by the Head of Internal Audit and categorised any identified risks according to the potential impact on the business and likelihood of occurrence. At the same time, any further actions required to mitigate the risks were identified.

The findings of the review were initially considered and verified by the Operations Board which then established a special-purpose working group of senior managers with responsibility for ensuring that progress and focus is maintained on implementing agreed actions and any future emerging risks are identified. This risk review group meets quarterly and is chaired by Paul Thomas, the Group Finance Director. Progress against action plans and key performance indicators are reviewed by the Operations Board on a monthly basis. These include social, environmental and ethical risks (see also page 34 which details our approach to corporate social responsibility).

## **Risk management**

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

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

### **Customers and consumers**

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

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

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

### **Our products**

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

### **Raw materials**

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

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

#### Regulations

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

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

#### Treasury

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

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

#### Pensions

Pension expenses are based on actuarial assumptions which have been revised as at 31 December 2005, and are set out in note 24 to the financial statements. The market value of the pension assets could decline and a change in assumptions could affect these pension costs.

#### Corporate social responsibility

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

The Board is collectively responsible for ensuring that Premier Foods continues to operate in a responsible manner. Chief Executive, Robert Schofield, takes the leading role in ensuring its approach supports the strategic direction of the Company, whilst at an operational level, Ian Croxford, Group Operations Director takes responsibility. The operating principles and ethics policy statement is available on the website: [www.premierfoods.co.uk](http://www.premierfoods.co.uk).

The Group has taken a risk-based approach to corporate social responsibility, the objective being to ensure our investment generates value. During the year a review was conducted to assess current performance against the areas that have been identified as being most applicable to the business, namely:

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

The internal review involved benchmarking our current performance, against industry peers and best practice, and identified areas where we have committed to improving performance. KPI's have been established and these are measured against our targets at the risk review group meetings and reported monthly to the operations board. During 2005, the KPI's measured performance of the grocery business and excluded the effect of acquisitions and disposals. Marlow and Cauldron will be integrated into the grocery business KPI's in 2006. A separate exercise will be completed within the fresh produce business.

#### Food safety

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

A fully documented Hazard Analysis Critical Control Point (HACCP) is in place for all products, with all critical control points monitored, recorded and verified at each relevant stage of production. Internal systems are constantly reviewed and opportunities for improvement established, for example during the year new x-ray machines, for the screening of ingredients, were installed onto a number of production lines. In addition all sites are subject to annual British Retail Consortium (BRC) audits and internal audits by in-house technical teams. All sites were scored "B" or above by the appointed auditors, where "B" is the second level of a four tier grade system (A-D). It is the Group's intention to maintain or improve these gradings in 2006.

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

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

In February 2005, we responded to an industry wide issue and recalled products containing a batch of Worcester sauce contaminated with Sudan 1. Our response to this issue was immediate and thorough and following the incident we have reduced our risk by reviewing and consolidating our supplier and customer base and enhancing our raw material testing procedures.

#### Customers and consumers

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

The consumer is at the heart of the business and the Group's marketing activity, in addition to promoting the product, provides them with relevant, reliable and accurate information to support their purchasing decision. The Group does not market king-size or super-size portion products and we give clear nutrition information on our packs.

The Group works closely with the Food Standards Agency (FSA) to find solutions to the issues surrounding the food and health debate and specifically, to reducing the levels of salt in our products in line with FSA targets. During the year, £100,000 was pledged to the Food and Drink Federation (FDF)\*, an organisation dedicated to helping find solutions to the complex, multi-factorial issues surrounding obesity and the food and health debate generally. We actively participate in "Project Neptune", an initiative organised by the FDF, that aims to reduce the salt content of both soups and sauces by 30% over three years. For example we have already reformulated a number of baked bean and pasta products to reduce the sodium content. Many of our products are naturally healthy and the overall portfolio is balanced with a range of options that give consumers choice e.g. Ambrosia low-fat products, Hartleys low-sugar jams and sugar-free jelly crystals. During the year, the Quorn and Cauldron brands were acquired and there are plans to grow these healthy meat-free alternatives.

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

#### Supply chain

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

Premier Foods has been involved in ethical supply chain work since 1992, and is a founding member of the Ethical Trading Initiative, which seeks to identify and promote good practice in the implementation of international labour codes. An Ethical Assurance Programme has been developed that is designed to ensure that suppliers achieve the labour standards through a policy of sustainable and continuous improvement.

Our involvement with major agricultural suppliers goes right back to source, recognising that changes to our manufacturing processes can affect the sustainability of the raw materials used in production. The aim is to understand the supply base, become involved with it and to influence its development. As an example, the Group worked closely with seed breeders and growers in the UK and other origin countries to help ensure varieties are developed that are suitable for our production processes. Regular meetings are held with growers and these provide feedback on their performance with a view to assisting with their overall development.

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

#### Health & Safety

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

Health & Safety KPI's are monitored by the Operations Board on a monthly basis. In 2005 the number of RIDDORS (Reporting of Injuries, Diseases and Dangerous Occurrences Regulations) per 100,000 employees fell by 22% to 2,000. A further reduction of 10% is targeted in 2006.

#### Environment

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

The building blocks for the future have been laid in the form of our internal energy strategy, which seeks to reduce the carbon footprint of the Company and risks in terms of restrictions to energy supply. Building on this energy strategy work has been commissioned to investigate the potential for renewable energy resources across the Company.

The Group's production sites are engaged in the need to save energy and have developed a three year, energy-saving database, with each site identifying its energy-saving opportunities. The purpose is to focus efforts on the continuing efficiency improvements that have already reaped significant benefits. For example a "Canning Industry Bench Marketing Study" by Enviro recently identified the Long Sutton and Wisbech canning sites to be within the top three for energy efficiency within their measurement group.

\*Further information on the work of the Food and Drink Federation can be found on the FDF website at [www.fdf.org.uk](http://www.fdf.org.uk).

Environmental performance during the year was adversely affected by the aftermath of the fire at the Bury St Edmunds site that occurred in October 2004. Despite this there has still been considerable progress in the reduction of the Group's carbon footprint. The Group has reduced its energy usage, expressed as tonnes of carbon per tonne of product, by 19.2%, on a base year of 2000, when significant changes were made in the factory mix. This becomes even more significant if the effects of the Bury fire are taken into account and Bury is assumed to have performed at the 2004 level, in which case this figure should be 23.3%. For 2006 we are targeting a further 7% reduction.

In the core factories water use has been reduced by 7% during the year (against a target of 3%), with further significant works planned. Pilot plant trials under the Waste Resources Action Programme (WRAP) have been carried out at the Long Sutton site to recycle water and the results of this are being reviewed with a view to reducing water use.

During the year, a 2.3% reduction in landfill was achieved across the core factories (target 10%). Whilst this demonstrates some improvement, there is still some more progress to be made and a target of a further 10% reduction in 2006 has been agreed.

Continuing efforts have been made to reduce the amount of packaging used on products. The last full year's audited Packaging Directive data showed a 6% reduction in the weight of packaging used. A reduction of 2% is expected in 2006.

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

Of the sites within the Group the two sites that are required to, have duly made applications for IPPC (Intergrated Pollution Prevention and Control) permits, which at the time of writing still have to be determined by the EA. One other has environmental management systems accredited to ISO 14001 and two have Environment Management Systems written to comply with ISO 14001 but not submitted for accreditation. We are looking to include other sites in the future.

#### Human resources

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

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

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

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

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

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

An all-employee sharesave scheme has been developed to more closely align an element of employee reward to business value enhancement. There was an extremely encouraging level of employee "take-up" in the first year of operation (39%), and management believe that this should be retained as a key element of reward in subsequent years.

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

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

This process is further assisted by the formal recognition of a number of trade unions in our manufacturing sites, and the development of progressive negotiation and consultation arrangements in respect of the employees they represent.

An audit of current communication systems is planned during the first quarter of 2006, and the recommendations arising from this review will be duly considered.

There are a number of KPI's in relation to human resources that are measured on a monthly basis, e.g. absenteeism, pension scheme participation, industrial relations. These KPI's are currently under review with a view to improving measurement of training hours and communication during 2006.

#### Community and charity donations

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

During 2005, our employees participated in a number of fundraising activities including a group who raised £50,000 from running the London Marathon. The Company made charitable donations amounting to £22,000. Whilst the annual donations budget is administered locally to a policy directed predominantly towards assisting those communities in which the Group's businesses are located, the Company made donations to local, national and international causes for example; The Butterwick Hospice, Tesco Charity Appeal, Children for Leukaemia and The Tsunami Appeal.

#### Industry forums

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

- The Food and Drink Federation.
- Food Processors Association.
- Scientific and Regulatory Affairs Committee.
- OEITFL (Organisation of European Industries transforming Fruit and Veg).
- The Soil Association.
- The Honey Association.
- The Ethical Trading Initiative.
- The Consumer Goods Study Group.
- Campden and Chorleywood Food Research Association.
- Leatherhead Food International.
- ICCA (Inter Company Consumer Affairs Association).
- HSE Area Forums.
- RoSPA (Royal Society for the Prevention of Accidents).
- British Safety Council.

Policy statements in relation to the above areas are available on our website: [www.premierfoods.co.uk](http://www.premierfoods.co.uk).

# Directors' remuneration report

For the year ended 31 December 2005

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 financial year to 31 December 2005:

Mr D L Felwick CBE (Committee Chairman).

Mr I M Ramsay.

Miss S Hintze.

### Meetings

The directors' attendance at Committee meetings held during their period of membership and the number of meetings held during 2005 is set out on page 31. 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.

### Advisers

Deloitte & Touche LLP ("Deloitte") were appointed by the Committee as their retained advisers in 2005, and continue to provide advice to the Committee on matters relating to remuneration, including market comparison data and best practice. During the year, Deloitte also provided advice on software implementation and valuation services and also provided finance staff secondment to the Group.

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

## Remuneration policy

The broad policy of the Board and the Committee 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 annual salary, to encourage the alignment of operating objectives as well as delivering shareholder value. Remuneration policy is reviewed annually.

For 2006, 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.

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

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

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

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

#### Share ownership

A minimum shareholding requirement has been introduced in 2006 whereby executive directors are required after three years to hold shares with a market value at least equal to their annual basic salary.

At 31 December 2005, Mr Schofield held shares with a total market value equivalent to 5.72 times his annual basic salary and Mr Thomas held shares with a total market value equivalent to 4.29 times his annual basic salary.

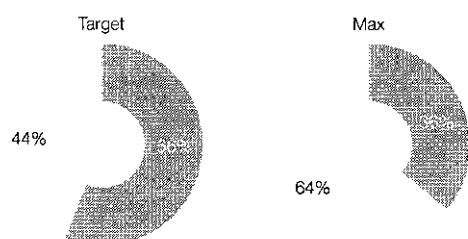
#### Remuneration for executive directors

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

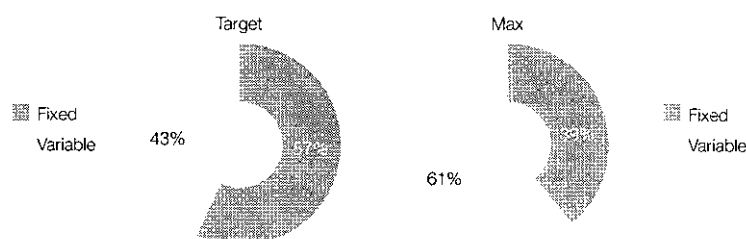
In arriving at the balance between fixed and variable remuneration it is agreed that the fixed portion will relate only to annual salary, whilst the variable portion includes both annual bonuses and awards made under the long-term incentive plan.

It is the Committee's policy that, for 2006, the balance between fixed and variable remuneration for the executive directors shall be as follows:

#### Fixed vs. variable for Chief Executive Officer



#### Fixed vs. variable for Finance Director



#### Basic salary

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

#### 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.

For 2006, the annual bonus potentials are set at 75% of salary for executive directors, with a target level of 50% of salary. The performance targets will be based on profit before tax and growth in branded sales.

In addition, until the executive directors have built up a significant personal shareholding in the Company (see page 42), they are required to defer 50% of any bonus earned into shares in the Company. The deferred bonus shares will normally vest three years after their award. Generally, the deferred bonus shares will not be forfeitable. However, in the event that the executive's employment is terminated by reason of his gross misconduct or by reason of a material breach of his employment contract, his deferred bonus shares may, at the discretion of the Remuneration Committee, be forfeited.

Bonuses are not pensionable.

#### Long-Term Incentive Plan

Following adoption of the Premier Foods Long-Term Incentive Plan (LTIP), the first awards were made on 26 May 2005 (see page 44). The closing mid-market share price on that date was 302.5p. It is the Committee's intention that awards under the LTIP will be granted annually. The value of shares awarded to executive directors, under the LTIP, in any financial year will be subject to individual limits that will be determined by the Committee from time to time.

The current policy is that the maximum value of shares that may be awarded to executive directors, in any financial year, will be limited to 100% of salary. For 2006, it is intended that the awards will have a value of 100% of salary for Mr Schofield and 80% of salary for Mr Thomas.

The Committee has reviewed the performance conditions which applied to awards made under the scheme in 2005, and considers that they remain appropriate for the awards to be made in 2006.

Vesting of awards is 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 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 constituents of the food sector comparator group for the 2005 awards were:

Food sector comparator group		
Arla Foods plc	Devro PLC	Robert Wiseman Dairies PLC
Associated British Foods PLC	Kerry Group plc	Tate & Lyle PLC
Cadbury Schweppes plc	Greencore plc	Uniq plc
Cranswick plc	Northern Foods plc	
Dairy Crest Group plc	Richmond Foods plc	

With the exception of Kerry Group plc all other constituents were selected at the date of the Company's listing on 22 June 2004. The original group included Geest plc who were taken over on 16 May 2005. As permitted under the rules of the scheme, Kerry Group plc was substituted for Geest plc from the start of the performance period.

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 vesting of awards granted in 2005 were, and any intended for 2006 are, 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.

EPS is defined as earnings per ordinary share as reported in the Company's financial statements adjusted to remove the effect of exceptional items and amortisation, provided that the Remuneration Committee shall have discretion to make further adjustments as they determine are fair and reasonable (including to take account of International Financial Reporting Standards ("IFRS")), subject to the consent of the Audit Committee.

The Committee may determine that an alternative secondary financial measure will apply for future grants of awards under the LTIP.

During the transition from UK GAAP to IFRS to the extent that any material adjustments are considered appropriate to ensure a like-for-like comparison these will be reviewed and agreed by the auditors.

#### Share options

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

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

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

TSR: against FTSE 250	TSR: against select comparator group:- • Associated British Foods PLC • Dairy Crest Group plc • Greencore plc • Kerry Group plc <sup>1</sup> • 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	50% of the above portion if the Company is in fourth position  75% of the above portion if the Company is in third position  Full vesting of the above portion if the Company is in first or second position of the comparator group  None of the above portion if the Company is below fourth position	Increase in adjusted earnings per share must be equal or exceed the cumulative increase in the retail price index plus 3% per annum, over the three-year performance period
No retesting	No retesting	One retest at end of fourth year (from same base year)

<sup>1</sup> Kerry Group plc replaced Geest plc which was taken over on 16 May 2005.

With the exception of Kerry Group plc all other constituents were selected at the date of the Company's listing on 22 June 2004. The original group included Geest plc who were taken over on 16 May 2005. As permitted under the rules of the scheme, Kerry Group plc was substituted for Geest plc from the start of the performance period.

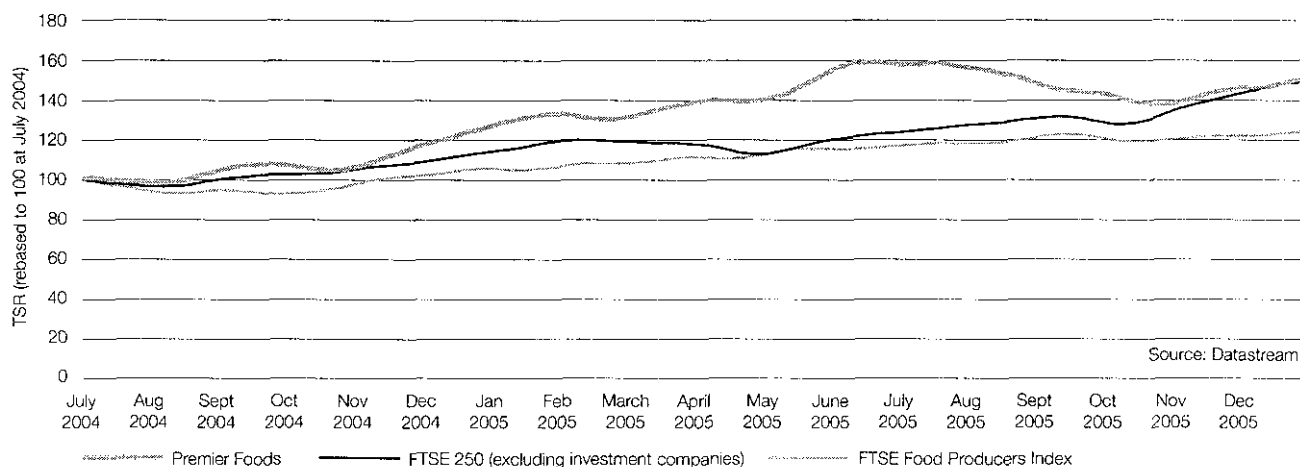
The current intention is that no further options will be granted under the ESOS, other than in exceptional circumstances (e.g. in relation to recruitment).

#### Performance graph

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

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

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



#### All employee share schemes

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.

#### Pensions

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

Mr Schofield is a member of the PF Scheme and is subject to the "earnings cap" imposed by the Finance Act 1989. Under the PF Scheme, he 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, he will be provided with a pension of 1/45th of salary up to the Finance Act 1989 "earnings cap" for each year of pensionable service. Mr Thomas'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 that will apply from April 2006. No changes have been made so far. Any changes made after April 2006, will be discussed in the directors' remuneration report for 2006.

#### Other benefits

Each executive director is entitled to a car and telecommunication services and an allowance for personal tax and financial planning. Each executive director is also provided with private health cover and permanent health insurance. Mr Thomas is entitled to a housing allowance of £12,202 p.a.

#### Other directorships

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

Mr Schofield was 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. Pursuant to the terms of his service agreement with the Company, Mr Schofield 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 further agreed to keep confidential and not disseminate or otherwise use any confidential information, which may give rise to a conflict of interest. Mr Schofield resigned his directorships at Burton's Foods Group Limited, Burton's Foods (Holdings) Limited and Burton's Foods Limited on 31 December 2005.

## 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 the sum of which 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.

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. The appointments are subject to the provisions of the Companies Act 1985 and the Company's Articles of Association, in particular the need for periodic re-election. Continuation of an individual non-executive director's appointment is also contingent on that non-executive director's satisfactory performance, which will be evaluated annually.

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

Details of non-executive appointment periods appear below:

	Date of current appointment or reappointment	Expiry date	Notice period
David Kappler	26 May 2005	18 July 2006	One month
David Felwick CBE	26 May 2005	18 July 2007	One month
Sharon Hintze	26 May 2005	18 July 2006	One month
Ian McHoul	26 May 2005	18 July 2007	One month
Ian Ramsay	26 May 2005	18 July 2006	One month

## Directors' interests in ordinary shares

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

	Fully paid ordinary share of 1p each	
	As at 31 December 2005	As at 31 December 2004
Robert Schofield	832,331	Nil
Paul Thomas	482,766	144,843 <sup>(1)</sup>
David Kappler	116,279 <sup>(2)</sup>	116,279 <sup>(2)</sup>
David Felwick CBE	37,209 <sup>(2)</sup>	37,209 <sup>(2)</sup>
Sharon Hintze	Nil	Nil
Ian McHoul	37,209 <sup>(2)</sup>	37,209 <sup>(2)</sup>
Ian Ramsay	Nil	Nil

Directors' share interests include the interests of their spouses and infant children as required by section 328 of the Companies Act 1985. Robert Schofield and Paul Thomas are additionally interested in options to subscribe for shares as detailed on pages 43 and 44. There were no changes in the beneficial interests of the directors in the Company's shares between 31 December 2005 and 7 March 2006.

(1) Mr 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 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.

Information subject to audit

### Directors' detailed emoluments

Year ended 31 December 2005

	Salary and fees 2005 £	Benefits 2005 £	Annual bonus 2005 £	Total 2005 £	Total 2004 £
<b>Executive directors</b>					
Robert Schofield	434,838	21,794	98,201	554,833	458,818 <sup>(1)</sup>
Paul Thomas	324,000	19,764	72,000	415,764	336,763 <sup>(1)</sup>
<b>Non-executive directors</b>					
David Kappler	130,000			130,000	184,167
David Felwick CBE	60,000			60,000	67,308
Sharon Hintze	46,667			46,667	20,481
Lyndon Lea	29,538			29,538	60,481
Ian McHoul	55,000			55,000	65,032
Ian Ramsay	50,000			50,000	22,756
George Sewell	18,288			18,288	60,481
	<b>1,148,331</b>	<b>41,558</b>	<b>170,201</b>	<b>1,360,090</b>	<b>1,276,287</b>

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

### Remuneration of non-executive directors

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

	Fees £	Committee Chairman's fees £	Committee membership fees £	Total £
David Kappler	125,000	5,000		130,000
David Felwick CBE	40,000	5,000	15,000	60,000
Sharon Hintze	40,000		6,667	46,667
Ian McHoul	40,000	10,000	5,000	55,000
Ian Ramsay	40,000		10,000	50,000

Excluding the Chairman of the Group, whose basic fee is £125,000, the basic fee for non-executive directors is £40,000. In addition non-executive directors receive £5,000 for membership of a committee and an additional £5,000 as Chairman of a committee, other than of the Audit Committee, where the Chairman receives an additional £10,000 to reflect the amount of work involved in this role.

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

### Interest in share options

In addition, 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 or Savings Related Share Option Scheme:

	Options as at 31 December 2004	Options granted during the year	Exercised during the year	Options as at 31 December 2005	Exercise price	Exercise period
Robert Schofield	1,416,374 <sup>(1)</sup>		1,416,374 <sup>(1)</sup>		£0.01	23.07.05–22.07.14
	1,000,000 <sup>(2)</sup>			1,000,000	£2.15	23.07.07–22.07.14
		1,640 <sup>(3)</sup>		1,640	£2.31	01.06.08–30.11.08
Paul Thomas	575,502 <sup>(1)</sup>		575,502 <sup>(1)</sup>		£0.01	23.07.05–22.07.14
	595,349 <sup>(2)</sup>			595,349	£2.15	23.07.07–22.07.14
		1,640 <sup>(3)</sup>		1,640	£2.31	01.06.08–30.11.08

(1) These shares represent rolled-over options granted in respect of the balance of outstanding options under The Premier Foods (Holdings) Limited Employee Share Option Scheme which were exercisable at any time from the first anniversary of Admission. On 13 October 2005, Mr Schofield and Mr Thomas exercised these options, which were not subject to any performance conditions. On that day the market price was 296.5p and on exercising, each executive director made a profit per share of 295.5p less costs.

(2) 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 40).

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

On 31 December 2005 the market price of ordinary shares of Premier Foods plc was 299p and the range during 2005 was 264 pence to 341.75p. No options have expired unexercised during 2005.

There were no changes in the options held by the directors between 31 December 2005 and 7 March 2006.

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

#### Long-Term Incentive Plan

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

	Award date	Awards held 31 December 2004	Awards during the year	Awards held 31 December 2005	End of period when qualifying conditions must be met
Robert Schofield	26.05.05	–	144,280	<b>144,280</b>	26.05.08
Paul Thomas	26.05.05	–	84,628	<b>84,628</b>	26.05.08

The vesting of such awards is subject to the fulfilment of performance conditions based on TSR, as measured over a three-year period. TSR measures the growth in share price, as adjusted for reinvested dividends over the performance period. It is the current intention that the vesting of awards granted in 2005 be subject to a minimum requirement that 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.

On the date of the awards the market price of ordinary shares of Premier Foods plc was 302.5p.

#### Pension entitlements

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

	Age at 31 December 2005	Years' service at 31 December 2005	Total accrued benefit: at 31 December 2005 £	Increase in accrued benefit: during the year £	Increase in accrued benefit during the year, excluding inflation £
Robert Schofield	54	4 years 7 months	<b>15,996</b>	3,902	3,612
Paul Thomas	50	3 years 6 months	<b>7,949</b>	2,427	2,294

For each director, the total accrued benefit at 31 December 2005 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 2005. 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 2004. 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 2004 of total accrued benefit £	Transfer value at 31 December 2005 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	132,800	<b>204,500</b>	71,700	46,200
Paul Thomas	46,700	<b>75,100</b>	28,400	21,700

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

For each director, the value of the increase in accrued benefit under the requirements of Schedule 7A of the Companies Act 1985 is the amount obtained by subtracting from the transfer value of the total accrued benefit at 31 December 2005 the corresponding transfer value at 31 December 2004. The value of the increase in accrued benefit under the Listing Rules is the transfer value at 31 December 2005 of the increase in accrued benefit during the period, excluding inflation.

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



David Felwick  
Chairman of the Remuneration Committee  
Premier Food plc, Premier House, Centrium Business Park  
Griffiths Way, St Albans, Hertfordshire AL1 2RE  
7 March 2006

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

We have audited the group financial statements of Premier Foods plc for the year ended 31 December 2005 which comprise the Consolidated Income Statement, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement, the Consolidated Statement of Recognised Income and Expense and the related notes on pages 46 to 83. These group financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the parent company financial statements of Premier Foods plc for the year ended 31 December 2005 and on the information in the Directors' Remuneration Report that is described as having been audited.

## Respective responsibilities of directors and auditors

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

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

We report to you our opinion as to whether the group financial statements give a true and fair view and whether the group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We also report to you if, in our opinion, the Directors' Report is not consistent with the group financial statements, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding director's remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the company's compliance with the nine provisions of the 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 the group's corporate governance procedures or its risk and control procedures.

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

## Basis of audit opinion

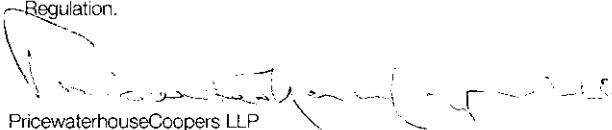
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the group financial statements. It also includes an assessment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

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

## Opinion

In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 31 December 2005 and of its profit and cash flows for the year then ended; and
- the group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation.



PricewaterhouseCoopers LLP  
Chartered Accountants and Registered Auditors  
London

7 March 2006

## Notes:

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

# Consolidated income statement

	Note	Year ended 31 December	
		2005 £m	2004* £m
<b>Continuing operations</b>			
Turnover	4	<b>789.7</b>	744.7
Cost of sales		<b>(583.3)</b>	(566.3)
<b>Gross profit</b>		<b>206.4</b>	178.4
Selling and distribution costs		<b>(73.7)</b>	(63.4)
Administrative costs		<b>(39.8)</b>	(37.4)
Other operating income		<b>2.4</b>	3.0
<b>Operating profit</b>	6	<b>95.3</b>	80.6
Before exceptional items		<b>102.1</b>	96.3
Exceptional items	5	<b>(6.8)</b>	(15.7)
Interest payable and other financial charges	8	<b>(51.5)</b>	(83.6)
Interest receivable	8	<b>8.0</b>	5.3
<b>Profit before taxation for continuing operations</b>		<b>51.8</b>	2.3
Taxation (charge)/credit	9	<b>(14.9)</b>	0.1
<b>Profit after taxation for continuing operations</b>		<b>36.9</b>	2.4
Profit from discontinued operations	10	<b>46.7</b>	13.4
<b>Profit for the year</b>		<b>83.6</b>	15.8
Earnings per share (pence)	11		
Basic		<b>34.0</b>	9.9
Diluted		<b>33.7</b>	9.7
Earnings per share (pence) – continuing	11		
Basic		<b>15.0</b>	1.5
Diluted		<b>14.9</b>	1.5
Earnings per share (pence) – discontinued	11		
Basic		<b>19.0</b>	8.4
Diluted		<b>18.8</b>	8.2
Dividends	12		
Recommended final dividend (£m)		<b>23.5</b>	22.0
Declared interim dividend (£m)		<b>11.8</b>	–
Recommended final dividend (pence)		<b>9.50</b>	9.00
Declared interim dividend (pence)		<b>4.75</b>	–

\*Results are restated for the impact of the transition to International Financial Reporting Standards ("IFRS"), see note 2

# Consolidated balance sheet

	Note	As at 31 December	
		2005 £m	2004* £m
<b>Assets:</b>			
<b>Non-current assets</b>			
Property, plant and equipment	13	197.3	141.3
Goodwill	14	267.7	129.4
Intangible assets	15	151.5	52.6
Investments	16	0.1	0.1
Other non-current assets		0.4	0.8
Deferred tax assets	22	–	11.7
<b>Current assets</b>			
Inventories	17	89.8	91.8
Trade and other receivables	18	136.3	110.6
Financial assets – derivative financial instruments	21	1.3	–
Cash and cash equivalents	21	14.0	12.5
<b>Total assets</b>		<b>858.4</b>	<b>550.8</b>
<b>Liabilities:</b>			
<b>Current liabilities</b>			
Trade and other payables	19	(166.8)	(136.5)
Financial liabilities			
– short-term borrowings	20	(35.9)	(27.9)
– derivative financial instruments	21	(1.5)	–
Interest payable		(2.0)	(2.2)
Provisions	23	(0.3)	–
Current tax liabilities		(19.4)	(12.7)
<b>Non-current liabilities</b>			
Financial liabilities			
– long-term borrowings	20	(546.1)	(354.9)
– loan notes	20	(4.1)	–
Retirement benefit obligations	24	(84.5)	(65.6)
Provisions	23	(0.4)	(2.9)
Other liabilities		(0.1)	–
Deferred tax liabilities	22	(15.3)	–
<b>Total liabilities</b>		<b>(876.4)</b>	<b>(602.7)</b>
<b>Net liabilities</b>		<b>(18.0)</b>	<b>(51.9)</b>
<b>Equity</b>			
<b>Capital and reserves</b>			
Share capital	25	2.5	2.4
Share premium	26	321.5	320.9
Merger reserve	26	(136.8)	(136.8)
Other reserves	26	(0.2)	–
Profit and loss reserve	26	(205.0)	(238.4)
Total shareholders' deficit		(18.0)	(51.9)

\*Balances are restated for transition to International Financial Reporting Standards ("IFRS"). See note 2.

Signed on behalf of The Board of Directors, who approved the financial statements on 7 March 2006.



Robert Schofield  
Director and Chief Executive

Paul Thomas  
Finance Director

## Consolidated cash flow statement

	Note	Year ended 31 December	
		2005 £m	2004* £m
<b>Cash generated from operations</b>	29	<b>117.7</b>	87.9
Interest paid		(42.6)	(64.7)
Interest received		6.3	5.3
Taxation paid		(7.5)	-
<b>Cash inflow from operating activities</b>		<b>73.9</b>	28.5
Acquisition of Bird's	27	(72.1)	-
Acquisition of Marlow	27	(118.6)	-
Acquisition of Gedney's	27	(4.6)	-
Acquisition of Cauldron	27	(27.1)	-
Sale of subsidiaries/businesses	28	81.6	34.2
Purchase of property, plant and equipment		(49.8)	(35.9)
Receipt from insurers		12.0	5.9
Purchase of intangible assets		(1.1)	(0.9)
Sale of property, plant and equipment		2.7	4.0
<b>Cash (outflow)/inflow from investing activities</b>		<b>(177.0)</b>	7.3
Repayment of borrowings		(380.0)	(151.4)
Proceeds from new borrowings		585.9	-
Proceeds from share issue		-	119.1
Share issue refund/(costs)		0.6	(10.1)
Debt issuance costs		(5.6)	(8.1)
Repayment of debt acquired with Marlow		(53.4)	-
Dividends paid		(33.8)	-
<b>Cash inflow/(outflow) from financing activities</b>		<b>113.7</b>	(50.5)
<b>Net inflow/(outflow) of cash and cash equivalents</b>		<b>10.6</b>	(14.7)
Cash and cash equivalents at beginning of year		2.6	17.3
<b>Cash and cash equivalents at end of year</b>	29	<b>13.2</b>	2.6

## Consolidated statement of recognised income and expense

	Note	Year ended 31 December	
		2005 £m	2004* £m
<b>Profit for the year</b>		<b>83.6</b>	15.8
Actuarial losses (net of tax)	24	(18.2)	(39.2)
Tax on share options	9	0.7	-
Net loss not recognised in income statement		(17.5)	(39.2)
<b>Total recognised income/(expense) in the year</b>		<b>66.1</b>	(23.4)
Effect of adopting IAS 39 at 1 January 2005	2	(1.8)	-
		<b>64.3</b>	(23.4)

\*Balances are restated for the impact of transition to International Financial Reporting Standards ("IFRS"). See note 2.

# Notes to the consolidated financial statements

## 1. General information

Premier Foods plc ("the Company") is a public limited company incorporated in the United Kingdom under the Companies Act 1985. The address of the registered office and principal place of business is identified on page 88. The principal activity of the Company and its subsidiaries ("the Group"), is the supply of branded and own label products, as described in note 16.

## 2. Accounting policies

### Transition to International Financial Reporting Standards

For the first time, the annual results of the Group have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union, including the accounting interpretations and guidance issued by the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC"), collectively ("IFRS") and with the Companies Act 1985. The date of transition to IFRS was 1 January 2004 being the start of the earliest period of comparative information. The impact of conversion to IFRS had no cash impact.

As identified in our interim accounts for 2005, we have previously disclosed the comparative financial information of the Group as reconciled to that formerly presented under UK GAAP for the year ended and as at 31 December 2004, along with an explanation of the primary changes. We have included this reconciliation in note 35 and further information is available on our website at [www.premierfoods.co.uk](http://www.premierfoods.co.uk).

Since the publication of our interim results no further adjustments have been made to the information previously disclosed, other than to reflect the reclassification of results of the continuing and discontinued operations of the Group. This is explained in more detail in note 10.

In summary, the adoption of IFRS has resulted in changes to the Group's accounting policies in the following primary areas:

- The cessation of amortisation of acquired goodwill;
- Recognition and amortisation of intangible assets, primarily acquired brands;
- Recognition and disclosures of the Group's defined benefit pension obligations;
- The recognition and disclosure requirements of financial instrument accounting; and
- The charging of long-term employee incentive awards, principally share option costs, to income.

All changes to the Group's accounting policies have been made for the purposes of conformity with the transitional requirements of IFRS 1 "First-time Adoption of International Financial Reporting Standards" ("IFRS 1"). The Group has elected to take advantage of certain transitional provisions within IFRS 1, which offer exemptions from presenting prior year comparative information in accordance with IFRS. The most significant of these exemptions are IAS 32 "Financial Instruments: Disclosure and Presentation" ("IAS 32") and IAS 39 "Financial Instruments: Recognition and Measurement" ("IAS 39").

These exemptions primarily affect the presentation of other operating income from financial instruments designated at fair value; fair valuation of interest rate swaps within interest payable and the analysis of financial assets and liabilities by measurement basis. The 2004 financial instruments are recognised and disclosed in accordance with IFRS 13 "Derivatives and Other Financial Instruments: disclosures".

In accordance with IFRS 1, the Group has chosen not to restate business combinations that took place prior to 1 January 2004, the date of transition to IFRS.

On 1 January 2005, the Group adopted the provisions of IAS 32 and IAS 39. The primary effect of this change in accounting policy relates to the recognition, presentation and disclosure of the Group's interests in foreign currency derivatives and interest rate swaps and the effect of these changes have resulted in an increase of £1.8m to the Group's net liabilities at 1 January 2005.

The Group has adopted the amendments to IAS 19 "Employee Benefits" permitting the recording of actuarial gains and losses in the statement of recognised income and expense in 2004 and 2005.

### Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis with the exception of derivative financial instruments that are incorporated using fair value. The principal accounting policies adopted are set out below.

On 30 October, the Group realised its interest in Typhoo Tea and related tea products businesses (collectively "Tea"). On 7 December, the Group also disposed of its Netherlands-based convenience businesses, Jonker Fris BV and Premier Foods BV (collectively "Jonker Fris"). The results from these businesses are treated as discontinued operations and are aggregated with the profit or loss on disposal of each business in arriving at the net result from discontinued operations for 2005, with 2004 restated for comparison purposes, as disclosed in note 10. In 2004, discontinued operations also included Materne, our French spreads business.

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

### Basis of consolidation

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

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

## 2. Accounting policies continued

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

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group.

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

### Turnover

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

#### (i) Sale of goods

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

#### (ii) Interest income

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

#### (iii) Sales rebates and discounts

Sales rebates and 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 rebates and discounts. The provision is made at the time of sale and released, if unutilised, after assessment that the likelihood of such a claim being made has become remote.

### Segmental reporting

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

### Share-based payments

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

### Foreign currency translation

Assets and liabilities denominated in foreign currencies are translated into sterling, the Group's presentation currency, at rates of exchange ruling at the end of the financial year.

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

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

All other exchange gains or losses are taken to the Income Statement.

### Exceptional items

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

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

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

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

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

## **2. Accounting policies continued**

### **Business combinations and goodwill**

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

Prior to 1 January 2004, goodwill was amortised over its estimated useful life; such amortisation ceased on 1 January 2004 in accordance with IFRS. Prior to 1998, the Group's policy was to eliminate goodwill arising upon acquisitions against reserves. Under IFRS 1 and International Financial Reporting Standard 3 "Business Combinations" ("IFRS 3"), such goodwill remains eliminated against reserves.

### **Intangible assets**

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

#### **Acquired intangibles**

Acquired trademarks, brands, recipes and similar assets that are controlled through custody or legal rights and that could be sold separately from the rest of the business are capitalised, where fair value can be reliably measured. All of these assets are considered to have finite lives and are amortised on a straight-line basis over their estimated useful economic lives that range from 20 to 30 years.

#### **Research and development**

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

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

#### **Software development costs**

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

### **Impairment**

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

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

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

### **Borrowing costs**

Borrowing costs are charged to the income statement in the year in which they are incurred.

### **Leases**

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

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

### **Inventories**

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

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

### **Taxation**

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

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

## 2. Accounting policies continued

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

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

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

### Employee benefits

Group companies provide a number of long-term employee benefit arrangements, primarily through pension schemes. The schemes are generally funded through payments to insurance companies or trustee-administered funds, determined by periodic actuarial calculations. The Group has both defined benefit and defined contribution plans. A defined benefit plan is a pension plan that defines the amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

### Defined contribution plans

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

### Defined benefit plans

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

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

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

### Provisions

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

### Contingent liabilities and contingent assets

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

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

### Financial instruments

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

#### Trade and other receivables

Trade and other receivables are initially measured at fair value and subsequently measured at amortised cost less any provision for impairment. Trade and other receivables are discounted when the time value of money is considered material.

#### Cash and cash equivalents

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

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

## 2. Accounting policies continued

### Financial liabilities and equity

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

### Bank borrowings

Interest-bearing bank loans and overdrafts are measured initially at fair value and subsequently at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs, which include debt issuance costs) and the settlement or redemption of borrowings is recognised in the income statement over the term of the borrowings.

### Trade and other payables

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

### Equity instruments

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

### Derivative financial instruments

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

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

## 3. Critical accounting estimates and judgements

The application of judgement is fundamental to the compilation of a set of financial statements, some of which relates to transactions or balances that are of greater significance than others. The primary area in which this affects the Group is noted below:

### Pensions

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

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

## 4. Segmental analysis

The results below for the year ended 31 December 2005 are divided into continuing and discontinued operations, with the two continuing segments described as *Grocery* and *Fresh Produce*. Following the disposal of our Tea business, within *Grocery* we now refer to two product groupings, namely *Convenience Foods, Pickles, Sauces and Meat-Free* (which now incorporates Quorn and Cauldron products) and *Spreads, Desserts and Beverages*. Results for the Tea business and Jonker Fris are presented as discontinued operations.

Each of these segments primarily supplies the United Kingdom market, although we also supply certain products to mainland Europe and the United States. Inter-segment transfers or transactions are entered into under the same terms and conditions that would be available to unrelated third parties. These segments are the basis on which the Group reports its primary segment information. The segment results for the years ended 31 December 2005 and 2004 are as follows:

#### 4. Segmental analysis continued

	Year ended 31 December 2005			
	Grocery £m	Fresh Produce £m	Unallocated £m	Total for Group £m
<b>Turnover from continuing operations</b>	<b>683.4</b>	<b>106.3</b>	<b>-</b>	<b>789.7</b>
<b>Result</b>				
Operating profit before exceptional items	101.6	0.5	-	102.1
Exceptional items	(3.1)	(3.7)	-	(6.8)
Interest payable and other financial charges	-	-	(51.5)	(51.5)
Interest receivable	-	-	8.0	8.0
Profit before taxation for continuing operations	98.5	(3.2)	(43.5)	51.8
Taxation	-	-	(14.9)	(14.9)
<b>Profit after taxation for continuing operations</b>	<b>98.5</b>	<b>(3.2)</b>	<b>(58.4)</b>	<b>36.9</b>
Discontinued operations	46.7	-	-	46.7
<b>Profit for the year</b>	<b>145.2</b>	<b>(3.2)</b>	<b>(58.4)</b>	<b>83.6</b>
<b>Balance sheet</b>				
Segment assets	800.0	42.7	-	842.7
Unallocated assets	-	-	15.7	15.7
<b>Consolidated total assets</b>	<b>800.0</b>	<b>42.7</b>	<b>15.7</b>	<b>858.4</b>
Segment liabilities	(238.9)	(13.2)	-	(252.1)
Unallocated liabilities	-	-	(624.3)	(624.3)
<b>Consolidated total liabilities</b>	<b>(238.9)</b>	<b>(13.2)</b>	<b>(624.3)</b>	<b>(876.4)</b>

	Year ended 31 December 2005			
	Grocery £m	Fresh Produce £m	Discontinued £m	Total for Group £m
<b>Other information</b>				
Capital expenditure	42.4	2.3	5.1	49.8
Software expenditure	0.8	0.2	-	1.0
Depreciation	13.0	2.9	2.2	18.1
Amortisation	6.3	-	0.3	6.6

	Year ended 31 December 2004			
	Grocery £m	Fresh Produce £m	Unallocated £m	Total for Group £m
<b>Turnover from continuing operations</b>	<b>594.4</b>	<b>150.3</b>	<b>-</b>	<b>744.7</b>
<b>Result</b>				
Operating profit before exceptional items	90.6	5.7	-	96.3
Exceptional items	(9.2)	(6.5)	-	(15.7)
Interest payable and other financial charges	-	-	(83.6)	(83.6)
Interest receivable	-	-	5.3	5.3
Profit before taxation for continuing operations	81.4	(0.8)	(78.3)	2.3
Taxation	-	-	0.1	0.1
<b>Profit after taxation for continuing operations</b>	<b>81.4</b>	<b>(0.8)</b>	<b>(78.2)</b>	<b>2.4</b>
Discontinued operations	13.4	-	-	13.4
<b>Profit for the year</b>	<b>94.8</b>	<b>(0.8)</b>	<b>(78.2)</b>	<b>15.8</b>
<b>Balance sheet</b>				
Segment assets	487.1	39.5	-	526.6
Unallocated assets	-	-	24.2	24.2
<b>Consolidated total assets</b>	<b>487.1</b>	<b>39.5</b>	<b>24.2</b>	<b>550.8</b>
Segment liabilities	(192.6)	(13.1)	-	(205.7)
Unallocated liabilities	-	-	(397.0)	(397.0)
<b>Consolidated total liabilities</b>	<b>(192.6)</b>	<b>(13.1)</b>	<b>(397.0)</b>	<b>(602.7)</b>

#### 4. Segmental analysis continued

Other information	Grocery £m	Fresh Produce £m	Discontinued £m	Total for Group £m
Capital expenditure	32.6	0.9	3.8	37.3
Software expenditure	0.9	–	–	0.9
Depreciation	13.0	2.0	4.0	19.0
Amortisation	2.8	–	0.7	3.5

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

#### Discontinued operations

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

	Continuing 2005 £m	Discontinued 2005 £m	Total Grocery 2005 £m
<b>Turnover</b>	<b>683.4</b>	<b>77.2</b>	<b>760.6</b>
<b>Result</b>			
Operating profit	<b>98.5</b>	<b>8.3</b>	<b>106.8</b>

	Continuing 2004 £m	Discontinued 2004 £m	Total Grocery 2004 £m
<b>Turnover</b>	594.4	152.1	746.5
<b>Result</b>			
Operating profit	81.4	9.6	91.0

#### Segmental analysis – secondary

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

	Turnover (continuing)		Carrying value of segmental assets		Total capital expenditure (including software)	
	2005 £m	2004 £m	2005 £m	2004 £m	2005 £m	2004 £m
United Kingdom	<b>757.4</b>	724.5	<b>858.4</b>	533.5	<b>50.1</b>	35.8
Mainland Europe	<b>25.4</b>	14.0	–	17.3	<b>0.7</b>	2.4
Other countries	<b>6.9</b>	6.2	–	–	–	–
<b>Total</b>	<b>789.7</b>	744.7	<b>858.4</b>	550.8	<b>50.8</b>	38.2

Turnover from discontinued operations substantially relates to United Kingdom and Mainland Europe.

#### 5. Exceptional items

During the year, the Group incurred the following:

	2005 £m	2004 £m
<b>Exceptional items – continuing operations</b>		
Bird's – transitional manufacturing costs	<b>4.7</b>	–
– other integration costs	<b>0.5</b>	–
MBM restructuring costs	<b>3.7</b>	3.9
Net insurance recovery on Bury St Edmunds	<b>(4.7)</b>	(3.5)
Sudan 1	<b>2.4</b>	–
IPO	<b>0.9</b>	15.0
Restructuring and other costs	<b>0.7</b>	0.3
Property disposal	<b>(1.4)</b>	–
<b>Total</b>	<b>6.8</b>	15.7

(a) Bird's transitional manufacturing costs

On 14 February 2005 the Group acquired the Bird's Custard, Angel Delight and associated brands from Kraft Foods Inc. (collectively "Bird's").

Following the acquisition, the product range continued to be produced at the Kraft's factory in Banbury under a series of transitional arrangements.

These arrangements were extended to the end of the year following the decision to ensure the continuity of supply to our customers during the heavy pre-Christmas trading season for Bird's. For the purposes of comparability, we have presented the additional cost of sourcing production from Kraft as exceptional costs.

## 5. Exceptional items continued

### (b) MBM restructuring costs

In the period to 31 December 2005, as part of our ongoing commitment to manufacturing efficiency, we incurred restructuring costs and stock write-offs relating to rationalisation of operations within the Fresh Produce segment. This has been part of an ongoing process, which began in the second half of 2004 and is the result of a significant loss of contract business.

### (c) Net insurance recovery on Bury St Edmunds

On 27 October 2004, the Group suffered a serious fire at its Bury St Edmunds factory, the primary manufacturing site for pickles and sauces.

Subsequently, the factory has been rebuilt and the benefit of replacing depreciated assets with new capital investment has been credited as exceptional income, net of the impact of writing off the damaged assets.

### (d) Sudan 1

On 18 February 2005, the Food Standards Agency initiated the recall of a number of products that had been identified as being contaminated with a dye, "Sudan 1", which is not authorised for use in food products. The dye was traced to a batch of chilli powder supplied to the Group and in its manufacture of Worcester sauce. The Group used the Worcester sauce in three other products and supplied Worcester sauce to a number of retail and food ingredient customers. Claims against the Company by customers relating to the recall are being dealt with by our insurers and we continue to believe we have no material financial exposure in this respect.

During the course of the recall the Group incurred a number of legal and other expenses involved in the handling of the recall. These are the subject of a claim against the supplier of the contaminated chilli powder and its insurers. In case such recovery is unsuccessful the Group has provided in full for these costs and has recorded an exceptional cost of £2.4m in relation to this matter.

### (e) IPO

In 2004, the Company's initial public offering ("IPO") resulted in expense totalling £15.0m for continuing operations. This expense included the cash cancellation of existing share options, the cash cancellation of 30% of senior management's share options and the cost of issue of new 1 pence ordinary share options, exercisable one year after the IPO. We also incurred a further £3.1m of costs, attributable to the IPO, of which £0.9m were charged in 2005.

### (f) Restructuring and other costs

These primarily relate to the restructuring of the production and administration facilities in the UK grocery business.

### (g) Property disposal

This relates to the sale of a surplus property in the West Midlands. This property was not used in our operations.

For the year ended 31 December 2004, exceptional items relating to the Tea and Jonker Fris businesses have been restated and reclassified to discontinued operations.

## 6. Operating profit for continuing operations

	2005 £m	2004 £m
Operating profit for continuing operations has been arrived at after charging/(crediting):		
Cost of inventories sold (included in Cost of sales)	<b>570.4</b>	552.2
Employee benefits expense (note 7)	<b>107.2</b>	103.0
Depreciation of property, plant and equipment		
– owned assets	<b>15.7</b>	15.0
– under finance leases	<b>0.2</b>	–
Amortisation of intangible assets (included in Administrative costs)		
– software	<b>0.8</b>	0.5
– brands	<b>5.5</b>	2.3
Impairment of property, plant and equipment (included in Administrative costs)	–	2.3
Operating lease rental payments		
– plant and equipment	<b>4.0</b>	4.5
– land and buildings	<b>2.7</b>	1.8
Repairs and maintenance expenditure	<b>15.6</b>	13.9
Research and development costs	<b>1.5</b>	0.9
Gain on disposal of property, plant and equipment	<b>(4.7)</b>	(2.9)
Net foreign exchange losses	<b>0.4</b>	4.2
<b>Auditors' remuneration</b>		
Audit services		
– statutory audit services	<b>0.5</b>	0.5
– audit-related regulatory reporting	<b>0.1</b>	0.1
Other services not covered above	<b>0.3</b>	2.4
<b>Total auditors' remuneration</b>	<b>0.9</b>	3.0

The amount included in audit fees for other services relates predominately to work associated with IFRS conversion during 2005 and the Group's IPO in 2004.

Operating lease obligations are further disclosed in note 30.

## 7. Employees

	2005 £m	2004 £m
<b>Staff costs for the Group during the year for continuing operations</b>		
Wages and salaries	92.6	90.3
Social security costs	8.3	8.0
Termination benefits	0.4	1.5
Share options granted to directors and employees	1.1	0.2
Pension costs – defined contribution plans	0.9	0.4
– defined benefit plans	3.9	2.6
<b>Total staff costs</b>	<b>107.2</b>	<b>103.0</b>

	Number	Number
<b>Average monthly number of people employed (including executive directors)</b>		
Management	353	293
Administration	668	528
Production, distribution and other	3,006	2,941
<b>Total employees</b>	<b>4,027</b>	<b>3,762</b>

Directors' remuneration (including retirement benefit accruing to the directors under defined benefit schemes) is disclosed in the directors' remuneration report on pages 38 to 44.

## 8. Interest payable and receivable

On 6 June 2005, the Group renewed its borrowings with term facilities of £325.0m repayable over the period to 6 June 2010 and revolving credit facilities of £455.0m, of which £260.0m was drawn down as at 31 December 2005. As a result of these changes, debt issuance costs of £6.3m (2004: £10.5m) relating to the prior facilities were written off to interest payable.

	2005 £m	2004 £m
<b>Interest payable</b>		
Interest payable on bank loans, senior notes and overdrafts	8.6	22.4
Interest payable on unsecured, unguaranteed loan notes	–	11.1
Interest payable on term facility	20.4	15.7
Interest payable on revolving facility	13.4	8.9
Amortisation of debt issuance costs	1.7	3.9
Fair valuation of interest rate swaps	1.1	–
	<b>45.2</b>	<b>62.0</b>
Senior notes early redemption penalty	–	11.1
Accelerated amortisation of debt issuance costs	6.3	10.5
	<b>6.3</b>	<b>21.6</b>
<b>Total interest payable and other financial charges</b>	<b>51.5</b>	<b>83.6</b>
Interest receivable – bank deposits	(8.0)	(5.3)
<b>Net interest payable</b>	<b>43.5</b>	<b>78.3</b>

## 9. Taxation

Analysis of the charge/(credit) for the year

	Continuing operations		Discontinued operations		Total	
	2005 £m	2004 £m	2005 £m	2004 £m	2005 £m	2004 £m
Current tax						
– current year	<b>12.4</b>	1.0	<b>2.5</b>	5.3	<b>14.9</b>	6.3
– prior years	<b>0.1</b>	(7.9)	–	–	<b>0.1</b>	(7.9)
Overseas current tax (current year)	–	–	–	0.7	–	0.7
Deferred tax						
– current year	<b>2.7</b>	6.8	–	–	<b>2.7</b>	6.8
– prior years	<b>(0.3)</b>	–	–	–	<b>(0.3)</b>	–
<b>Income tax charge/(credit) for the year</b>	<b>14.9</b>	<b>(0.1)</b>	<b>2.5</b>	6.0	<b>17.4</b>	5.9

Tax relating to items recorded in equity was:

	2005 £m	2004 £m
Current tax credit on pension charges reflected in reserves	<b>(1.6)</b>	–
Current tax credit on share options	<b>(0.7)</b>	–
Deferred tax credit on pension charges reflected in reserves	<b>(6.1)</b>	(16.8)
	<b>(8.4)</b>	(16.8)

The tax charge/(credit) for the year differs from the standard rate of corporation tax in the United Kingdom (30%) for the years ended 31 December 2005 and 2004. The reasons for this are explained below:

	2005 £m	2004 £m
<b>Profit before taxation for continuing operations</b>	<b>51.8</b>	2.3
Tax at the domestic income tax rate of 30% (2004: 30%)	<b>15.5</b>	0.7
Tax effect of:		
(Non-taxable)/disallowable exceptional items	<b>(0.7)</b>	3.8
Other disallowable items	<b>0.3</b>	–
Tax losses not recognised	–	3.3
Adjustment to prior years	<b>(0.2)</b>	(7.9)
<b>Tax charge/(credit)</b>	<b>14.9</b>	(0.1)

## 10. Discontinued operations

On 30 October the Group entered into a sale agreement to dispose of its tea businesses for £80.2m. Also on 7 December, the Group entered into a sale agreement to dispose of its Jonker Fris business for £4.4m. These disposals were effected in order to generate cash flows for the expansion of the Group's other businesses.

The results of the discontinued operations for the period from 1 January to the dates of disposal are as follows:

	2005 £m	2004 £m
Turnover	<b>77.2</b>	152.1
Expenses	<b>(68.9)</b>	(142.5)
Profit before tax	<b>8.3</b>	9.6
Income tax expense	<b>(2.5)</b>	(2.4)
Profit after tax on discontinued operations for the period	<b>5.8</b>	7.2
Profit on disposal before tax	<b>40.9</b>	9.8
Tax on profit on disposal	–	(3.6)
Profit on disposal after taxation	<b>40.9</b>	6.2
<b>Total profit arising from discontinued operations</b>	<b>46.7</b>	13.4

During the year discontinued operations contributed £6.5m (2004: £16.8m) to the Group's net operating cash flows, paid £5.1m (2004: £3.8m) in respect of investing activities and paid £nil (2004: £nil) in respect of financing activities.

A cash inflow of £81.6m (2004: £34.2m) arose on the disposal of discontinued operations.

The carrying amounts of the assets and liabilities at the date of disposals are disclosed in note 28.

## 11. Earnings per share

Basic earnings per share have been calculated by dividing earnings attributable to ordinary shareholders of £83.6m (2004: £15.8m) by the weighted average number of ordinary shares of the Company.

	2005			2004		
	Basic EPS	Dilutive effect of share options	Diluted EPS	Basic EPS	Dilutive effect of share options	Diluted EPS
<b>Continuing operations</b>						
Profit after tax (£m)	36.9	–	36.9	2.4	–	2.4
Weighted average number of shares (million)	245.5	2.4	247.9	159.2	3.0	162.2
Earnings per share (pence)	15.0	(0.1)	14.9	1.5	–	1.5
<b>Discontinued operations</b>						
Profit after tax (£m)	46.7	–	46.7	13.4	–	13.4
Weighted average number of shares (million)	245.5	2.4	247.9	159.2	3.0	162.2
Earnings per share (pence)	19.0	(0.2)	18.8	8.4	(0.2)	8.2
<b>Total</b>						
Profit after tax (£m)	83.6	–	83.6	15.8	–	15.8
Weighted average number of shares (million)	245.5	2.4	247.9	159.2	3.0	162.2
Earnings per share (pence)	34.0	(0.3)	33.7	9.9	(0.2)	9.7

### Diluted earnings per share

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

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

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

	2005 Number	2004 Number
Weighted average number of ordinary shares for the purpose of basic earnings per share	245,471,086	159,224,050
Effect of dilutive potential ordinary shares:		
Share options	2,438,835	3,048,316
<b>Weighted average number of ordinary shares for the purpose of diluted earnings per share</b>	<b>247,909,921</b>	<b>162,272,366</b>

## 12. Dividends

The Board proposes a final dividend of 9.50 pence per ordinary share (2004: 9.00 pence) payable on 7 July 2006 to shareholders on the Register of Members at 9 June 2006 resulting in an aggregate dividend in 2005 of 14.25 pence per ordinary share (2004: 9.00 pence). In accordance with IFRS a final dividend is recognised in the period in which it is declared and an interim dividend is recognised in the period in which it is paid.

### 13. Property, plant and equipment

	Freehold land and buildings £m	Long leasehold properties £m	Short leasehold properties £m	Vehicles, plant and equipment £m	Total £m
<b>Cost</b>					
At 1 January 2004	77.0	–	0.8	266.0	343.8
Additions	1.5	–	–	35.8	37.3
Disposal of subsidiaries/businesses	(8.6)	–	–	(28.9)	(37.5)
Other disposals	(7.5)	–	(0.8)	(24.8)	(33.1)
Reclassifications	0.4	–	–	(0.4)	–
Exchange adjustments	(0.3)	–	–	(2.1)	(2.4)
<b>At 31 December 2004</b>	<b>62.5</b>	<b>–</b>	<b>–</b>	<b>245.6</b>	<b>308.1</b>
Additions	2.8	–	–	47.0	49.8
Acquisition of subsidiaries/businesses	9.1	2.2	0.6	34.8	46.7
Disposal of subsidiaries/businesses	(9.8)	–	–	(45.5)	(55.3)
Other disposals	(2.5)	–	–	(14.4)	(16.9)
<b>At 31 December 2005</b>	<b>62.1</b>	<b>2.2</b>	<b>0.6</b>	<b>267.5</b>	<b>332.4</b>
<b>Aggregate depreciation and impairment</b>					
At 1 January 2004	19.7	–	0.4	175.8	195.9
Depreciation charge for the year	2.1	–	–	16.9	19.0
Disposal of subsidiaries/businesses	(4.9)	–	–	(20.7)	(25.6)
Other disposals	(3.9)	–	(0.4)	(19.5)	(23.8)
Reclassifications	0.2	–	–	(0.2)	–
Impairments	0.8	–	–	1.5	2.3
Exchange adjustments	(0.2)	–	–	(0.8)	(1.0)
<b>At 31 December 2004</b>	<b>13.8</b>	<b>–</b>	<b>–</b>	<b>153.0</b>	<b>166.8</b>
Depreciation charge for the year	2.1	–	–	16.0	18.1
Disposal of subsidiaries/businesses	(3.7)	–	–	(34.0)	(37.7)
Other disposals	(0.7)	–	–	(11.4)	(12.1)
<b>At 31 December 2005</b>	<b>11.5</b>	<b>–</b>	<b>–</b>	<b>123.6</b>	<b>135.1</b>
<b>Net book value amount</b>					
At 31 December 2004	48.7	–	–	92.6	141.3
<b>At 31 December 2005</b>	<b>50.6</b>	<b>2.2</b>	<b>0.6</b>	<b>143.9</b>	<b>197.3</b>

The net book value of the Group's vehicles, plant and equipment includes an amount of £0.9m (2004: £nil) in respect of assets held under finance leases. At 31 December 2005 the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £5.1m (2004: £2m).

The impairment loss in 2004 related to our Fresh Produce segment.

An amount of £0.5m (2004: £nil) was recognised as accelerated depreciation for plant and equipment that had no further useful economic life.

Following our transition to IFRS, the Group conducted a review of useful economic lives and residual values of its plant and equipment using independent valuation advice. As a consequence, we have revised the weighted average useful lives of our assets, with the effect of reducing our current year and ongoing depreciation charge by £3.0m–£3.6m annually.

### 14. Goodwill

	2005 £m	2004 £m
<b>Cost</b>		
At 1 January	<b>129.4</b>	134.4
Acquisition of subsidiaries	<b>138.7</b>	–
Disposal of subsidiaries/businesses	<b>(0.4)</b>	(5.0)
<b>At 31 December</b>	<b>267.7</b>	129.4

## 14. Goodwill continued

### Impairment tests for goodwill

Goodwill acquired in a business combination is allocated, on acquisition, to the cash-generating units ("CGUs") that are expected to benefit from that business combination. A summary of the goodwill by CGU is presented below:

	2005 £m	2004 £m
Grocery		
Ambrosia	54.8	54.8
Nestlé	73.6	73.6
Marlow	76.9	--
Bird's	38.4	--
Cauldron	21.3	--
Gedney's	2.1	--
Other	0.6	1.0
<b>Net carrying value of goodwill</b>	<b>267.7</b>	<b>129.4</b>

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

All projections are based on information approved by management in respect of the initial five years' cash flows. Subsequent cash flows are increased in line with historic UK GDP of 2% to 2.25%.

Assumptions are based upon events in prior periods as adjusted for expected developments in the following year with reference to market conditions. All turnover and costs are taken into account and an estimate of capital expenditure required to maintain these cash flows is also made. As at 31 December 2005 the rate used to discount the forecasted cash flows was 7.75% (2004: 7.94%).

There was no evidence of impairment from the reviews performed in 2004 or 2005.

## 15. Intangible assets

	Software £m	Brands £m	2005 Total £m	Software £m	Brands £m	2004 Total £m
<b>Cost</b>						
At 1 January	3.7	55.3	59.0	2.8	55.3	58.1
Additions	1.0	--	1.0	0.9	--	0.9
Acquisition of subsidiaries/businesses	0.2	110.2	110.4	--	--	--
Disposal of subsidiaries/businesses	--	(7.3)	(7.3)	--	--	--
<b>At 31 December</b>	<b>4.9</b>	<b>158.2</b>	<b>163.1</b>	<b>3.7</b>	<b>55.3</b>	<b>59.0</b>
<b>Amortisation</b>						
At 1 January	1.2	5.2	6.4	0.5	2.4	2.9
Charge for the year	0.8	5.8	6.6	0.7	2.8	3.5
Disposal of subsidiaries/businesses	--	(1.4)	(1.4)	--	--	--
<b>At 31 December</b>	<b>2.0</b>	<b>9.6</b>	<b>11.6</b>	<b>1.2</b>	<b>5.2</b>	<b>6.4</b>
<b>Net book value 31 December</b>	<b>2.9</b>	<b>148.6</b>	<b>151.5</b>	<b>2.5</b>	<b>50.1</b>	<b>52.6</b>

Brands are considered to have finite useful lives and are amortised on a straight-line basis over their estimated useful lives of 20 to 30 years. Software is amortised on a straight-line basis over their estimated useful life of 3 to 15 years.

Contained within brands are values attributed to the acquisitions of Marlow Foods ("Quorn") and Bird's ("Bird's" and "Angel Delight"). The value of intangible assets as at 31 December 2005 for these acquisitions was £80.0m and £30.2m respectively. The remaining periods of amortisation for these assets was 29.5 years and 19.1 years respectively. The valuation of intangible assets was completed using a qualified independent valuation expert. There is no restriction to title for any of the intangible assets carried by the Group.

## 16. Investments

	2005 £m	2004 £m
<b>Unlisted investments</b>		
At 1 January	0.1	0.3
Disposal of subsidiaries/businesses	-	(0.2)
<b>At 31 December</b>	<b>0.1</b>	<b>0.1</b>

The investments included above represent investments in unlisted equity securities and debentures. They have no fixed maturity or coupon rate. The fair values of the securities are based on market value and debentures at their amortised carrying value.

### Principal subsidiaries

Name of subsidiary	Country of incorporation or registration and principal operations	Principal activity	Effective interest in ordinary share capital at 31 December 2005	Effective interest in ordinary share capital at 31 December 2004
<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%
MBM Produce Limited	United Kingdom	Potato processing and grading	100%	100%
Premier Ambient Products (UK) Limited	United Kingdom	Spreads, pickles, vinegar, jelly and desserts and convenience foods manufacturing	100%	100%
Premier International Foods UK Limited	United Kingdom	Hot and cold beverages manufacturing	100%	100%
Marlow Foods Holdings Limited (Quorn)	United Kingdom	Meat-free manufacturing	100%	-
Monument (GB) Limited (Gedney's)	United Kingdom	Fresh fruit and vegetables supply and distribution	100%	-
Cauldron Foods Limited	United Kingdom	Meat-free manufacturing	100%	-
<b>Other subsidiaries</b>				
Premier Brands Foods Limited	United Kingdom	Intermediate holding company	100%	100%
Premier Financing Limited	United Kingdom	Intermediate holding company	100%	100%
Premier Foods (Holdings) Limited	United Kingdom	Intermediate holding company	100%	100%
Premier Foods Investments Limited	United Kingdom	Financing	100%	100%
Premier Foods Investments No. 1 Limited	United Kingdom	Intermediate holding company	100%	100%
Premier Foods Investments No. 2 Limited	United Kingdom	Intermediate holding company	100%	100%
Premier Foods Investments No. 3 Limited	United Kingdom	Intermediate holding company	100%	100%

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

Each of the principal subsidiaries have the same year end as Premier Foods plc, except for Cauldron Foods Limited which has a year end of 31 March. This is a result of having acquired Cauldron Foods Limited on 30 October 2005. It is our intention to change the reporting date of this subsidiary. Each of the companies above has been included in the Group consolidation. The companies listed above are those that materially affect the results and the assets of the Group. A full list of subsidiaries is available from the Company Secretary.

**17. Inventories**

	2005 £m	2004 £m
Raw materials	<b>30.7</b>	31.4
Work in progress	<b>1.8</b>	3.1
Finished goods and goods for resale	<b>57.3</b>	57.3
<b>Inventories</b>	<b>89.8</b>	91.8

**18. Trade and other receivables**

	2005 £m	2004 £m
<b>Amounts falling due within one year:</b>		
Trade receivables	<b>106.7</b>	90.7
Prepayments	<b>4.6</b>	5.7
Interest receivable	<b>1.7</b>	--
Other receivables	<b>23.3</b>	14.2
<b>Trade and other receivables</b>	<b>136.3</b>	110.6

The Group considers that the carrying amount of trade and other receivables approximate their fair value.

**19. Trade and other payables**

	2005 £m	2004 £m
<b>Amounts falling due within one year</b>		
Trade payables	<b>130.1</b>	117.9
Other tax and social security payable	<b>4.4</b>	4.7
Other payables	<b>21.2</b>	8.5
Accruals	<b>11.1</b>	5.4
<b>Trade and other payables</b>	<b>166.8</b>	136.5

The Group considers that the carrying amount of trade and other payables approximate their fair value.

## 20. Bank and other borrowings

	2005 £m	2004 £m
<b>Due within one year:</b>		
Secured Senior Credit Facility – Term (note a)	25.0	–
Debt issuance costs	(0.6)	–
	24.4	–
Secured Senior Credit Facility – Revolving (note a)	11.0	–
Debt issuance costs	(0.6)	–
	10.4	–
Secured Senior Credit Facility – Term A (note b)	–	9.3
Debt issuance costs	–	(0.9)
	–	8.4
Secured Senior Credit Facility – Term B (note b)	–	10.7
Debt issuance costs	–	(1.1)
	–	9.6
Bank overdrafts	0.8	9.9
Total bank borrowings due within one year	35.6	27.9
Finance lease obligations (note 21)	0.3	–
	35.9	27.9
<b>Due after more than one year:</b>		
Secured Senior Credit Facility – Term (note a)	300.0	–
Debt issuance costs	(1.4)	–
	298.6	–
Secured Senior Credit Facility – Revolving (note a)	249.0	–
Debt issuance costs	(2.2)	–
	246.8	–
Secured Senior Credit Facility – Term A (note b)	–	166.5
Debt issuance costs	–	(2.4)
	–	164.1
Secured Senior Credit Facility – Term B (note b)	–	193.5
Debt issuance costs	–	(2.8)
	–	190.7
Total bank borrowings due after more than one year	545.4	354.8
Finance lease obligations (note 21)	0.6	–
Other unsecured loans	0.1	0.1
Total other	0.7	0.1
	546.1	354.9
Loan notes due 2008 (note c)	4.1	–
<b>Total bank and other borrowings</b>	<b>586.1</b>	<b>382.8</b>

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

Cash and bank deposits and short-term borrowings included in the balance sheet reflect the anticipated level at which the Group will offset cash and overdrafts and legal rights to such offset in accordance with IAS 32.

### (a) Senior Term Credit Facility and Revolving Credit Facility Arrangement – 2005

On 6 June 2005, the Group refinanced and entered into a new Term and Revolving Credit Facility agreement. This was arranged by BNP Paribas, J.P. Morgan plc, Lloyds TSB Bank plc and The Royal Bank of Scotland plc as lead arrangers and underwriters and Lloyds TSB Bank plc as facility agent and security trustee. These facilities were subsequently syndicated to a further 23 financial institutions.

The Senior Term Credit Facility comprises £325.0m. The Revolving Credit Facility is a multi-currency revolving credit facility of up to £455.0m (or its equivalent in other currencies). The final maturity date of the above arrangements is 6 June 2010.

### (b) Senior Credit Facility and Acquisition Facility Arrangement – 2004

The facilities in place prior to 6 June 2005 included a Senior Credit Facility and an Acquisition Facility agreement with J.P. Morgan plc as arranger, JPMorgan Chase Bank as underwriter and 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 comprised £175.8m of Term A facilities and £204.2m of Term B facilities. In addition a multi-currency revolving credit facility of £200.0m (or its equivalent in other currencies) was available. These facilities were repaid on 6 June 2005.

## **20. Bank and other borrowings continued**

### **(c) Loan notes**

As part of the acquisition arrangement of Marlow Foods Holdings Limited, on 6 June 2005, the Group entered into deferred consideration arrangements with certain individuals. This resulted in loan notes being issued to the Group. These notes incur interest at six month LIBOR rate and mature in 2008.

## **21. Financial instruments**

The Group is subject to the risks arising from adverse movements in interest rates and foreign currency. The Group uses a variety of derivative financial instruments to manage these risks. The managing of these risks, along with the day-to-day managing of treasury activities is centralised and performed by the Group Treasury function. The policy framework governing the managing of these risks is defined by the Treasury Committee which itself is a sub-committee appointed by the Directors. These policies are reviewed and approved by the Directors annually. The framework for managing of these risks is incorporated into a policies and procedures manual.

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

### **Fair value**

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

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

### **Market risk**

#### **Foreign exchange risk**

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

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.

#### **Price risk**

The Group is not exposed to any significant equity or commodity price risks. The Group does not trade in commodities.

### **Credit risk**

The Group's principal financial assets are cash and cash equivalents and trade and other receivables.

The Group has no significant concentrations of credit risk. Cash and cash equivalents are deposited with high-credit quality financial institutions. Cash and bank deposits and bank overdrafts included in the balance sheet reflect the anticipated level at which the Group will offset cash and overdrafts and legal rights to such offset in accordance with the IAS 32. Trade receivables are due principally from major grocery retailers, however, it is the Group's policy to insure trade debt.

### **Liquidity risk**

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

### **Cash flow and interest rate risk**

The Group borrows principally in pounds sterling at floating rates of interest and seeks to mitigate the effect of adverse movements in interest rates by entering into derivative financial instruments that reduce the level of exposure to floating rates. The Group actively monitors its interest rate exposure, since the high level of debt makes its profitability sensitive to movements in interest rates. The level of fixed/capped debt is defined in the Group Treasury policy and procedures. Hedge accounting for interest rate swaps has not been adopted.

### **Short-term receivables and payables**

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

## 21. Financial instruments continued

### Cash and cash equivalents

	2005 £m	2004 £m
Cash at bank and in hand	<b>14.0</b>	12.5

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

### Interest rate risk profile of financial assets

The interest rate risk profile of the Group's non-derivative financial assets as at 31 December was:

	2005 £m	2004 £m
<b>Currency</b>		
<b>Financial assets – floating rate</b>		
<b>Cash at bank and in hand</b>		
Sterling	<b>7.7</b>	3.1
Euro	<b>5.6</b>	8.2
US dollar	<b>0.3</b>	1.2
Other	<b>0.4</b>	–
	<b>14.0</b>	12.5

### Interest rate risk profile of financial liabilities

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

	Fixed rate financial liabilities £m	Floating rate financial liabilities £m	Total financial liabilities £m
<b>Currency</b>			
Sterling	(290.0)	(296.1)	(586.1)
<b>At 31 December 2005</b>	<b>(290.0)</b>	<b>(296.1)</b>	<b>(586.1)</b>
Sterling	(190.0)	(192.8)	(382.8)
<b>At 31 December 2004</b>	<b>(190.0)</b>	<b>(192.8)</b>	<b>(382.8)</b>

In addition, the Group's provisions of £0.7m and £2.9m, as at 31 December 2005 and 2004, respectively for restructuring and other liabilities were excluded from the above table and considered to be floating rate financial liabilities. These cash flows are discounted where the effect is material.

### Fixed rate financial liabilities

	Weighted average interest rate %	Weighted average period for which rate is fixed years
<b>Currency sterling</b>		
At 31 December 2005	4.65	3.49
At 31 December 2004	4.93	2.88

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

The floating rates applicable to interest rate swaps are repriced quarterly based on the prevailing market rate at the reset date. The interest rate swaps are scheduled to mature on 19 November 2007 (notional principal of £180m) and 30 September 2009 (notional principal of £110m). A forward starting swap has also been entered into as at 31 December 2005 which commences on 19 November 2007 (notional principal of £140m) and is scheduled to mature on 30 September 2009. Interest under these swaps is payable at fixed interest rate varying from 4.2% to 4.9% per annum.

## 21. Financial instruments continued

### Maturity of financial liabilities

The Group's non-derivative financial liabilities that are subject to interest-rate changes and their maturity dates were as follows:

	Within 1 year £m	1 and 2 years £m	2 and 3 years £m	3 and 4 years £m	4 and 5 years £m	Over 5 years £m	Total £m
<b>At 31 December 2005</b>							
Bank Term Loan	25.0	40.0	55.0	60.0	145.0	–	325.0
Bank Revolver Facility (Drawn down)	11.0	–	–	–	249.0	–	260.0
Debt issuance costs	(1.2)	(1.2)	(1.1)	(1.0)	(0.3)	–	(4.8)
Bank overdrafts	0.8	–	–	–	–	–	0.8
Finance leases	0.3	0.3	0.1	0.1	0.1	–	0.9
Loan notes	–	–	4.1	–	–	–	4.1
Other	–	–	–	–	0.1	–	0.1
<b>Total debt</b>	<b>35.9</b>	<b>39.1</b>	<b>58.1</b>	<b>59.1</b>	<b>393.9</b>	<b>–</b>	<b>586.1</b>
<b>At 31 December 2004</b>							
Bank Term Loan	20.0	30.0	55.0	65.0	210.0	–	380.0
Bank Revolver Facility (Drawn down)	–	–	–	–	–	–	–
Debt issuance costs	(2.0)	(1.7)	(1.5)	(1.4)	(0.6)	–	(7.2)
Bank overdrafts	9.9	–	–	–	–	–	9.9
Finance leases	–	–	–	–	–	–	–
Loan notes	–	–	–	–	–	–	–
Other	–	–	–	–	–	0.1	0.1
<b>Total debt</b>	<b>27.9</b>	<b>28.3</b>	<b>53.5</b>	<b>63.6</b>	<b>209.4</b>	<b>0.1</b>	<b>382.8</b>

The above liabilities are subject to floating rates at appropriate LIBOR as adjusted by agreed interest margins.

The Bank term loan and Bank revolver facility are repriced quarterly, loan notes every six months and other liabilities are not repriced before the maturity date.

### Currency exposures

The table below shows the Group's currency exposures as at 31 December 2005 and 2004 that gave rise to net currency gains and losses recognised in the consolidated income statement. Such exposures comprise monetary assets and liabilities that are not denominated in the functional currency of the subsidiaries involved.

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

	Functional currency of the subsidiaries		
	Sterling £m	Euro £m	Total £m
<b>At 31 December 2005</b>			
Net foreign currency monetary assets			
Euro	7.3	–	7.3
US dollar	0.8	–	0.8
Other currencies	0.5	–	0.5
<b>Total</b>	<b>8.6</b>	<b>–</b>	<b>8.6</b>
<b>At 31 December 2004</b>			
Net foreign currency monetary assets/(liabilities)			
Euro	3.4	–	3.4
US dollar	1.2	–	1.2
Other currencies	(0.2)	–	(0.2)
<b>Total</b>	<b>4.4</b>	<b>–</b>	<b>4.4</b>

## 21. Financial instruments continued

### Borrowing facilities

The Group has the following available borrowing facilities not drawn as at 31 December:

	2005 £m	2004 £m
Expiring in more than two years	<b>186.8</b>	164.8

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

### Fair values of financial assets and financial liabilities

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

	2005		2004	
	Carrying amounts £m	Fair value £m	Carrying amounts £m	Fair value £m
<b>Primary financial instruments held or issued to finance the Group's operations:</b>				
<b>Assets</b>				
Trade and other receivables	<b>136.3</b>	<b>136.3</b>	110.6	110.6
Derivative financial instruments				
Forward foreign currency exchange contracts/currency options	<b>0.9</b>	<b>0.9</b>	-	-
Interest rate swaps	<b>0.4</b>	<b>0.4</b>	-	-
Cash and cash equivalents	<b>14.0</b>	<b>14.0</b>	12.5	12.5
<b>Liabilities</b>				
Trade and other payables	<b>(166.8)</b>	<b>(166.8)</b>	(136.5)	(136.5)
Provisions	<b>(0.7)</b>	<b>(0.7)</b>	(2.9)	(2.9)
Bank term loan	<b>(323.0)</b>	<b>(323.0)</b>	(372.8)	(372.8)
Bank revolver facility (Drawn-down)	<b>(257.2)</b>	<b>(257.2)</b>	-	-
Bank overdraft	<b>(0.8)</b>	<b>(0.8)</b>	(9.9)	(9.9)
Finance leases	<b>(0.9)</b>	<b>(0.9)</b>	-	-
Loan notes	<b>(4.1)</b>	<b>(4.1)</b>	-	-
Other	<b>(0.1)</b>	<b>(0.1)</b>	(0.1)	(0.1)
Derivative financial instruments				
Forward foreign currency exchange contracts/currency options	<b>(0.1)</b>	<b>(0.1)</b>	-	(1.3)
Interest rate swaps	<b>(1.4)</b>	<b>(1.4)</b>	-	(0.6)
Interest payable	<b>(2.0)</b>	<b>(2.0)</b>	(2.2)	(2.2)

### Fair value estimation

#### Derivatives

Forward exchange contracts are marked to market using prevailing market prices. Forward contracts are not classified as effective hedges. As a result the movement in the fair value of £0.9m (2004: £nil) has been credited to the income statement in the year. Interest rate swaps are marked to market using prevailing market prices. Interest rate swaps are not designated for hedge accounting. As a result the movement in the fair value of £1.1m (2004: £nil) has been charged to the income statement in the year.

#### Bank loans, loan notes and interest payable

Fair value is calculated based on discounted expected future principal and interest cash flows.

#### Finance lease liabilities

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

#### Trade and other receivables/payables

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

## 21. Financial instruments continued

### Obligations under finance leases

	Minimum lease payments		Present value of minimum lease payment	
	2005 £m	2004 £m	2005 £m	2004 £m
Not later than one year	<b>0.3</b>	--	<b>0.3</b>	--
Later than one year but not later than five years	<b>0.7</b>	--	<b>0.6</b>	--
Later than five years	--	--	--	--
	<b>1.0</b>	--	<b>0.9</b>	--
Less: future finance charges	<b>(0.1)</b>	--	n/a	n/a
Present value of lease obligations	<b>0.9</b>	--	<b>0.9</b>	--
Less: Amount due for settlement within 12 months	<b>(0.3)</b>	--	<b>(0.3)</b>	--
Amounts due for settlement after 12 months	<b>0.6</b>	--	<b>0.6</b>	--

It is the Group's policy to lease certain items of plant and equipment under finance leases. The average lease term is three years, the longest being five years. For the year-end 31 December 2005, the average effective borrowing rate was 6.5%. Interest rates are fixed at the contract date, and thus expose the Group to fair value interest rate risk. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

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

### 22. Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 30% (2004: 30%)

The movement on the deferred tax (asset)/liability is as shown below:

	2005 £m	2004 £m
At 1 January	<b>(11.7)</b>	(1.4)
Charged to the income statement for continuing operations	<b>2.4</b>	6.8
Credited to equity	<b>(6.1)</b>	(16.8)
Balance sheet reclassification	<b>0.2</b>	--
Disposal of subsidiaries/businesses	<b>(1.6)</b>	(0.3)
Acquisition of subsidiaries/businesses	<b>32.1</b>	--
<b>At 31 December</b>	<b>15.3</b>	(11.7)

The Group did not recognise deferred tax assets of £26.6m (2004: £39.3m) relating to capital losses, £11.5m relating to corporation tax losses and £34.8m relating to surplus ACT due to the unpredictability of future profit streams. All the losses can under current legislation be carried forward indefinitely.

The movements in deferred tax assets and liabilities during the year, prior to the offsetting of balances within the same jurisdiction, were as follows:

	Accelerated tax depreciation £m	Intangibles £m	Total £m
<b>Deferred tax liabilities</b>			
<b>At 1 January 2004</b>	6.6	2.0	8.6
Charged to the income statement	2.3	1.9	4.2
<b>At 31 December 2004</b>	8.9	3.9	12.8
Charged to the income statement	1.8	1.4	3.2
Disposal of subsidiaries/businesses	--	(2.0)	(2.0)
Acquisition of subsidiaries/businesses	8.1	24.0	32.1
<b>At 31 December 2005</b>	<b>18.8</b>	<b>27.3</b>	<b>46.1</b>

## 22. Deferred tax continued

	Retirement benefit obligations £m	Pension payment relief deferral £m	Share-based payments £m	Other £m	Total £m
<b>Deferred tax assets</b>					
<b>At 1 January 2004</b>	(6.6)	(2.1)	–	(1.3)	(10.0)
Charged/(credited) to the income statement	3.9	(0.2)	–	(1.1)	2.6
Credited to equity	(16.8)	–	–	–	(16.8)
Disposal of subsidiaries/businesses	–	–	–	(0.3)	(0.3)
<b>At 31 December 2004</b>	(19.5)	(2.3)	–	(2.7)	(24.5)
Charged/(credited) to the income statement	(0.1)	0.9	(0.3)	(1.3)	(0.8)
Credited to equity	(6.1)	–	–	–	(6.1)
Balance sheet reclassification	–	–	–	0.2	0.2
Disposal of subsidiaries/businesses	0.4	–	–	–	0.4
<b>At 31 December 2005</b>	<b>(25.3)</b>	<b>(1.4)</b>	<b>(0.3)</b>	<b>(3.8)</b>	<b>(30.8)</b>
<b>Net deferred tax liability/(asset)</b>					
<b>At 31 December 2005</b>					<b>15.3</b>
At 31 December 2004					(11.7)

Deferred tax assets and liabilities have been offset, as there is a legally enforceable right of offset and an intention to settle the balances net. Substantial elements of the Group's deferred tax assets and liabilities, primarily relating to intangible assets and defined benefit pension obligation, are greater than one year in nature.

## 23. Provisions

	Restructuring £m	Other £m	Total £m
<b>At 1 January 2004</b>	5.9	0.4	6.3
Utilised during the year	(1.8)	–	(1.8)
Disposal of subsidiaries	(1.6)	–	(1.6)
<b>At 31 December 2004</b>	2.5	0.4	2.9
Additional provision in the year	3.7	–	3.7
Utilised during the year	(5.9)	–	(5.9)
<b>At 31 December 2005</b>	<b>0.3</b>	<b>0.4</b>	<b>0.7</b>
			2005 £m
Analysis of total provisions:			
Current	0.3	–	<b>0.3</b>
Non-current	–	0.4	<b>0.4</b>
	0.3	0.4	<b>0.7</b>
			2004 £m
Analysis of total provisions:			
Current	–	–	–
Non-current	2.5	0.4	2.9
	2.5	0.4	2.9

### Restructuring

As at 31 December 2005 provisions remaining represent the liabilities in respect of the restructuring of the Group's Fresh Produce business. It is anticipated that this provision will be utilised in 2006. The 2004 amounts recorded reflected planned restructuring of the Group's Fresh Produce business; the completion of the closure of the Edinburgh site and integration of its operations into the Moreton site; certain legal costs and changes to distribution arrangements.

### Other

Represents provisions for dilapidations on property leases at St Albans Head Office.

## 24. Retirement benefit obligations

### Defined benefit schemes

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

The assets of both schemes are held by the trustees and are independent of the Group's finances. The schemes invest through investment managers, appointed by the trustees, in UK and European equities and in investment products comprising a broad range of assets.

For the purposes of these financial statements pension costs presented are calculated by independent qualified actuaries using the projected unit credit method. As at 31 December 2005, the Group recognised net retirement benefit obligations of £84.5m (2004: £65.6m) and assets of £0.1m (2004: £0.5m) in respect of PFPS and PAPPS respectively. The figures below are consolidated to include PFPS and PAPPS.

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

	2005	2004
Discount rate	<b>5.00%</b>	5.50%
Expected salary increases	<b>3.75%</b>	3.50%
Future pension increases	<b>2.75%</b>	2.50%
Inflation	<b>2.75%</b>	2.50%
Average expected remaining life of a 65-year-old male (years)	<b>15*</b>	16*

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

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

Assets	Expected rate of return 2005 %	Market value 2005 £m	Expected rate of return 2004 %	Market value 2004 £m
Equities	<b>8.00%</b>	<b>160.8</b>	8.50%	136.8
Insight targeted return	<b>6.75%</b>	<b>66.0</b>	7.70%	166.4
ML targeted return	<b>7.75%</b>	<b>103.8</b>	—	—
Cash and other	<b>4.50%</b>	<b>3.9</b>	—	—
Total	<b>7.63%</b>	<b>334.5</b>	8.06%	303.2

At the balance sheet date, the actual distribution of assets held within targeted return investments was:

	Cash £m	Equities £m	2005 Total £m	Cash £m	Equities £m	2004 Total £m
Insight targeted return	66.0	—	66.0	166.4	—	166.4
ML targeted return	60.2	43.6	103.8	—	—	—

The expected return on pension scheme assets is based on the long-term investment strategy set out in the Schemes' Statement of Investment Principles at the start of the year. In 2005, the expected return was calculated using the equity return and targeted investment return assumptions of 8.5% and 7.7% respectively. As at 31 December 2004, £99.9m was temporarily held as cash with an expected return of 8.5%, pending re-investment in equity markets. The expected return on the majority of the remaining cash, of £66.5m, was the targeted return benchmark in place of 6.5% (net of fees).

The actual rate of return on plan assets was 13.4% (2004: 10.8%). The plan assets do not include any of the Group's own financial instruments, nor any property occupied by, or other assets used by, the Group.

The amounts recognised in the balance sheet arising from the Group's obligations in respect of its defined benefit schemes are as follows:

	2005 £m	2004 £m
Present value of funded obligations	<b>(418.9)</b>	(368.3)
Fair value of plan assets	<b>334.5</b>	303.2
Deficit in scheme	<b>(84.4)</b>	(65.1)

## 24. Retirement benefit obligations continued

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

	2005 £m	2004 £m
Opening defined benefit obligations	<b>(368.3)</b>	(301.9)
Current service cost	<b>(4.3)</b>	(2.7)
Interest cost	<b>(20.0)</b>	(16.1)
Actuarial losses	<b>(43.7)</b>	(65.8)
Other income	-	(2.2)
Curtailments	<b>1.2</b>	-
Contributions by plan participants	<b>(2.1)</b>	(2.0)
Benefits paid	<b>18.3</b>	22.4
<b>Closing defined benefit obligations</b>	<b>(418.9)</b>	(368.3)

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

	2005 £m	2004 £m
Opening fair value of plan assets	<b>303.2</b>	272.5
Expected return	<b>23.4</b>	21.5
Administrative and life insurance costs	<b>(1.2)</b>	(1.4)
Actuarial gains	<b>17.8</b>	9.8
Contributions by employer	<b>7.5</b>	19.0
Contributions by plan participants	<b>2.1</b>	2.0
Other income	-	2.2
Benefits paid	<b>(18.3)</b>	(22.4)
<b>Closing fair value of plan assets</b>	<b>334.5</b>	303.2

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

	2005 £m	2004 £m
Present value of defined benefit obligations	<b>(418.9)</b>	(368.3)
Fair value of plan assets	<b>334.5</b>	303.2
Deficit	<b>(84.4)</b>	(65.1)
Experience adjustments on plan liabilities	<b>(43.7)</b>	(65.8)
Experience adjustments on plan assets	<b>17.8</b>	9.8

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

The Group expects to contribute approximately £8.3m to its defined benefit plans in 2006.

The amounts recognised in the income statement are as follows:

	2005 £m	2004 £m
Current service cost	<b>(4.3)</b>	(2.7)
Administrative and life insurance costs	<b>(1.2)</b>	(1.4)
Interest cost	<b>(20.0)</b>	(16.1)
Expected return on plan assets	<b>23.4</b>	21.5
Gains on curtailment	<b>1.2</b>	-
<b>Total (expense)/credit</b>	<b>(0.9)</b>	1.3

The actual return on plan assets was £40.5m (2004: £29.5m).

During the year actuarial losses of £25.9m (2004: £56.0m) were recognised in the statement of recognised income and expense, totalling £18.2m (2004: £39.2m) net of taxation. Accumulated actuarial losses were £81.9m as at 31 December 2005 (2004: £56.0m).

## 24. Retirement benefit obligations continued

### Defined contribution schemes

A number of companies in the Group operate defined contribution schemes, predominantly under Stakeholder arrangements. In addition a number of schemes providing life assurance benefits only are operated. The total expense recognised in the income statement of £0.9m (2004: £0.4m) represents contributions payable to the plans by the Group at rates specified in the rules of the plans.

### Other post-retirement benefits

The Group does not provide any other post-retirement benefits.

## 25. Share capital

	2005 £m	2004 £m
<b>Authorised</b>		
332,113,095 ordinary shares of 1 pence each	<b>3.3</b>	3.3
<b>Issued and fully paid</b>		
247,841,161 (2004: 244,888,679) ordinary shares of 1 pence each	<b>2.5</b>	2.4

### 2005

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

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

On 24 November 2005, 57 1 pence ordinary shares were issued to certain employees at a premium of 230 pence per ordinary share upon exercise of share options and were fully paid up;

On 8 December 2005, 1,138 1 pence ordinary shares were issued to certain employees at a premium of 230 pence per ordinary share upon exercise of share options and were fully paid up;

On 19 December 2005, 242 1 pence ordinary shares were issued to certain employees at a premium of 230 pence per ordinary share upon exercise of share options and were fully paid up.

### Significant events during 2004

- (i) On 22 June 2004, Premier Foods plc was incorporated with an issued share capital of 5,000,000 1 pence ordinary shares;
- (ii) On 15 July 2004, the authorised share capital of Premier Foods plc was increased to 5,001,000 1 pence ordinary shares by the creation of 1,000 ordinary shares. On this date, Hicks Muse Tate Furst Premier Limited ("HMTFPL") contributed its shares in PFI No. 3 to Premier Foods plc in exchange for 1,000 1 pence ordinary shares in Premier Foods plc;
- (iii) On 23 July 2004, Premier Foods plc increased its authorised share capital to 332,113,095 1 pence ordinary shares by the creation of 327,112,095 ordinary shares;
- (iv) 95,036,105 1 pence ordinary shares were issued by Premier Foods plc at a premium of 214 pence per share in consideration for the capitalisation of the Group's loan notes amounting to £204.3m;
- (v) 55,114,083 1 pence ordinary shares were issued by Premier Foods plc at a premium of 214 pence per ordinary share and were fully paid up;
- (vi) Share premium of £893,275.33 was capitalised for the issue of 89,327,533 1 pence ordinary shares to HMTFPL;
- (vii) 265,115 1 pence ordinary shares were issued to certain non-executive directors at a premium of 106.5 pence per ordinary share and were fully paid up;
- (viii) 144,843 1 pence ordinary shares were issued to Mr Paul Thomas, an executive director, at a premium of 214 pence per ordinary share and were fully paid up.

## 25. Share capital continued

### Share option schemes

In 2004, the Company had an Executive Share Option Scheme for certain senior executives and key individuals. The employees involved in the scheme hold options to subscribe for up to 5.6 million ordinary shares of 1 pence each between 2005 and 2014 at prices ranging between 1 pence per ordinary share and 215 pence per ordinary share. The number of shares subject to options, the periods in which they were granted and the periods in which they may be exercised are given below. In 2005, the Company introduced two new schemes:

1. A Savings Related Share Option Scheme for employees. The employees involved in the scheme have the right to subscribe for up to 1.3 million ordinary shares at 231 pence per ordinary share. The number of shares subject to options, the periods in which they were granted and the periods in which they may be exercised are given below. These options are equity settled, have a maximum term of 3.5 years and vest only if employees remain in employment to the vesting date or are deemed a good leaver.
2. A Long-Term Incentive Plan for directors and senior management. The individuals involved in the scheme have the right to subscribe for up to 0.9 million ordinary shares at 1 pence per ordinary share. The number of shares subject to options, the periods in which they were granted and the periods in which they may be exercised are given below. These options are equity-settled and have a maximum term of 10 years. The vesting condition attached to the Group's long-term incentive plan arrangements are explained in detail in the directors' remuneration report on pages 38 to 44.

A small number of shadow awards have been made to senior management of the Group. These awards are cash-settled, have a maximum term of 10 years and vest with the employees in accordance with the terms of the Executive Share Option Scheme noted below. They have an exercise price of 215 pence and remaining contractual life of 9.5 years.

Details of the share options of the Premier Foods plc Executive Share Option Scheme are as follows:

	2005		2004	
	Options	Weighted average exercise price (p)	Options	Weighted average exercise price (p)
Outstanding at beginning of year	5,594,858	102	-	-
Granted during the year	-	-	5,594,858	102
Exercised during the year	(2,951,045)	1	-	-
Forfeited during the year	(58,140)	215	-	-
Outstanding at the end of the year	2,585,673	215	5,594,858	102
Exercisable at the end of the year	-	-	-	-

The weighted average share price at the date of exercise for share options exercised during the year under the Executive Share Option Scheme was 296 pence per ordinary share. The options outstanding at 31 December 2005 had a weighted average exercise price of 215 pence (2004: 102 pence), and a weighted average remaining contractual life of 8.6 years.

Year of expiry	Exercise Price (p)	Shares	
		2005	2004
2012	1	-	2,567,377
2013	1	-	319,723
2014	1	-	63,945
2014	215	2,585,673	2,643,813
		2,585,673	5,594,858

The options under the Premier Foods plc Executive Share Option Scheme are equity-settled and have a maximum term of 10 years. Options to subscribe for 2.6 million of the ordinary shares under this scheme is subject to vesting conditions set out in the directors' remuneration report on pages 38 to 44.

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

	2005		2004	
	Options	Weighted average exercise price (p)	Options	Weighted average exercise price (p)
Outstanding at beginning of year	-	-	-	-
Granted during the year	1,501,205	231	-	-
Exercised during the year	(1,437)	231	-	-
Forfeited during the year	(221,656)	231	-	-
Outstanding at the end of the year	1,278,112	231	-	-
Exercisable at the end of the year	-	-	-	-

The weighted average share price for the dates of exercise for the share options exercised under the Savings Related Share Option Scheme during the year was 299 pence per ordinary share. The options outstanding at 31 December 2005 had a weighted average exercise price of 231 pence, and a weighted average remaining contractual life of 2.9 years.

## 25. Share capital continued

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

	2005		2004	
	Options	Weighted average exercise price (p)	Options	Weighted average exercise price (p)
Outstanding at beginning of year	--	--	--	--
Granted during the year	<b>903,854</b>	<b>1</b>	--	--
Forfeited during the year	<b>(48,237)</b>	<b>1</b>	--	--
Outstanding at the end of the year	<b>855,617</b>	<b>1</b>	--	--
Exercisable at the end of the year	--	--	--	--

The options under the Long-Term Incentive Plan outstanding at 31 December 2005 had a weighted average exercise price of 1 pence, and a weighted average remaining contractual life of 9.4 years.

Details of executive director participation in the above schemes can be found in the directors' remuneration report on pages 38 to 44. The weighted average fair value of options granted during the year was 86 pence (2004: 56 pence). This was determined using a closed-form approach as a proxy for a stochastic Monte Carlo valuation model except for the Savings Related Share Option Scheme where a Black-Scholes model was used.

The significant inputs into the model were:

	2005	2004
Weighted average share price (pence)	<b>278</b>	215
Annual risk-free interest rate (%)	<b>5</b>	5
Expected dividend (%)	<b>5-6</b>	6
Expected option life (years)	<b>4-5</b>	5
Expected volatility (%)	<b>25-40</b>	40

Volatility is measured using the standard deviation of expected share price return and is based on statistical analysis of daily share prices for public companies over the last three years. In 2005, the Group recognised expense of £1.1m (2004: £0.2m) in respect of equity-settled share based payments in accordance with IFRS 2. In 2004, an additional £6.3m was recognised in respect of certain share-options under the Executive Share Option Scheme, determined based on their intrinsic value as allowed under the transitional provisions of IFRS 2, as they were vested before 1 January 2005.

## 26. Other reserves

	Share premium £m	Merger reserve £m	Other reserves £m	Profit and loss reserve £m	Total £m
At 1 January 2004	10.0	(136.8)	--	(221.5)	(348.3)
Capitalisation of the Group's loan notes by issue of shares (a)	203.4	--	--	--	203.4
Shares issued through public offer for cash (b)	117.9	--	--	--	117.9
Issue expenses	(10.1)	--	--	--	(10.1)
Capitalisation of share premium (c)	(0.9)	--	--	--	(0.9)
Shares issued to directors (d)	0.6	--	--	--	0.6
Share based payments (e)	--	--	--	6.5	6.5
Profit for the year	--	--	--	15.8	15.8
Actuarial gains and losses (net of taxation) (g)	--	--	--	(39.2)	(39.2)
<b>At 31 December 2004</b>	<b>320.9</b>	<b>(136.8)</b>	<b>--</b>	<b>(238.4)</b>	<b>(54.3)</b>
First time adoption of IAS 39 (f)	--	--	(1.8)	--	(1.8)
<b>At 1 January 2005</b>	<b>320.9</b>	<b>(136.8)</b>	<b>(1.8)</b>	<b>(238.4)</b>	<b>(56.1)</b>
Profit for the year	--	--	--	83.6	83.6
Dividends paid	--	--	--	(33.8)	(33.8)
Actuarial gains and losses (net of taxation) (g)	--	--	--	(18.2)	(18.2)
Settlement of derivatives (f)	--	--	1.6	--	1.6
Share based payments (e)	--	--	--	1.1	1.1
Issue costs refund	0.6	--	--	--	0.6
Tax on share options	--	--	--	0.7	0.7
<b>At 31 December 2005</b>	<b>321.5</b>	<b>(136.8)</b>	<b>(0.2)</b>	<b>(205.0)</b>	<b>(20.5)</b>

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

(b) 55,114,083 1 pence ordinary shares were issued at a premium of 214 pence per share;

(c) An amount of £893,275.33 was capitalised and applied in paying up in full at par 89,327,533 un-issued ordinary shares and allotting and issuing 17,861,934,213 ordinary shares in respect of each ordinary share held by HMTFPL;

## 26. Other reserves continued

- (d) 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 106.5 pence per share, and 144,843 ordinary shares at a premium of 214 pence per share;
- (e) The amounts relate to the roll-over of certain outstanding options under the Premier Foods (Holdings) Limited Employee Share Option Scheme;
- (f) On 1 January 2005, the Group adopted the provisions of IAS 32 and IAS 39. The primary effect of this change in accounting policy relates to the recognition, presentation and disclosure of the Group's interests in forward foreign currency exchange derivatives and interest rate swaps and the effect of these changes was to increase the Group's net liabilities at 1 January 2005 by £1.8m and create a Cash Flow Hedge ("CFH") reserve. An amount of £1.6m of the CFH has been transferred to net profit on settlement of derivatives in 2005; and
- (g) Actuarial gains and losses relating to the Group's retirement benefit schemes are recognised directly within the profit and loss reserve (note 24).

## 27. Acquisitions of subsidiaries/businesses

The following businesses were acquired during the year:

Name of businesses acquired	Principal activities	Date of acquisition	Shares acquired	Voting equity instruments acquired %	Cash outflow on acquisition £m	Total net consideration* £m
Bird's	Manufacture and distribution of Bird's Custard, Angel Delight and associated brands (acquired from Kraft)	14 February	No	n/a	72.1	72.1
Marlow Foods Holdings Limited	Manufacturing and distribution of "Quorn" products (meat free myco-protein), both frozen and chilled	6 June	Yes	100	118.6	176.1
Monument (GB) Limited ("Gedney's")	Supply and distribution of fresh vegetables	5 September	Yes	100	4.6	4.6
Cauldron Foods Limited	Manufacturing and distribution of vegetable based products.	30 October	Yes	100	27.1	27.1

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

The financial performance of the businesses acquired was as follows:

Name of businesses acquired	Turnover post acquisition £m	Profit* post acquisition £m	Pro forma Turnover for the Year £m	Pro forma Profit* for the Year £m
Bird's	30.0	—	33.8	—
Marlow Foods Holdings Limited	47.1	4.5	84.4	6.3
Gedney's	12.1	0.1	36.0	0.3
Cauldron Foods Limited	2.5	0.5	15.4	1.9

\*Profit is defined as operating profit before interest and tax.

\*As if the acquisition had occurred on 1 January 2005.

## 27. Acquisitions of subsidiaries/businesses continued

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

	Bird's		Marlow Foods Holdings Limited		Cauldron Foods Limited	Monument (GB) Limited	Total
	Provisional fair value £m	Book value £m	Provisional fair value £m	Book value £m	Provisional fair value and book value £m	Provisional fair value and book value £m	
Property, plant and equipment	–	2.0	38.9	38.9	5.3	2.5	46.7
Intangible assets	30.2	–	80.0	–	0.2	–	110.4
Inventories	3.5	3.5	9.9	9.9	0.3	0.3	14.0
Trade and other receivables	–	–	14.5	14.5	2.4	4.1	21.0
Cash and cash equivalents	–	–	8.3	8.3	0.2	–	8.5
Trade and other payables	–	–	(11.1)	(11.1)	(2.2)	(4.2)	(17.5)
Financial liabilities							
– short-term borrowings	–	–	–	–	–	(0.5)	(0.5)
– long-term borrowings	–	–	(53.4)	(49.6)	–	–	(53.4)
Current tax liabilities	–	–	(1.2)	(2.4)	–	(0.1)	(1.3)
Deferred tax liabilities	–	–	(31.8)	(7.8)	(0.2)	(0.1)	(32.1)
<b>Net assets acquired</b>	<b>33.7</b>	<b>5.5</b>	<b>54.1</b>	<b>0.7</b>	<b>6.0</b>	<b>2.0</b>	<b>95.8</b>
Purchase consideration settled in cash	72.1		131.0		27.3	4.1	234.5
Cash and cash equivalents in subsidiary acquired	–		(8.3)		(0.2)	0.5	(8.0)
Deferred consideration (Loan notes: note 20)	–		(4.1)		–	–	(4.1)
Cash outflow on acquisition	72.1		118.6		27.1	4.6	222.4
Purchase consideration:							
– cash paid	71.0		127.8		26.8	4.0	229.6
– direct costs relating to the acquisition	1.1		3.2		0.5	0.1	4.9
Total purchase consideration	72.1		131.0		27.3	4.1	234.5
Fair value of net assets acquired	(33.7)		(54.1)		(6.0)	(2.0)	(95.8)
Goodwill	38.4		76.9		21.3	2.1	138.7

Provisional fair values have been allocated to the acquired net assets of Bird's. An initial allocation of fair value to the acquired assets and liabilities of Marlow Foods has also been performed, although adjustments of classification nature, including those relating to deferred taxes, are anticipated. The goodwill arising on acquisition is attributable to the anticipated profitability of the acquired businesses and the future operating synergies expected to arise from the combination.

For Cauldron, Monument and the Marlow acquisitions' the initial accounting for the business combinations is determined provisionally. A full review is being undertaken, to determine fair values but these remain to be completed at the balance sheet date.

Subsequent to the acquisition of Marlow, Marlow received an assessment in respect of PAYE and NIC assessed on deemed compensation to the former owners of Marlow on the disposal of their shares.

The directors of the Group believe that it is not probable that the assessment will give rise to any liability. No reliable estimate of the fair value of any potential exposure is possible at the date of this report. The case will be reviewed by the Group on a regular basis. For the purposes of its provisional acquisition accounting, the Group has not attributed any fair value to the claim on this basis.

## 28. Disposal of subsidiaries/businesses

As referred to in note 10 the Group disposed of its interests in its Tea and Jonker Fris businesses during the year. The impact on the results of the Group for the year is disclosed in note 10. On the respective dates of disposal the net assets of each business were as follows:

	Tea 30 October 2005 £m	Jonker Fris 7 December 2005 £m	Total £m
Property, plant and equipment	15.0	2.6	17.6
Intangible assets and goodwill	6.3	–	6.3
Inventories	10.0	10.1	20.1
Trade and other receivables	0.3	5.1	5.4
Trade and other payables	–	(7.1)	(7.1)
Current tax recoverable	–	0.4	0.4
Deferred tax liabilities	(2.0)	–	(2.0)
<b>Net assets disposed of</b>	<b>29.6</b>	<b>11.1</b>	<b>40.7</b>
Consideration	77.7	3.9	81.6
Profit/(loss) on disposal	48.1	(7.2)	40.9
Profit on curtailment of pension (net of tax)	0.8	–	0.8
Foreign exchange on disposal	–	(0.8)	(0.8)
<b>Total profit/(loss)</b>	<b>48.9</b>	<b>(8.0)</b>	<b>40.9</b>
Satisfied by:			
Cash	80.2	4.4	84.6
Disposal costs	(2.5)	(0.5)	(3.0)
	77.7	3.9	81.6
Net cash inflow arising on disposal:			
Cash consideration	77.7	3.9	81.6

See note 32 for details regarding the contingent consideration arising on the disposal of Jonker Fris.

## 29. Notes to the cash flow statement

	2005 £m	2004 £m
Reconciliation of operating profit to cash generated from operations		
<b>Continuing operations</b>		
Operating profit	<b>95.3</b>	80.6
Depreciation of property, plant and equipment	<b>15.9</b>	15.0
Amortisation of intangible assets	<b>6.3</b>	2.8
Gain on disposal/impairment of property, plant and equipment	<b>(4.7)</b>	(0.6)
Revaluation gains on financial instruments	<b>(1.1)</b>	–
Share based payments	<b>1.1</b>	6.5
Net cash inflow from operating activities before interest and tax and movements in working capital	<b>112.8</b>	104.3
(Increase)/decrease in inventories	<b>(0.7)</b>	4.8
Increase in receivables	<b>(12.4)</b>	(13.3)
Increase/(decrease) in other payables and provisions	<b>16.9</b>	(4.4)
Movement in net retirement benefit obligations	<b>(5.4)</b>	(20.3)
<b>Cash generated from continuing operations</b>	<b>111.2</b>	71.1
Discontinued operations	<b>6.5</b>	16.8
<b>Cash generated from operations</b>	<b>117.7</b>	87.9
Exceptional items cash flow	<b>(8.9)</b>	(18.6)
Cash generated from operations before exceptional items	<b>126.6</b>	106.5

## 29. Notes to the cash flow statement continued

### Additional analysis of cash flows

	2005 £m	2004 £m
Interest received	6.3	5.3
Interest paid	(42.6)	(64.7)
Issue costs of new bank loan	(5.6)	(8.1)
<b>Return on investments and servicing of finance</b>	<b>(41.9)</b>	<b>(67.5)</b>
Sale of subsidiaries/businesses	81.6	34.8
Cash disposed of upon sale of subsidiaries	-	(0.6)
<b>Sale of subsidiaries/businesses</b>	<b>81.6</b>	<b>34.2</b>

### Reconciliation of cash and cash equivalents to net borrowings

	2005 £m	2004 £m
Net inflow/(outflow) of cash and cash equivalents	10.6	(14.7)
Debt acquired with Marlow	(53.4)	-
(Increase)/decrease in borrowings	(146.0)	355.7
Other non-cash changes	(13.0)	(17.4)
(Increase)/decrease in borrowings net of cash	(201.8)	323.6
Total borrowings net of cash at beginning of year	(370.3)	(693.9)
Total borrowings net of cash at end of year	(572.1)	(370.3)

### Analysis of movement in net borrowings

	At 31 December 2004 £m	Effect of adopting IAS 32 £m	Restated at 1 January 2005* £m	Cash flow £m	Other non-cash changes £m	As at 31 December 2005 £m
Bank overdrafts	(9.9)	(23.0)	(32.9)	32.1	-	(0.8)
Cash and bank deposits	12.5	23.0	35.5	(21.5)	-	14.0
Cash and cash equivalents net of overdrafts	2.6	-	2.6	10.6	-	13.2
Borrowings – Term	(380.0)	-	(380.0)	55.0	-	(325.0)
Borrowings – Revolver	-	-	-	(260.0)	-	(260.0)
Loan notes	-	-	-	-	(4.1)	(4.1)
Finance leases	-	-	-	-	(0.9)	(0.9)
Other	(0.1)	-	(0.1)	-	-	(0.1)
Gross borrowings net of cash	(377.5)	-	(377.5)	(194.4)	(5.0)	(576.9)
Debt issuance costs	7.2	-	7.2	5.6	(8.0)	4.8
<b>Total net borrowings</b>	<b>(370.3)</b>	<b>-</b>	<b>(370.3)</b>	<b>(188.8)</b>	<b>(13.0)</b>	<b>(572.1)</b>

\*Balances are restated for the impact of transition to IFRS. See note 2.

## 30. Operating lease commitments

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

### Future minimum lease payments under non-cancellable operating leases:

	2005		2004	
	Property £m	Plant and equipment £m	Property £m	Plant and equipment £m
Within one year	1.9	3.0	1.1	2.6
Between two to five years	6.7	4.1	4.2	2.8
After five years	6.6	-	5.6	-
	<b>15.2</b>	<b>7.1</b>	<b>10.9</b>	<b>5.4</b>

At 31 December 2005 future minimum sub-lease receivables of £2.1m are not included in the above. This is an arrangement with Burtons Foods Limited whereby the Group sub-lets office space.

### 31. Capital commitments

	2005 £m	2004 £m
Contracts placed for future capital expenditure not provided in the financial statements	5.1	2.0

### 32. Contingencies

#### 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. During the year the Group has received claims from customers relating to damage to their own products, the cost of recalling and claims for consequential loss among others.

A considerable amount of claims have been settled during the year, however there are still a number of claims that are being investigated as part of the normal claims procedure. Although the full value of these claims have yet to be finalised, it is expected that any claims therein will be covered by the Group's insurance policy. Any other costs associated with Sudan 1 but not recoverable by the Group's insurance policy have been provided for in 2005. See note 5 for further details.

#### Guarantees

On 28 June 2002, Premier Ambient Products (UK) Limited, a subsidiary of the Group 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, 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 licences, should a receiver be appointed to Pastam Limited.

The maximum exposure to Premier Financing Limited under this guarantee is estimated at 31 December 2005 to be €3.9m. The exposure is reduced by €0.3 per annum until 2017 and the exposure is limited to €0.6m after 2017.

#### Marlow Foods Holdings Limited

For contingent liabilities relating to the Marlow acquisition, see Note 27.

#### Jonker Fris

On 8 December 2005 the Group completed the sale of its Netherlands based subsidiary Jonker Fris. Under the terms of the agreement, the Group is entitled to receive 50% of any net disposal proceeds resulting from the disposal of two properties, which were transferred to the acquirer, if sold within two years from date of completion. Should either property remain unsold at this date, the Group is entitled to receive €1.0m per property from the acquirer, or has an option to purchase the properties for an amount of €1.0m per property.

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

There were no other material contingent liabilities at 31 December 2005.

### 33. Related party transactions

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

Directors' relationship with Burton's

Mr Robert Schofield resigned his directorship and as non-executive chairman of Burton's on 31 December 2005.

Cadbury Biscuits Agreement

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

Chocolate Supply Agreement

An agreement, dated 29 January 2001, was entered into between Burton's and Premier International Foods UK Limited whereby Premier International Foods UK Limited agreed to buy its entire requirement for Cadbury chocolate products from Burton's so long as Burton's continues to be party to any agreements with Cadbury Limited in relation to the manufacture of Cadbury chocolate products. The consideration payable is determined according to a specified price per tonne that shall remain valid until 31 December 2006 and shall be agreed between the parties for each year thereafter. The value of purchases by the Group from Burton's were £0.6m and £0.5m for the years ended 31 December 2005 and 2004 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 £1.0m and £1.4m to Premier International Foods UK Limited in the years ended 31 December 2005 and 2004 respectively.

### 33. Related party transactions continued

#### 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.

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

Premier Brands Foods Limited, a subsidiary, sublets office space at Centrium Business Park, St Albans to Burton's. The tenancy is for duration of 15 years at an annual rent of £163,408 with the first year rent-free. The amount received in 2005 was £163,408 (2004: £40,740).

#### Transactions with Hicks Muse & Co

In 2004, 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."). These arrangements included a Monitoring & Oversight Agreement and a Financial Advisory Agreement, whereby the Group paid £0.6m and £nil respectively to Hicks, Muse & Co.

The Monitoring and Oversight Agreement and Financial Advisory Agreement were terminated on 23 July 2004.

#### Remuneration of key management personnel

The remuneration of the executive and non-executive directors and senior management, who are the key management personnel of the Group is set out below in aggregate for each of the categories specified in IAS 24 "Related Party Disclosures". Further information about the remuneration of individual directors is provided in the audited part of the directors' remuneration report on pages 38 to 44.

	2005 £m	2004 £m
Salaries and other short-term employee benefits	3.0	2.5
Share-based payments	0.6	0.2
	3.6	2.7

### 34. Post balance sheet events

#### Prior year post balance sheet events

##### Bird's acquisition

On 14 February 2005 the Group completed the acquisition of the Bird's desserts business from Kraft Foods UK Limited for a consideration of £71.0m. Kraft Foods UK Limited was manufacturing products on the Group's behalf until manufacturing was transferred to the Group in December.

##### 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 32 for further details). This item is dealt within exceptional items during the year.

### 35. Explanation of transition to IFRS

This is the first year that the Company has presented its financial statements under IFRS. The following disclosures are required in the year of transition. The last financial statements under UK GAAP were for the year ended 31 December 2004 and the date of transition to IFRS was 1 January 2004.

#### Reconciliation of equity at 1 January 2004 and 31 December 2004

	As at 1 January 2004			As at 31 December 2004		
	UK GAAP £m	Effects of transition to IFRS £m	IFRS £m	UK GAAP £m	Effects of transition to IFRS £m	IFRS £m
<b>ASSETS:</b>						
<b>Non-current assets</b>						
Property, plant and equipment	153.1	(5.2)	147.9	147.3	(6.0)	141.3
Goodwill	137.8	(3.4)	134.4	124.8	4.6	129.4
Intangible assets	52.6	2.6	55.2	49.8	2.8	52.6
Investments	0.3	-	0.3	0.1	-	0.1
Other receivables	-	-	-	9.4	(8.6)	0.8
Deferred tax assets	-	1.4	1.4	-	11.7	11.7
<b>Current assets</b>						
Inventories	120.6	(4.4)	116.2	98.2	(6.4)	91.8
Trade and other receivables	127.2	(5.8)	121.4	110.6	-	110.6
Cash and cash equivalents	28.1	-	28.1	12.5	-	12.5
<b>Total assets</b>	<b>619.7</b>	<b>(14.8)</b>	<b>604.9</b>	<b>552.7</b>	<b>(1.9)</b>	<b>550.8</b>
<b>LIABILITIES:</b>						
<b>Current liabilities</b>						
Trade and other payables	(172.6)	(0.1)	(172.7)	(158.3)	21.8	(136.5)
Financial liabilities – short-term borrowings	(40.4)	-	(40.4)	(27.9)	-	(27.9)
Interest payable	(8.8)	-	(8.8)	(2.2)	-	(2.2)
Current tax liabilities	(13.8)	-	(13.8)	(12.7)	-	(12.7)
<b>Non-current liabilities</b>						
Financial liabilities – long-term borrowings	(681.6)	-	(681.6)	(354.9)	-	(354.9)
Retirement benefit obligations	-	(29.4)	(29.4)	-	(65.6)	(65.6)
Provisions	(13.2)	6.9	(6.3)	(2.6)	(0.3)	(2.9)
Deferred tax	(5.9)	5.9	-	(9.0)	9.0	-
Other liabilities	(0.2)	-	(0.2)	-	-	-
<b>Total liabilities</b>	<b>(936.5)</b>	<b>(16.7)</b>	<b>(953.2)</b>	<b>(567.6)</b>	<b>(35.1)</b>	<b>(602.7)</b>
<b>Net liabilities</b>	<b>(316.8)</b>	<b>(31.5)</b>	<b>(348.3)</b>	<b>(14.9)</b>	<b>(37.0)</b>	<b>(51.9)</b>
<b>EQUITY:</b>						
<b>Capital and reserves</b>						
Share capital	-	-	-	2.4	-	2.4
Share premium	10.0	-	10.0	320.9	-	320.9
Merger reserve	(136.8)	-	(136.8)	(136.8)	-	(136.8)
Other reserves	4.0	(4.0)	-	4.0	(4.0)	-
Profit and loss reserve	(194.0)	(27.5)	(221.5)	(205.4)	(33.0)	(238.4)
<b>Total shareholders' deficit</b>	<b>(316.8)</b>	<b>(31.5)</b>	<b>(348.3)</b>	<b>(14.9)</b>	<b>(37.0)</b>	<b>(51.9)</b>

### 35. Explanation of transition to IFRS continued

#### Reconciliation of the income statement for the year ended 31 December 2004

	UK GAAP in IFRS format* £m	Effect of transition to IFRS £m	IFRS £m
<b>Continuing operations</b>			
Turnover	744.7	–	744.7
Cost of sales	(565.0)	(1.3)	(566.3)
<b>Gross profit</b>	<b>179.7</b>	<b>(1.3)</b>	<b>178.4</b>
Selling and distribution costs	(63.4)	–	(63.4)
Administrative costs	(52.7)	15.3	(37.4)
Other operating income	3.0	–	3.0
<b>Operating profit</b>	<b>66.6</b>	<b>14.0</b>	<b>80.6</b>
Before exceptional items	85.5	10.8	96.3
Exceptional items	(18.9)	3.2	(15.7)
Interest payable and other financial charges	(83.6)	–	(83.6)
Interest receivable	5.3	–	5.3
<b>(Loss)/profit before taxation for continuing operations</b>	<b>(11.7)</b>	<b>14.0</b>	<b>2.3</b>
Taxation (charge)/credit	3.2	(3.1)	0.1
<b>(Loss)/profit after taxation for continuing operations</b>	<b>(8.5)</b>	<b>10.9</b>	<b>2.4</b>
Discontinued operations	14.7	(1.3)	13.4
<b>Profit after taxation</b>	<b>6.2</b>	<b>9.6</b>	<b>15.8</b>

\*Restated for the effect of discontinued operations.

#### Notes to the reconciliation of the comparative financial statements

The adoption of IFRS has resulted in a number of changes to the Group's accounting policies in the following primary areas:

- The cessation of amortisation of acquired goodwill;
- Recognition and amortisation of intangibles assets, primarily relating to acquired brands;
- Recognition and disclosure of the Group's defined benefit pension obligations;
- The charging of long-term employee incentive awards, principally share option costs, to income;
- Recalculation of stock values principally eliminating capitalised storage costs;
- Reclassification of assets, principally computer software as intangible assets; and
- Reclassification of discontinued operations.

All changes in the accounting policies have been made in accordance with the transitional requirements of IFRS 1 and each is explained in more detail on our website at [www.premierfoods.co.uk](http://www.premierfoods.co.uk).

There were no significant adjustments to the 2004 cash flow statement, other than of a presentational nature.

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

## The Company

We have audited the parent company financial statements of Premier Foods plc for the year ended 31 December 2005 which comprise the Balance Sheet and the related notes. These parent company financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

We have reported separately on the group financial statements of Premier Foods plc for the year ended 31 December 2005.

### Respective responsibilities of directors and auditors

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

Our responsibility is to audit the parent company financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with section 235 of the Companies Act 1985 and for no other purpose.

We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the parent company financial statements give a true and fair view and whether the parent company financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the parent company 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 other transactions is not disclosed.

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

### Basis of audit opinion

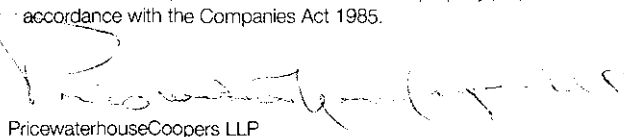
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the parent company financial statements and the part of the Directors'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

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

### Opinion

In our opinion:

- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2005; and
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985.

  
PricewaterhouseCoopers LLP  
Chartered Accountants and Registered Auditors  
London

7 March 2006

### 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.

# Premier Foods plc – Company financial statements

The following statements reflect the financial position of the Company, Premier Foods plc as at 31 December 2005 and 2004. These financial statements have been prepared in accordance with Generally Accepted Accounting Practice in the United Kingdom ("UK GAAP"). The directors have taken advantage of the exemption available under section 230 of the Companies Act 1985 and not presented an income statement for the Company alone.

## Balance sheet

	Note	As at 31 December 2005 £m	As at 31 December 2004* £m
<b>Non-current assets</b>			
Investments	3	<b>396.8</b>	356.0
Deferred tax assets		<b>0.1</b>	–
<b>Current assets</b>			
Debtors	4	<b>18.3</b>	20.6
Cash at bank		–	3.5
<b>Total assets</b>		<b>415.2</b>	380.1
<b>Current liabilities</b>			
Creditors	5	<b>(47.5)</b>	(7.9)
<b>Total liabilities</b>		<b>(47.5)</b>	(7.9)
<b>Net assets</b>		<b>367.7</b>	372.2
<b>Capital and reserves</b>			
Share capital	6	<b>2.5</b>	2.4
Share premium	6	<b>321.5</b>	320.9
Profit and loss reserve	6	<b>43.7</b>	48.9
<b>Total shareholders' funds</b>		<b>367.7</b>	372.2

\*As restated for FRS 21 "Events after the Balance Sheet Date" (FRS 21).

Signed on behalf of The Board of Directors, who approved the financial statements on 7 March 2006.

Robert Schofield  
Director and Chief Executive

Paul Thomas  
Finance Director

# Notes to the Company financial statements

## 1. Accounting policies

### Basis of preparation

The financial statements have been prepared in accordance with the Companies Act 1985 and applicable accounting standards in the United Kingdom ("UK GAAP"), under the historical cost convention. The profit for the year of £27.5m (2004: £7.9m) is recorded in the accounts of Premier Foods plc. The directors have taken advantage of the exemption available under section 230 of the Companies Act 1985 and not presented an income statement for the Company.

The Company has taken exemption under Financial Reporting Standard 1 "Cash Flow Statements" ("FRS 1") and not presented a cash flow statement for the Company. The Company is also exempt under the terms of Financial Reporting Standard 8 "Related Party Disclosures" ("FRS 8") from disclosing related party transactions with entities that are part of the Premier Foods plc group or investees of the Premier Foods plc group.

During 2005, a number of new Financial Reporting Standards ("FRS") were issued. The principal new FRS affecting the Company are Financial Reporting Standard 20 "Share-based Payment" ("FRS 20") and Financial Reporting Standard 21 "Events after the Balance Sheet Date" ("FRS 21"). The primary effects of these were to record the impact of share based payments and align the recording of dividends with that required under IFRS.

The recording of dividends as it applies to the Company is as described in note 12 in the consolidated financial statements. The effect of this has been to increase opening shareholders funds by £22.0m to £372.2m. There was no effect on the 2004 profit and loss account.

### Fixed asset investments

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

### Taxation

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

### Cash and liquid resources

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

### Share-based payments

For the first time in 2005 the Company recognised the impact of FRS 20. The fair value of employee share option plans is calculated using an option pricing model. The resulting cost is charged to the income statement over the vesting period of the options or if applicable treated as an investment in subsidiaries as appropriate. The value of the charge is adjusted to reflect expected and actual levels of options vesting.

## 2. Operating profit

Audit fees in respect of the Company are £nil (2004: £nil).

## 3. Investments

	2005 £m	2004 £m
<b>Shares in subsidiaries</b>		
At 1 January	<b>356.0</b>	10.0
Additions	<b>245.1</b>	346.0
Disposals	<b>(204.3)</b>	-
<b>At 31 December</b>	<b>396.8</b>	356.0

On 26 September 2005, Premier Brands Cayman Limited ("PBC") transferred to the Company the principal and accrued interest totalling £229.8m in respect of the interest bearing loan notes due 2017 ("Loan Notes") that have been issued by its subsidiary Premier Foods Investments No. 3 Limited ("PFI 3").

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

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

During the year, the Company increased its investment in PFI 3 for an additional £9.4m. In addition a capital contribution of £0.6m was given in the form of share incentive awards to employees of subsidiary companies, and this has been reflected as an increase in investments.

A list of principal subsidiaries can be found in note 16 of the Company's consolidated financial statements.

#### 4. Debtors

	2005 £m	2004 £m
<b>Amounts falling due within one year:</b>		
Amounts owed by subsidiaries	<b>16.6</b>	20.0
Prepayments	<b>0.3</b>	0.3
Corporation tax recoverable	<b>1.4</b>	0.3
<b>Total debtors falling due within one year</b>	<b>18.3</b>	20.6

The above balances are not subject to interest rate risk as they are interest free. Carrying value approximates fair value, given their short maturity.

#### 5. Creditors

	2005 £m	2004* £m
<b>Amounts payable within one year:</b>		
Amounts due to subsidiaries	<b>46.4</b>	6.1
Other tax and social security payable	<b>-</b>	0.1
Accruals and deferred income	<b>1.1</b>	1.7
<b>Total creditors falling due within one year</b>	<b>47.5</b>	7.9

\*As restated for FRS 21.

The above balances are not subject to interest rate risk as they are interest free. Carrying value approximates fair value, given their short maturity.

#### 6. Share capital and other reserves

	Share capital £m	Share premium £m	Profit and loss reserve £m	Total £m
<b>At 1 January 2005, as previously reported</b>	2.4	320.9	26.9	350.2
Effect of adopting FRS 21	-	-	22.0	22.0
<b>At 1 January 2005 as restated</b>	2.4	320.9	48.9	372.2
Profit for the year	-	-	27.5	27.5
Dividends paid	-	-	(33.8)	(33.8)
Share based payments (a)	-	-	1.1	1.1
Shares issued in year (b)	0.1	-	-	0.1
Issue costs refund	-	0.6	-	0.6
<b>At 31 December 2005</b>	<b>2.5</b>	<b>321.5</b>	<b>43.7</b>	<b>367.7</b>

(a) The amount relates to the roll-over of certain outstanding options under the Premier Foods (Holdings) Limited Employee Share Option Scheme.

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

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

On 24 November 2005, 57 1 pence ordinary shares were issued to certain employees at a premium of 230 pence per ordinary share upon exercise of share options and were fully paid up.

On 8 December 2005, 1,138 1 pence ordinary shares were issued to certain employees at a premium of 230 pence per ordinary share upon exercise of share options and were fully paid up.

On 19 December 2005, 242 1 pence ordinary shares were issued to certain employees at a premium of 230 pence per ordinary share upon exercise of share options and were fully paid up.

Details of the share options and assumptions applied in arriving at the share based payment cost as they apply to the Company are described in note 25 in the consolidated financial statements. The share option expense recorded in the income statement for the year was £0.5m (2004: £4.6m).

# Corporate information

## **Company Secretary and registered office**

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

## **Principal bankers**

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

## **Registrars and transfers 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 EC2M 4AA

## **Investor relations contact**

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e-mail: [gwyn.tyley@premierfoods.co.uk](mailto:gwyn.tyley@premierfoods.co.uk)  
Tel: +44 (0)1727 815870

## **Auditors**

PricewaterhouseCoopers LLP  
1 Embankment Place  
London WC2N 6RH

## **Lawyers**

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

## **Financial calendar 2006**

(All future dates may be subject to change)

Preliminary dividend date details

Announcement date 7 March 2006

Ex dividend date 7 June 2006

Record date 9 June 2006

Annual General Meeting date 11 May 2006

Payment of dividend 7 July 2006

Interim dividend date details

Announcement date 5 September 2006

Ex dividend date 6 December 2006

Record date 8 December 2006

Payment of dividend 5 January 2007

# Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of Premier Foods plc ("the Company") will be held on Thursday 11 May 2006 at 12.00 noon at Haberdashers' Hall, 18 West Smithfield, London EC1A 9HQ, to consider the following resolutions:

## Ordinary resolutions

### Resolution 1

That the report of the directors and auditors, and the audited accounts of the Company for the year ended 31 December 2005 be received.

### Resolution 2

That the final dividend of 9.50p per ordinary share in the Company recommended by the directors be declared and be payable on 7 July 2006 to shareholders on the register at close of business on 9 June 2006.

### Resolution 3

That the directors' remuneration report for the year ended 31 December 2005 be approved.

### Resolution 4

That David Kappler be re-elected as a director.

### Resolution 5

That Sharon Hintze be re-elected as a director.

### Resolution 6

That Ian Ramsay be re-elected as a director.

### Resolution 7

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

### Resolution 8

That the Company be hereby authorised:

(a) to make Donations to EU Political Organisations not exceeding £25,000 per annum: and

(b) to incur EU Political Expenditure not exceeding £25,000 per annum:

during the period ending at the conclusion of the Annual General Meeting of the Company in 2009. For 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 9

That Premier Ambient Products (UK) Limited, being a wholly-owned subsidiary be hereby authorised:

(a) to make Donations to EU Political Organisations not exceeding £25,000 per annum: and

(b) to incur EU Political Expenditure not exceeding £25,000 per annum:

during the period ending at the conclusion of the Annual General Meeting of the Company in 2009. For 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 10

That HL Foods Limited, being a wholly-owned subsidiary be hereby authorised:

(a) to make Donations to EU Political Organisations: and

(b) to incur EU Political Expenditure

on the same terms as are applied to Premier Ambient Products (UK) Limited in resolution 9 in the notice of this meeting.

### Resolution 11

That Chivers Hartley Limited, being a wholly-owned subsidiary be hereby authorised:

(a) to make donations to EU Political Organisations: and

(b) to incur EU Political Expenditure

on the same terms as are applied to Premier Ambient Products (UK) Limited in resolution 9 in the notice of this meeting.

### Resolution 12

That MBM Produce Limited, being a wholly-owned subsidiary be hereby authorised:

(a) to make Donations to EU Political Organisations: and

(b) to incur EU Political Expenditure

on the same terms as are applied to Premier Ambient Products (UK) Limited in resolution 9 in the notice of this meeting.

### Resolution 13

That Marlow Foods Holdings Limited, being a wholly-owned subsidiary be hereby authorised:

(a) to make Donations to EU Political Organisations: and

(b) to incur EU Political Expenditure

on the same terms as are applied to Premier Ambient Products (UK) Limited in resolution 9 in the notice of this meeting.

### Resolution 14

That Cauldron Foods Limited, being a wholly-owned subsidiary be hereby authorised:

(a) to make Donations to EU Political Organisations: and

(b) to incur EU Political Expenditure

on the same terms as are applied to Premier Ambient Products (UK) Limited in resolution 9 in the notice of this meeting.

### Resolution 15

That Monument (GB) Limited, being a wholly-owned subsidiary be hereby authorised:

(a) to make Donations to EU Political Organisations: and

(b) to incur EU Political Expenditure

on the same terms as are applied to Premier Ambient Products (UK) Limited in resolution 9 in the notice of this meeting.

#### Resolution 16

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 £826,137. 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 17

That, provided this resolution 16 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 £123,921

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

#### Resolution 18

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 24,784,116 ordinary shares of 1p each in its share capital at a price per share of not less than 1p 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) and the amount stipulated by Article 5(1) of the Buy-back and Stabilisation Regulation 2003. 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 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

#### Andrew Astin

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

3 April 2006

## 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 2005.

### Resolution 2:

To declare a dividend

The proposed 2005 final dividend of 9.50p per share will be paid on 7 July 2006 to shareholders who are on the register on 9 June 2006. The final dividend will be paid in cash to all shareholders.

### Resolution 3:

To approve the directors' remuneration report of the Company

The Board is required to present the directors' remuneration report to shareholders for approval at the meeting. The remuneration report is set out on pages 38 to 44. 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 6:

To re-elect David Kappler, Sharon Hintze, 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. No such appointments have been made. However Article 124 of the Company's Articles of Association requires one third of the directors to retire and offer themselves for re-election. Each of the directors was re-elected at the 2005 annual general meeting and the Board has agreed that the above named directors should offer themselves for re-election at the 2006 annual general meeting.

Directors' biographical details are shown on page 26.

### Resolution 7:

To reappoint PricewaterhouseCoopers LLP as auditors

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

### Resolutions 8 to 15:

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, MBM Produce Limited, Marlow Foods Holdings Limited, Caudron Foods Limited and Monument (GB) Limited each to make donations to EU political organisations of up to £200,000 per annum and to incur EU political expenditure of up to £200,000 per annum. 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 16 and 17:

Authority to allot shares and disapplication pre-emption rights

Under section 80 of the Companies Act 1985, the directors cannot generally allot shares in the Company unless they are authorised to do so by the Company in general meeting. Resolution 16 will authorise the directors to allot new shares up to a nominal value of £826,137 representing one third of the issued share capital of the Company as at the date of this notice. The authority will expire at the conclusion of the next Annual General Meeting or, if earlier 15 months from the date of passing of this resolution. The directors have no present intention of issuing shares, except as needed to satisfy the exercise of options under the Company's employee share schemes.

If shares are to be allotted for cash, section 89 of the Companies Act 1985 requires those shares to be offered first to existing shareholders in proportion to the number of shares held by them. This right of shareholders is commonly known as a pre-emption right. Under resolution 17, 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 £123,921, representing approximately 5% of the nominal value of the Company's issued share capital as at the date of this notice.

### Resolution 18:

To authorise the Company to make market purchases of its shares

This resolution is intended to give the directors the authority to make market purchases of up to 24,784,116 shares, representing approximately 10% of the issued share capital at the date of this notice. The authority will expire at the conclusion of the next Annual General Meeting, although the directors intend to seek renewal of the authority at each Annual General Meeting. 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 to subscribe outstanding over 4,719,402 shares in the Company, representing 1.90% 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 1.87% 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 9 May 2006 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 9 May 2006 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 12 noon and light refreshments will be available from 11.30 am 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 12.00 noon on 9 May 2006. Any Form of Proxy received after this time will be void.

The register of directors' interests and copies of their service contracts or letters of appointment will be available for inspection at the registered office of the Company during usual business hours between the date of this notice and the Annual General Meeting and at the venue of the Annual General Meeting for 15 minutes prior to the commencement of the meeting until its conclusion.



**Premier Foods plc**

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