Delivering
on our promises

Premier Foods plc Annual report and accounts 31 December 2012

www.premierfoods.co.uk
Stock code: PFD

The Best in British Foods

As one of Britain's largest food producers, Premier Foods is committed to being 'The Best in British Food' - delivering the taste the British love, with food that's made in Britain by people who understand British consumers.

We supply a range of retail, wholesale, foodservice and other customers with some of Britain's best loved brands, including *Ambrosia*, *Batchelors*, *Bisto*, *Hovis*, *Loyd Grossman*, *Mr. Kipling*, *Oxo* and *Sharwood's*. The company employs around 9,000 people operating from over 40 sites right across the country.

Visit us online to find further information:

www.premierfoods.co.uk

Website:
Keep up to date with all the latest information about Premier Foods online, including: share price data; press releases; and results.

Mobile:
You can now keep up to date with Premier Foods wherever you are with our new mobile friendly website. Click on the QR code or visit our website.

Sustainability in everything we do:
If you want to know more about our commitment to sustainability and achievements in the year why not read our 2012 Sustainability Report available on our website.

Brands:
All of our Power Brands have their own dedicated websites which contain the latest band news and product information.

FTSE4Good

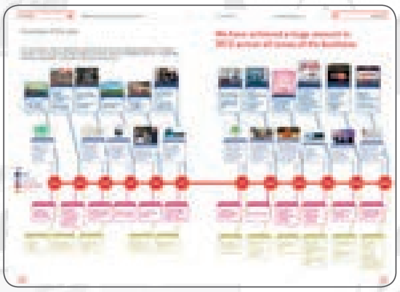
In recognition of the progress we have made in sustainability we are now listed by FTSE4Good and the European Ethibel Sustainability Excellence Register.

Contents

Gavin Darby
Chief Executive Officer

"I am delighted to have joined Premier Foods as we move to the next phase of our strategy, building momentum behind our Power Brands."

This section contains a high level summary of Premier Foods, our financial highlights and our key achievements over the course of the year.



Overview

The Strategic Review sets out a detailed review of the key elements of our strategy—Brands, Partners, Focus and Sustainability — and how we have performed against our KPIs.

Strategic Review

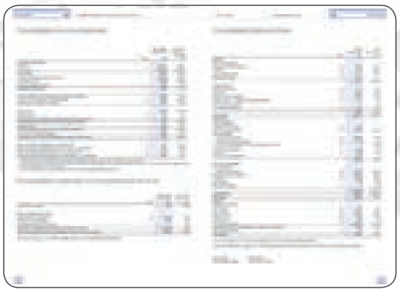
Detailed analysis of our business performance as reported in our preliminary results announcement in February 2013. This section includes the operating reviews for the Grocery and Bread business and the Financial review.

Business Performance

As a Company we are committed to the highest standards of corporate governance. This section sets out a summary of the key issues we have discussed during the year and our approach to governance, risk management and executive remuneration.

Governance

This section contains the independent auditors' report to shareholders, the financial statements and related notes and also supplementary information for shareholders.



Financial Statements

Did you know?

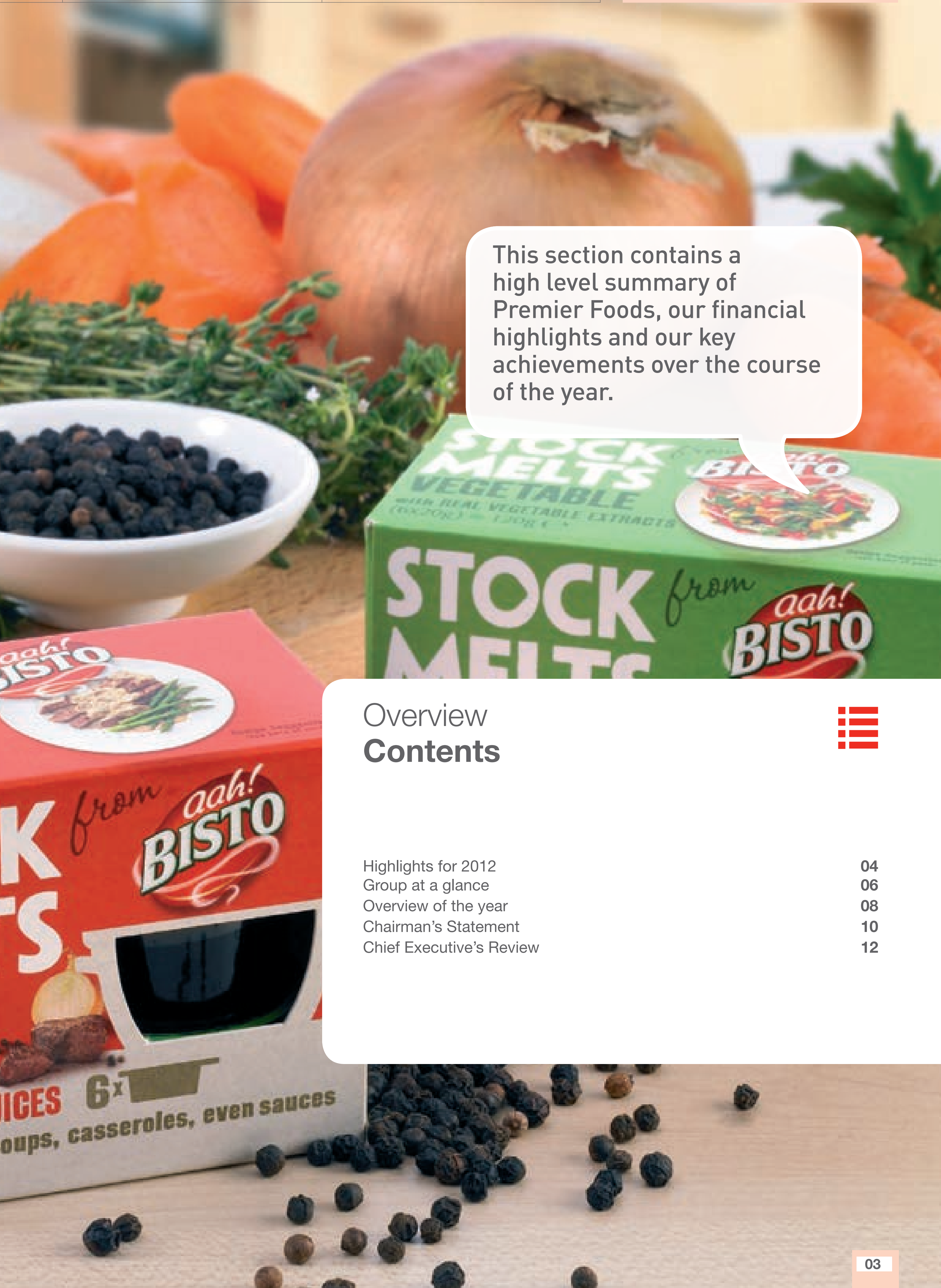
30%

In 2012 we have made changes to 30% of our existing product range which have resulted in nutritional improvements.

For more information about Diet & Health See page 24

Photograph

The new range of individual *Stock Melts* launched by *Bisto* in 2012



This section contains a high level summary of Premier Foods, our financial highlights and our key achievements over the course of the year.

Overview
Contents

Highlights for 2012
Delivering on our strategic priorities

In 2012 we set out a number of strategic priorities to stabilise the business. Here's how we have delivered against these promises:

Focus investment behind our Power Brands

COMMITMENT	DELIVERY
Increase marketing spend behind our Power Brands	Marketing spend up YoY **+59%**
Grow Power Brand sales	Power Brand sales up YoY **+2.1%**

For further information: Brands 18

Dispose of non-core businesses to sharpen focus

COMMITMENT	DELIVERY
Achieve disposal proceeds of £330m by March 2014	Disposals of non-core businesses announced in 2012 ahead of plan **£369.5m**

For further information: Operating Review 34

Simplify the business to reduce costs

COMMITMENT	DELIVERY
Cost reduction programme to reduce overheads by £40m by 2013	Overhead cost savings achieved in 2012 ahead of plan and a further £20m targeted for 2013 **£48m**

For further information: Focus 22

Strengthen capabilities

COMMITMENT	DELIVERY
Strengthen management in key areas	New management in place, Commercial team restructured, focus on execution and delivery

For further information: Partners 20

Agree re-financing package

COMMITMENT	DELIVERY
Agree a re-financing with the banks	In March 2012 bank facilities were extended to June 2016 with covenants reset to support the strategic plan

For further information: Operating Review 33

Scan the QR Code to take you directly to more information on our Business Performance

Financial Headlines

SALES
£1,353.8m +3.2%

(underlying business)

TRADING PROFIT
£123.4m +10.6%

(underlying business)

OPERATING PROFIT
£96.3m

(2011: -£176.3m)

NET DEBT
£950.7m

Non Financial KPIs

NEW PRODUCTS WITH "BETTER FOR YOU" CHOICES*
70%

PRODUCTS TESTING SUPERIOR OR AT PAR WITH COMPETITORS*
94%

(Blind testing with consumers)

REDUCTION IN CO_2 EQUIVALENT EMISSIONS*
-28%

(265,000 tonnes of CO_2(e) at the end of 2012)

REDUCTION IN LOST TIME ACCIDENTS*
-46%

(0.20 per 100,000 hours at the end of 2012)

*For information on KPIs See page 26

Notes

On pages 1 to 67 of this report the Company's results for the year ended 31 December 2012 are presented on an **'Underlying business'** basis, unless otherwise stated. 'Underlying business' excludes the results of previously announced business disposals, Milling (sales only), and non-core discrete contract losses. Milling is excluded due to the cost plus pricing nature of the business that has a direct impact on sales but not trading profit. A reconciliation to statutory numbers can be found on page 34.

The purpose of using the 'Underlying business' basis for measuring performance is to reflect the performance of the core business of the Company. With the Company having undergone a year of restructuring in 2012, this basis better reflects underlying business performance.

Trading profit is defined as operating profit before re-financing costs, restructuring costs, profits and losses associated with divestment activity, amortisation and impairment of intangible assets, the revaluation of foreign exchange and other derivative contracts under IAS 39 and pension credits or charges in relation to the difference between expected return on pension assets, administration costs and interest costs on pension liabilities. EBITDA is trading profit excluding depreciation.

Group at a Glance
One of Britain's biggest food producers

During 2012 the Group was organised into two divisions: Grocery and Bread.

Premier Foods is one of Britain's biggest branded food producers with revenue of £1.4bn. We manufacture, distribute and sell a wide range of branded and non-branded foods. The business employs over 9,000 people and operates from over 40 sites across the UK. Our sites are dedicated to manufacturing high quality, great tasting food products which consumers know and love. We have a wide portfolio of great British brands, many of which are market leaders and household favourites.

Our business is focused behind eight Power Brands: *Ambrosia*, *Batchelors*, *Bisto*, *Hovis*, *Loyd Grossman*, *Mr. Kipling*, *OXO* and *Sharwood's*. In addition, we have a portfolio of many other iconic British food brands and also an extensive non-branded food business which manufactures food in partnership with many of the UK's leading food retailers.

Grocery

The Grocery division encompasses a wide variety of affordable and convenient meal solutions including cooking sauces, Asian meal solutions, stocks, gravies, soups, home baking, cake and ambient desserts.

Power Brands

Ambrosia, Batchelors, Bisto, Loyd Grossman, Mr. Kipling, OXO and *Sharwood's*

Support brands

Homepride, McDougalls, Paxo, Cadbury cakes, Lyons cakes, Bird's and *Angel Delight*

Highlights for 2012

- Launch of *Bisto Stock Melts*, *Sharwood's* Wrap Kits and *Batchelor's Deli Box*
- Grocery Power Brand sales up 4.0%
- Renewal of *Cadbury* cake licence

In 2012 we produced around . . .

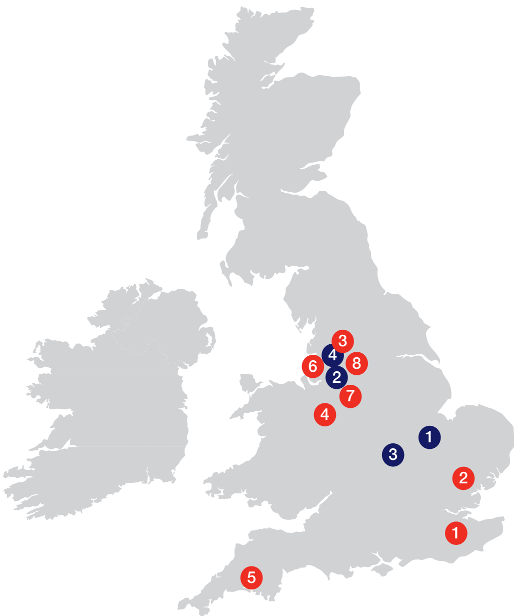
240m sachets of *Batchelor's Cup a Soup*

15m *OXO* cubes per week

420m *Mr. Kipling* slices

96m *Sharwood's* noodle blocks

250m servings of *Paxo* stuffing



REVENUE
(underlying)
£856.7m

DIVISIONAL CONTRIBUTION
(underlying)
£195.5m

BRANDED REVENUE
(87%)

NON-BRANDED REVENUE
(13%)

Manufacturing sites

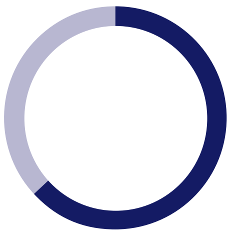
1	Ashford	5	Lifton
2	Bury	6	Moreton
3	Carlton	7	Stoke
4	Knighton	8	Worksop

Distribution/Logistics centres

1 Corby
2 Knowsley
3 Rugby
4 Skelmersdale

GROUP REVENUE
(underlying)

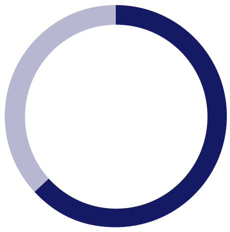
£1,353.8m



GROCERY		
£856.7m	63%	
BREAD		
£497.1m	37%	

GROUP BRANDED MIX

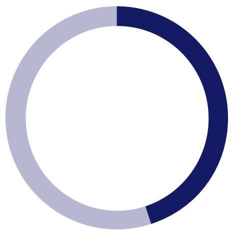
82.4%



BRANDED	
£1,116.4m	82%
NON BRANDED	
£237.4m	18%

GROUP EMPLOYEES
(31 Dec 2012)

9,288



GROCERY	
4,209	45%
BREAD	
5,079	55%

Bread

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

Power Brand

Hovis

Support brands

Granary, Mother's Pride and *Ormo*

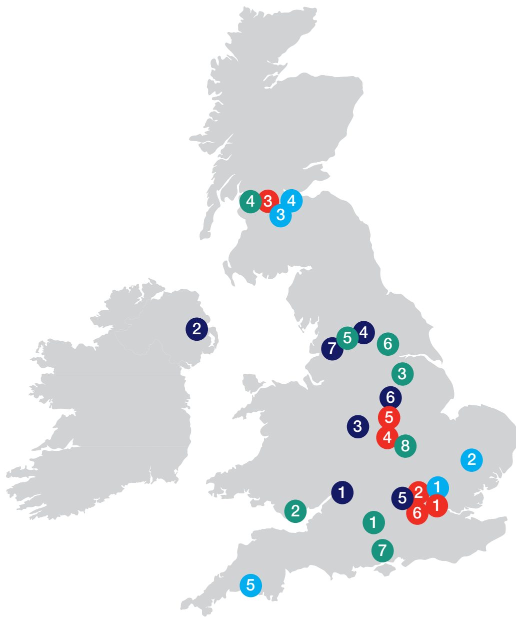
Highlights for 2012

- Launch of new *Hovis* Farmers Loaf
- Major restructuring of bread business announced in November 2012
- Impact of UK wheat harvest

In 2012 we produced around . . .

600m loaves and 600m other bakery units, distributed daily to around 8,000 delivery drops

1m tonnes of flour — 23% of total UK flour production



Bakery Only Sites
1 Erith
2 Forest Gate
3 Glasgow
4 Leicester
5 Leicester — Charnwood
6 Mitcham — Sebon

Integrated Bakery Sites & Logistics
1 Avonmouth
2 Belfast
3 Birmingham
4 Bradford
5 Greenford
6 Nottingham
7 Wigan

Depots/RDC
1 Dagenham
2 Mendelsham
3 Mossend
4 Newbridge-Fleming Howden
5 Plymouth

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

REVENUE
(underlying)[1]

£497.1m

[1] Excludes Milling Sales of £191.4m

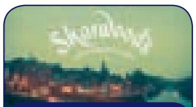
DIVISIONAL CONTRIBUTION

£26.9m

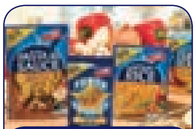
BRANDED REVENUE	(75%)
NON-BRANDED REVENUE	(25%)

Overview of the year

2012 has been a year of significant achievement as we have delivered against our strategic priorities. This summary provides a flavour of some of the key highlights split into 4 categories: Brands, Sustainability, Corporate Activity and Governance.

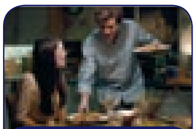


New *Sharwood's* "Great British Curry" Campaign



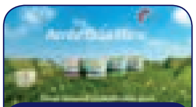
Launch of *Batchelors* "Fuelling Britain" campaign

New *Mr. Kipling* TV ad campaign



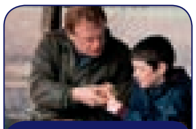
Launch of new *Sharwood's* Wrap Kits

New OXO TV ad campaign



New *Ambrosia* TV ad campaign

New *Bisto* *'aah* Night' TV campaign



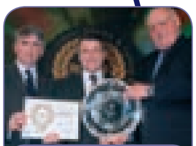
Launch of new *Hovis* Farmers Loaf

Launch of new *'Loyd for one'* Bolognese sauce

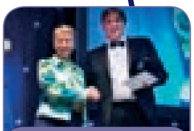
'Green Matters' employee environmental awareness initiative launched

Silver Quality Mark Award at the 2012 Charities Trust Payroll Giving Awards

'Top Marks' in the World Wildlife Fund (WWF) 'Palm Oil Buyers Scorecard'



Industry Sector Award and the Road Risk Award at RoSPA



Green Supply Chain Award at Supply Chain Distinction Awards

Key:

- Brands
- Sustainability
- Corporate Activity
- Governance

January | February | March | April | May | June

Completion of £34.7m Irish Brands disposal

Update on Growth Plan and increased cost reduction programme announced

Re-financing and Full Year results announced

IMS for 3 months to 31 March 2012

Annual General Meeting

Sale of Vinegar and Sour Pickles business for £41m announced

Finance Committee review re-financing

Board approve re-financing and full year results

Presentations to investors and analysts

Update on progress of 2011 Board evaluation action plan

Appointment of David Beever as Chairman

We have achieved a huge amount in 2012 across all areas of the business.

July

Launch of new *Bisto Stock Melts*

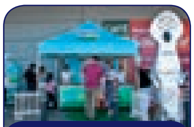
Launch of new *Batchelors Deli Box*

RSPO supply chain certification for 27 sites — more than any other company worldwide

Completion of £34.0m *Elephant Atta* disposal

Board review of Brands, Strategy and Key Risks

August



Ambrosia national sampling campaign

Loyd Grossman visits food festivals

Providing work experience as part of Industry "Feeding Britain's Future" Campaign

Half Year Results

Approval of Half Year Results

Presentations to investors and analysts

September

Mr. Kipling Snack Pack win the Grocer New Product Awards

Good Egg Award from Compassion in World Farming for commitment to use free range or barn eggs

Sale of Sweet Spreads & Jellies business for £202m announced

Board review of 2013 Business Plan

October

Mr. Kipling wins at the Grocer Marketing, Advertising and PR Awards 2012 for Jubilee poster campaign

European Strategic Manufacturing Award

Sale of Sweet Pickles and Table Sauces for £92.5m announced

Shareholder meeting to approve Sweet Spreads & Jellies disposal

Appointment of Jennifer Laing as NED

November

Launch of *Hovis* Seven Seeds campaign

Mr. Kipling new Halloween varieties

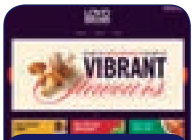
John Sainsbury Award for Learning and Development

Announcement of Bread restructuring

Board approval of 2013 Business Plan

Appointment of Ian Krieger as NED

December



New *Loyd Grossman* website launched

Cadbury Cake contract renewed

£260k raised by staff over two years for corporate charity partner "Help for Heroes"

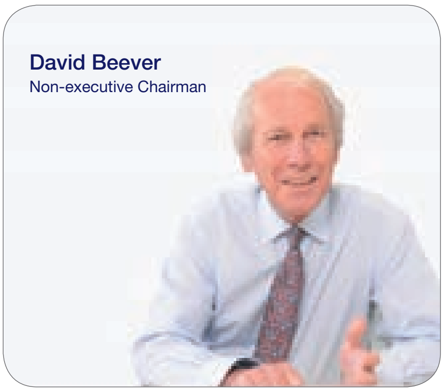
Disposal target of £330m exceeded ahead of plan

Shareholder engagement exercise undertaken

Shareholder meeting to approve Sweet Pickles and Table Sauces disposal

Chairman's Statement
Delivering on our promises

"Over the year management has clearly demonstrated their commitment to deliver on the key strategic priorities to turnaround the business whilst at the same time generating growth momentum."



David Beever
Non-executive Chairman

Overview of the year

2012 has been a year of very significant transformation for Premier Foods. The management team has done an exceptional job to deliver underlying trading profit growth in challenging market conditions, complete the disposal programme ahead of schedule and establish a platform for growth as we look forward to 2013. In 2012 management set out a number priorities to stabilise the business and I am delighted that they have delivered on these. The ability to deliver, often ahead of time, is an important step in rebuilding trust with key stakeholders – our customers, shareholders, banks, pension schemes and employees. It's also the key reason why the Company has been able to report an increase in sales of its Power Brands and in underlying trading profit despite the difficult economic environment in 2012.

In March we announced the successful completion of a re-financing package with our banking syndicate. The new facility, extended to 2016, allows the space for the business to execute its turnaround strategy. As part of this strategy, the Company agreed to dispose of non-core businesses to raise £330m of proceeds, a target it exceeded by £40m and over a year and a half early, in turn reducing net debt levels significantly. In addition, a major cost reduction programme was implemented to help adapt the Company's cost base to the more focused portfolio, delivering £48m of savings by the end of 2012 with a further £20m of savings promised in 2013. Importantly, the Company has generated growth momentum behind its Power Brands by stepping up marketing investment and through initiating more collaborative partnerships with its key retail customers. As a result, underlying sales increased 3.2% to £1,353.8m with Grocery Power Brands up 4.0%.

Leadership

In February, Gavin Darby was appointed as Chief Executive Officer following Michael Clarke's decision to resign from the Company. Michael had previously indicated to the Board that, having delivered the initial stages of the turnaround and set a course for sustainable profitable growth, he was considering moving on to pursue other opportunities. To help plan for a potential succession, the Board initiated a contingency process which eventually led to the appointment of Gavin Darby.

I am delighted that we have been able to find a successor of Gavin's quality. His strong consumer goods background and senior executive experience make him the ideal candidate to lead the Company and the Board looks forward to working with him as Premier Foods moves to the next phase of its transformation. I would also like to take this opportunity to thank Michael for his significant contribution to the Company.

Employees

During the year we have continued to strengthen the capabilities of the Company particularly within sales and marketing. In the Grocery Division, we re-aligned our commercial team bringing together our sales and marketing teams under one roof along with our innovation, technical, insight and Grocery supply chain teams. This will ensure greater alignment with the delivery of our growth plans. A dedicated management team has also been put in place to focus on addressing the challenges faced by the Bread business.

UNDERLYING TRADING PROFIT

£123.4m

+10.6%

NET DEBT

£950.7m

IGD FOOD INDUSTRY AWARDS 2012 WINNER

In October 2012 we won the John Sainsbury Award for Learning and Development, a prestigious national food industry award for our Breakthrough Leadership Programme.

Photograph

New range of Ambrosia rice pot sizes launched in 2012

During the year a large number of ambitious change programmes have been undertaken simultaneously in order to increase focus and efficiency including the disposal of non-core businesses, a major cost reduction programme and the recently announced restructuring of the Bread business. Management has moved quickly to communicate these changes and provide clarity to employees. However, I fully recognise this has been a challenging time for those concerned and I would like to thank all staff at Premier Foods for their hard work and commitment in delivering the 2012 results.

As has been the case in past years, the health and safety of employees remains an area of key focus and I am delighted that yet again the operational team have delivered improvements with reportable accidents down 42% in 2012. This outstanding health and safety record puts Premier Foods at the forefront of the British manufacturing industry.

Sustainability

Ultimately, the Company endeavours to deliver sustainability in everything it does whether that applies to financial results or in the way it uses natural resources. Wider sustainability issues are becoming more and more important with our consumers and customers. Most of our major customers have significant sustainability programmes and this is another way we are working in partnership with them to help support their strategic priorities. In 2012 the Company delivered further improvements across all of its environmental KPIs including CO_2 equivalent emissions reduced by 28% and waste to landfill down by 53%.

Our approach to sustainability also extends to how we source our raw materials and ensure the highest levels of quality and food safety. I'm pleased to say that we continue to have an excellent track record in this respect which is important given recent public concerns over the authenticity of meat products. We are also addressing consumer concerns about health issues such as the amount of salt, fat and sugar in their diet as well as portion size. We continue to offer a wide range of 'better for you' choices and informative labelling and other communication. We also continued to deliver against our commitments under the Public Health Responsibility Deal to reduce salt levels in a range of products and reduce calories across a significant part of our portfolio. Further information about our approach to Sustainability is set out on page 24.

Governance

As a Board we are committed to good governance and have kept up to date with changes in the year including the new Corporate Governance Code that was issued in September and the proposed changes to remuneration disclosures outlined by the Government in June 2012. A detailed update on our governance process, changes to the Board and dialogue with shareholders over the course of the year are set out in my introduction to the Governance section of this annual report on page 38.

Looking forward

It's clear the economic climate will remain very challenging in 2013. However, following the achievements of 2012 I believe we have a strong platform from which to drive growth. We have the right focus, strategies and management team in place and in Gavin Darby we have a CEO with a proven track record to deliver further progress in 2013 and improve shareholder value over the medium term. I look forward to working with Gavin Darby, the management team and the rest of the Board to deliver the next stages of Premier Foods' transformation.

David Beever

Non-executive Chairman

Sustainability in everything we do . . .

WORKPLACE HEALTH & SAFETY

Since 2007, our health & safety team have led a step-change in health & safety management which has resulted in significant and sustained improvements in health and safety performance across the Group.

Our industry leading performance has received a number of external awards in 2012.

For information about Sustainability See page 24

REDUCTION IN REPORTABLE ACCIDENT RATES IN 2012

-42%

QUICK LINKS

Scan the QR Code to take you directly to more information on Sustainability.

Chief Executive's Review
Delivering sustainable growth

"I am looking forward to working with the management team to deliver sustainable growth for the business."

Gavin Darby
Chief Executive Officer

Q: What attracted you to joining Premier Foods?

A: I am excited to have joined Premier Foods at this important stage in its transformation. Premier Foods has a great portfolio of brands that consumers know and love and a great depth of talent and expertise. I am confident that there is real potential to grow the Company. Given my track record and experience, I believe I have a big opportunity to make a difference at Premier Foods by working with the management team to deliver sustainable growth.

Q: What is your background?

A: Much of my management experience has been spent in the consumer goods sector building brands. I spent 15 years at *Coca-Cola*, one of the world's best known brands, before moving into the telecoms industry where I was one of the pioneers that helped develop the *Vodafone* brand to be amongst the top ten global brands in value. I led the team that introduced the *Vodafone* brand into India. Earlier in my career I worked in the food and homecare sectors. In fact, I started out at Spillers Foods working on the *Homepride* brand which, of course, is now owned by Premier Foods.

Q: You've only been at Premier Foods a short time but what are your initial views on the Group?

A: I am impressed with the job that management did last year to stabilise the business, particularly, given the difficult economic environment. The results for the year are encouraging. With much of the initial restructuring now complete or in motion, we now need to turn our focus to growth to drive the next stage of the turnaround. I believe we have a clear strategy and a strong team in place to deliver future growth.

Q: Are you planning to change the Group's strategy?

A: I am a great believer in 'focus' and in strategies that require focus. The existing strategy of investing behind a small number of Power Brands is exactly in line with my approach. Furthermore, the Company has demonstrated that this strategy is beginning to deliver results. I therefore see no need for any significant change of course. It's important to ensure continuity for the business and for our customers and other stakeholders. The important point for me is to drive the execution of our strategies and ensure we continue to deliver our results.

Q: Why have you chosen to invest such a significant sum in Premier Foods shares?

A: I believe a CEO should be personally aligned with the interests of shareholders from the start. I have confidence in the future of Premier Foods and our ability to deliver improved shareholder value over the medium term.

Q: How do you see the economic outlook for 2013?

A: Markets look just as difficult in 2013 as they did in 2012. Consumers have less disposable incomes and are shopping differently. It is very important that we give consumers a clear reason to buy our brands versus the competition and also build mutually beneficial relationships with our key customers. I believe we have the right strategies in place to deliver further progress in 2013.

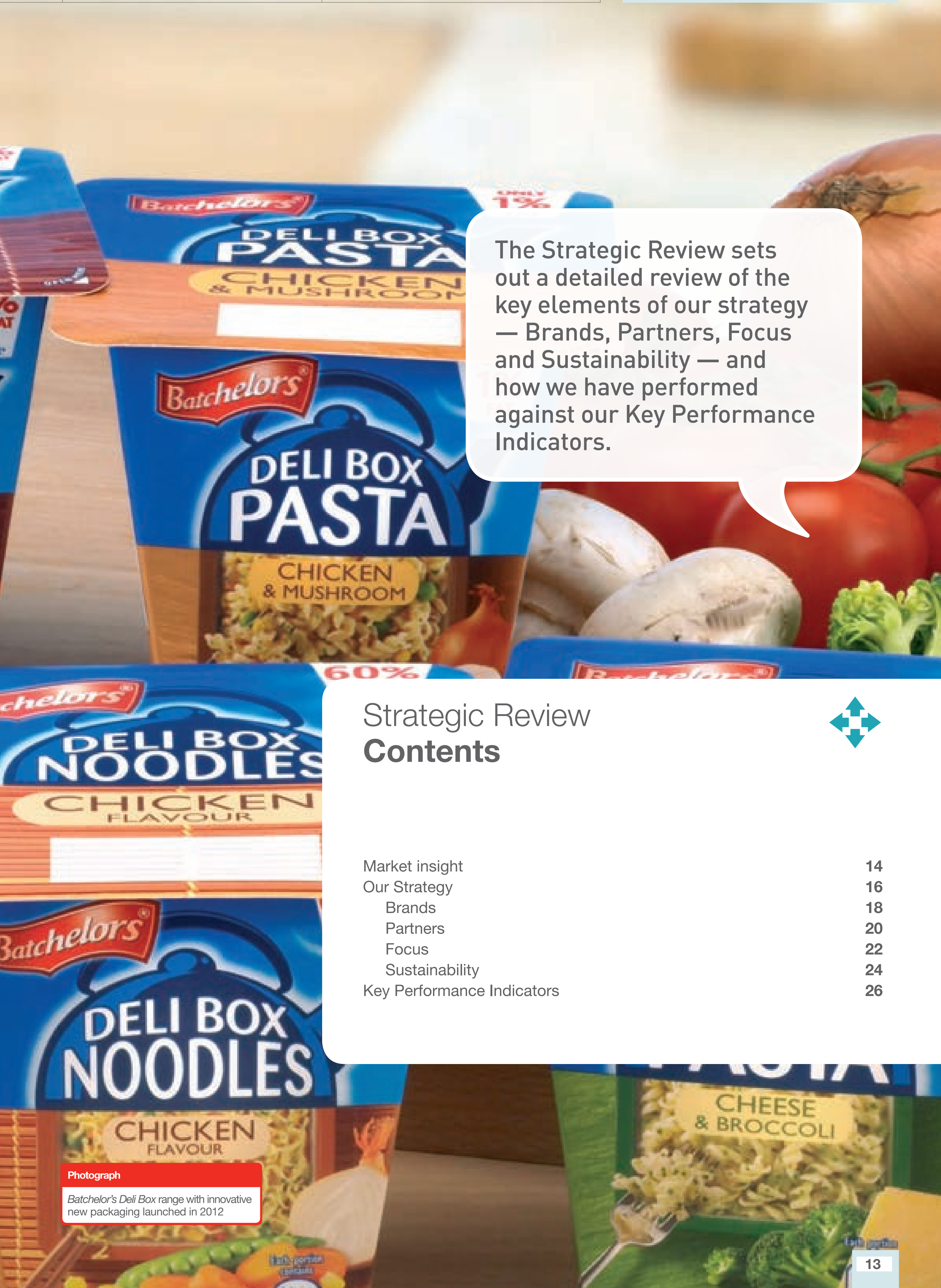
Q: What are the strategic priorities for 2013?

A: There is a strong business plan for 2013 which builds on the foundations laid down in 2012. Our strategic priorities for this year are to:

- build on the momentum we have in Grocery, particularly through continuing to invest behind the Power Brands and exploit growth opportunities across different channels;
- re-build value in the Bread business through implementing restructuring plans and selective investment in the *Hovis* brand; and
- continue the simplification and cost reduction process, including the delivery of a further £20m of overhead cost savings.

My priority will be to ensure we execute these strategies with energy and pace to deliver further progress in 2013. I'm looking forward to it!

We won the Green and Sustainable Manufacturing Award in October 2012 recognising the leadership we have shown in reducing waste, energy and water consumption at our sites and thereby lowering our overall carbon footprint.



Photograph

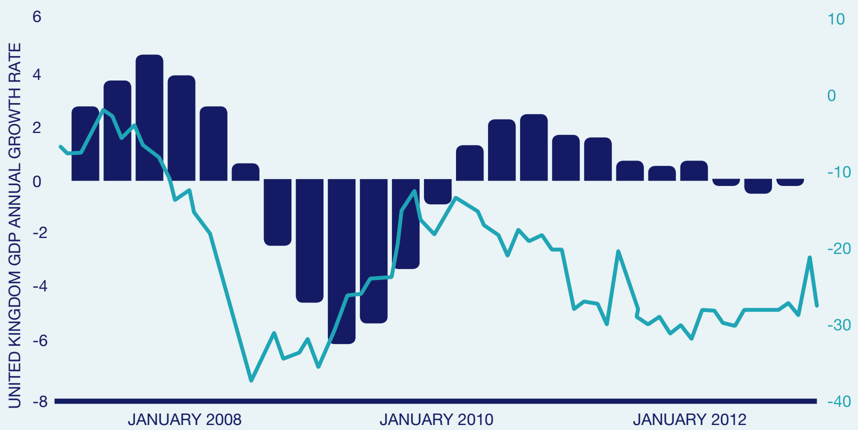
Batchelor's Deli Box range with innovative new packaging launched in 2012

The Strategic Review sets out a detailed review of the key elements of our strategy — Brands, Partners, Focus and Sustainability — and how we have performed against our Key Performance Indicators.

Strategic Review
Contents

Market insight

Deep market insight is important to help us understand what is happening to our consumers and what is shaping their shopping behaviour.



Source: UK Office for National Statistics and GfK NOP.

Insight team

We have a dedicated Insight Team at Premier Foods focused on helping us to understand consumer and shopper trends and identify growth opportunities.

We undertake research to understand the impact of Macro trends on purchasing and consumption within our categories and use insights to develop and measure the impact on our brand and sales activities. This research also helps us to understand our retail customers' strategies and how they are reacting to changes in the market.

What are some of the key factors that are affecting our markets, consumers and customers?

1. Macro economic impact

During 2012 the UK entered a "double dip" recession. The graph above tells the story and is something that we all, as consumers, have experienced over the last year. UK Gross Domestic Product (GDP) fell back into negative territory after a brief rally in 2010/2011. Whilst the dip in 2012 was not nearly as severe as that experienced in 2009 its impact on the continuing low level of consumer confidence can clearly be seen.

Spending power has been affected by grocery inflation (currently around 4%) and also the sustained impact of domestic fuel costs such as gas, electricity and in particular petrol. At the same time salaries have remained flat.

As a result people are spending more on food as a proportion of their income as prices rise but, overall are buying less in volume terms. Of the food they do buy, people are increasingly looking for greater value.

How are we responding?

We will continue to improve and emphasise the quality, taste and more convenient packaging that our products have to offer versus the competition. With our Consumer Quality Benchmarking we undertake blind testing with consumers to test our major products with their main competitors.

2. Low market growth driving high promotional activity

With little market growth, competition is intensifying, driving high levels of promotional activity. Since 2011 there has been a change in the promotional metrics observed within grocery with a significant increase in the use of a single price point (particularly £1) as opposed to multiple purchase deals. This is in part a response to the growth in discounters and has been popular with consumers looking for value and spending on a fixed budget.

How are we responding?

We will continue to invest behind our brands to compete with rival products. We must ensure our marketing is effective and engages with consumers. We also need to work with customers to ensure our promotional activity is effective whilst maintaining margin.

Case study — *Sharwood's* Wrap Kits

Consumers are eating more at home. They are looking for the high quality, great tasting food but it must also be affordable. People have less and less time to cook, so a quick and simple step by step approach can help whilst still being something that involves the whole family.

Meal Kits is a fast growing sector in the cooking sauces and accompaniments category and has historically been dominated by Mexican flavours.

Meal kits are a great way to give the family a home cooked meal, whilst they all can share the meal experience.

This gave *Sharwood's* the opportunity to introduce Asian cuisines to the sector. In addition Indian and Chinese wrap kits fit perfectly with *Sharwood's* plans to move into new categories producing meal solutions which will, in turn, drive brand growth and sales. The kits performed exceptionally well in consumer tests.

Each wrap kit is made up of three components – eight wraps, a dry spice mix, and a wet sauce and serves a whole family of four.

3. More people eating in but they have less time to cook

There has been significant shift in consumption behaviour following the onset of recession in 2007 with people eating out less and preferring to eat at home.

Whilst more meals are now being prepared at home, preparation times are continuing to decline highlighting the importance of convenience.

Consumers are also less willing to experiment and instead focus on 'family favourites' which they know will be well appreciated.

How are we responding?

Our portfolio of affordable, convenient meal solutions is well placed to take advantage of this trend providing high quality, great tasting food that can be prepared easily by following a few simple steps.

New packaging formats also help provide greater convenience for people eating on the go, using lunch boxes or snacking.

4. Health and food quality concerns

Long terms trends show that health considerations have almost doubled in importance in the last 17 years. This can be seen in the increasing interest in ingredients such as salt and fat, increased disclosure through labelling and Guideline Daily Amounts (GDAs) and the focus on the benefits of eating '5 a day'.

Allied to health is an increased interest in food quality and provenance. People are looking for reliable brands they can trust. This means an increased focus on the sourcing of products and the traceability of ingredients.

How are we reacting?

We have committed to a target that at least 50% of our new products have a claimable health or nutritional benefit. This might be by reducing salt, portion size or the inclusion of one of your '5 a day'.

In addition we continue to ensure that our products are produced to the highest quality. Where possible we source our ingredients in the UK and have an integrated traceability and testing system throughout the supply chain.

5. Seasonal events

The importance of seasonal events has steadily increased over recent years with both traditional events, such as Easter, as well as Halloween and Chinese New Year. In addition specific events such as the Olympics and Royal Wedding can have a significant although temporary impact on consumption.

How are we responding?

We identify seasonal events and introduce products with seasonal relevance and work with customers to ensure prominent in-store execution.

6. Changing shopping habits

In 2012 people were shopping more often with increased trips to small stores to 'top up' to best manage household budgets. There has been a fall in the main weekly shop at larger format supermarkets. More people are purchasing daily on a fixed budget and often buying from more than one shop to get best value. There has been an increase in the discounter channel although this remains a relatively small share of the overall market. We have also seen continued growth of online shopping which enables consumers to plan and scrutinise their purchasing in more detail.

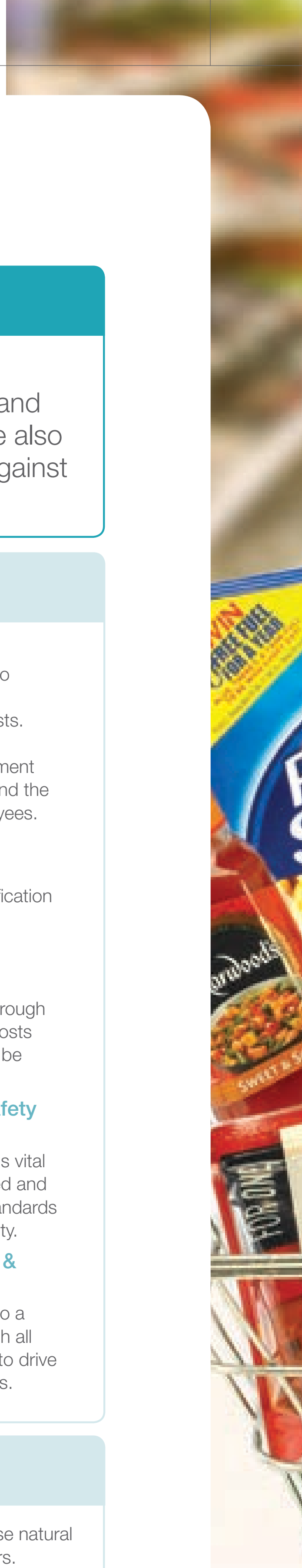
"Whilst my wife and I are sitting together watching telly, she will open two windows [on the computer] and go through comparing the total shop at two supermarkets. It's actually quite satisfying."

Quote from a consumer in research this year.

How are we responding?

In 2012 we re-aligned our Grocery commercial team to help exploit growth opportunities across all channels.

In September 2012 *Mr. Kipling Angel Slices* won The Grocer New Product Awards Sweet Snack category for its innovative Snack Pack format. The novel Snack Pack design makes the individual cakes an ideal lunch box cake, that exceeded expectations on appearance, taste and texture.



Our Strategy

Strategy

Our strategy is based around Brands, Partners and Focus underpinned by a commitment to Sustainability in everything we do. Progress against our strategy and each of our four strategic priorities is set out in this section of the report. We have also highlighted 10 Key Performance Indicators which we use to track our progress against our strategy. These are set out on page 26.

Brands

We have a great portfolio of brands that operate in a number of large categories. Our strategy is to focus on our Power Brands which we believe have the best potential for growth either through new product development or through category growth.

Connect with Consumers

We connect with consumers by using our market insight to understand consumer trends and shopping habits and communicating how our products fit with their lifestyles.

Investing and growing Power Brands

Developing innovative products that taste great, are relevant to today's eating habits, are convenient and have innovative packaging. We invest in our Power Brands with engaging and effective marketing.

Exploit all market/channel opportunities

Exploit growth opportunities by adapting our approach to each specific channel and customer.

Partners

For our business to be successful in the long-term we must continue to develop strong relationships with all our partners; our customers, suppliers, employees and other stakeholders.

Win with Customers

Developing joint business plans with our key customers to deliver category growth. Investing in our capabilities to ensure excellent in-store execution. Developing price and pack options appropriate to each customer channel and delivering great customer service.

Partner with Suppliers

Working in close partnership with our key suppliers to develop long-term relationships whilst leveraging our scale with suppliers to facilitate value creation.

Engage Employees

Providing career opportunities and high standards of learning and development to attract, retain and develop our employees.

Collaborate with Stakeholders

We will continue to collaborate and develop strong relationships with a wide range of other stakeholders including our shareholders.

Focus

We are focused on driving simplification and efficiency to remove complexity from the business and reduce our costs. At the same time we will not compromise on our commitment to food quality, food safety and the health & safety of our employees.

Simplify processes and structures

We continue to target simplification across the business.

Improve Efficiency and Effectiveness

We generate cost savings through manufacturing controllable costs and procurement which can be invested to support growth.

Commitment to food safety and quality

As we target cost savings it is vital that we remain totally focused and committed to the highest standards of food quality and food safety.

Maintain leading health & safety record

A sustainable business is also a safe one. In collaboration with all our employees we continue to drive health & safety improvements.

Sustainability

Ultimately we aim to deliver sustainability in everything we do whether that applies to financial results or in the way we use natural resources. Wider sustainability issues are becoming more and more important with our customers and consumers.

Deliver YoY financial results

We believe our strategy will build a platform for a more stable, sustainable business which will deliver profitable results and shareholder value.

Meet economic, social and environmental KPIs

Our approach to sustainability extends across the whole business from our commitment to reduce our impact on the environment to how we source our raw materials and ensure the highest levels of quality and food safety. It also addresses consumer concerns about health issues in respect of certain ingredients, over raw material sourcing as well as portion size.

Strive for sustainability in everything we do . . .

Did you know?

600

Across 2012 we have reduced salt in more than 600 individual products across 53 branded categories.

For further information about Diet and Health See page 24

Photograph

Connecting with consumers with a range of products relevant to today's eating habits

Brands
Investing in and growing our Power Brands is at the heart of our strategy

We have a great portfolio of brands that operate in a number of categories. Many of our brands have strong market positions and high brand awareness.

Our strategy is to focus on our Power Brands. Power Brands operate in large categories and hold No.1 or No.2 positions in their respective categories. We believe they have the best potential for growth either through new product development or through category growth.

POWER BRAND SALES GROWTH

+2.1%

BRANDED MIX

82.4%

Investing in growth

In order to deliver sustainable growth we are focusing our investment behind our Power Brands. This means investment in innovation to ensure we have a steady flow of new products, investing in quality to ensure our products taste great and appeal to consumers and investing in marketing and promotions to support our brands and help them compete in the market.

Marketing

During the year we have significantly increased investment in our Power Brands with a 59% increase in marketing spend. Following the disposal of certain non-core businesses Power Brand revenue now makes up 80% of our total branded revenue. 7 of the 8 Power Brands were on TV in 2012, a major increase in activity compared to 2011, supporting a range of new product launches.

Consumer quality benchmarking

We are also investing in our brands to become leaders in food quality to ensure consumers think our products taste great and better than the leading competitor. We know that product quality is a key driver for repeat consumption and that improving quality has a significant impact on consumption with consumers. We have a two fold approach:

- we use consumer insight to assess our product quality and where necessary redesign recipes; and
- we ensure we have the correct production techniques to ensure that finished products are produced to the right level of quality.

During 2012 we have undertaken a significant project to review the performance of our main products against their biggest market competitors whether branded or own label. The process involves external blind testing with consumers. Unless our product achieves a rating of 'significantly superior' to its competitor improvement opportunities are investigated and we work with our Brand teams to reformulate recipes that win with consumers. A good example of this is *Batchelors* Super Noodles reduced salt. Prior to reformulation our product tested at parity with the key competitor. Through the reformulation process our focused product understanding enabled us to design a better product that now tests as superior.

Focused innovation

In order to achieve our growth objectives it is important that we can generate a range of new products that respond to consumer trends and changes in eating habits. The starting point for this is our insight into British consumers which is driven by a clear understanding of the values, attitudes and needs of our consumers. Premier Foods has a history of creating new and unique products and we continue to invest in our innovation process. During the year we launched a number of new products including *Sharwood's* Wrap Kits, *Batchelor's Deli Boxes*, *Bisto Stock Melts* and also *Hovis* British Farmers loaf which was one of the top 10 UK Grocery brand launches in 2012.

Innovation falls into 3 main categories:

- Products
- Packaging; and
- Promotion

Did you know?

27

27 Premier Foods' manufacturing sites have been accredited with Roundtable for Sustainable Palm Oil (RSPO) chain of custody certification... more than any other company worldwide!

Mr. Kipling's successful Jubilee campaign was awarded the Best Consumer Press Campaign at the Grocer Marketing, Advertising and PR Awards in November 2012.

Case study — Innovation Kitchen

GENERATING 10% OF TURNOVER FROM NPD

The ability to bring to market a steady stream of new products is key to our long-term success. We introduced a new innovation platform in 2011 to focus innovation on fewer, bigger and better concepts in order accelerate branded growth plans via organic growth.

The programme starts by using our consumer insight to identify trends and opportunities for growth. The process is designed to ensure greater alignment between our functions and is based around a set of standard processes and systems.

SO HOW DOES THE INNOVATION KITCHEN WORK?

PREPARATION
Strategic framework

INGREDIENTS
Bigger and better ideas

COOKING
Flawless execution

Preparation
- Set Vision
- Develop Strategic platform
- Create 3 year pipeline

Ingredients
- Opportunity scoped
- Cross functional team formed
- 5 step process
- Winning ideas identified

Cooking
- Solutions scoped
- Feasability tested
- Business case developed
- Launch preparation
- Launch and review

Products

The most important area is obviously new products, this can be a completely new product or a new variety of an existing product.

Bisto Stock Melts

Bisto Stock Melts are a range of new individual concentrated stock pots. The innovative new product format was launched in 2012 responding to the increased popularity of wet stock. *Stock Melts* offer consumers a high quality and easy-to-use stock product which represents a credible short cut for home cooking. It is also relevant to a wide range of meal occasions such as casseroles, stews, pies, spaghetti bolognese, soups, and curries. *Stock Melts* performed well in consumer research in terms of ease of use and taste with over 88% of consumers rating the product as good/very good.

Packaging

Packaging innovation is also important and can help our products be used in different ways and in different meal occasions.

Mr. Kipling Snack Packs

Mr. Kipling have launched a new Snack Pack range of individually wrapped cakes. This new and innovative packaging is designed to provide convenient cakes to eat when you're out and about. Snack Packs are perfect for younger families and packed lunches. The new pack design has proved popular with consumers and also helps our product stand out from its competitors in-store. Over 2012 we have increased the range of varieties available in the Snack Pack range and also launched the 'Cake to Go' campaign using innovative dispensing posters outside 20 locations where passers-by could get their own free sample at the touch of a button. In September 2012 the novel packaging won The Grocer New Product Awards in the Sweet Snack category.

Promotion

Finally, we also focus on innovation in promotion to ensure we engage with consumers and customers to help raise awareness for our products and drive sales.

Batchelors 'Fuelling Britain'

In 2012 *Batchelors* launched its biggest ever on-pack promotion 'Fuelling Britain'. In response to the continued rise in fuel prices and household bills we introduced an innovative promotion aimed at helping hard working British families. The promotion offered shoppers the chance to win free fuel for a year during every week of the promotion. The promotion proved very popular in the first half of the year and was repeated in the run up to Christmas.

Partners
Developing long-term relationships with all our partners

For our business to be successful in the long-term we need to develop strong relationships with all our partners. Improving our relationships with customers and strengthening our capabilities within the commercial team were both strategic priorities in 2012.

Whilst we recognise this is an ongoing process and there is still more to do, we have made significant progress over the year.

Customers

We have a broad customer base that operates across a number of channels including multiple retail, wholesale, cash & carry, impulse retail, discounter, foodservice and international. Each of these channels and each of our customers are different so we need to have an approach for each customer which is aligned with their priorities.

Building capability

Within Grocery we have now combined the sales and marketing functions into a single commercial group, including our technical and innovation functions. Furthermore this aligned commercial function is now much closer aligned with the manufacturing and logistics operations within the Grocery business. At the same time, we have built internal resources and made a number of senior appointments to strengthen and develop the commercial group. Within Bread we have put in place a dedicated management team to drive the turnaround of the division.

Multiple Retail

Our focus has been to move from a transactional approach to develop long-term sustainable relationships. Over the year we have agreed joint business plans with each of our major customers. This process has involved:

- Working with our customers to understand their categories and their strategy;
- Developing ways that we can align to their strategic objectives;
- Collaborating with customers to maximise the opportunities for category growth;
- Using our innovation and consumer insight;
- Focusing on multi-format in-store execution; and
- Resourcing and delivering plans with excellence.

Cash & carry, Wholesale and Impulse

Over 2012 we implemented standard pricing and promotional architecture across this channel. This has reduced complexity and helped provide clarity in how we deal with customers. Additionally in 2012 we have created a range of price marked packs across our top 20 products. Price marked packs provide confidence to the consumer in the value being offered. A key focus in 2013 will be to gain wide distribution of this price-marked range.

Discounters

Whilst still a relatively small channel in terms of the overall market the discounter channel has been growing over the last few years as consumers react to the challenging economic environment. This channel therefore represents a growth opportunity for the Group. In 2012 we have put in place a discreet team whose role it is to grow our business in this sector by establishing strong relationships with each of the major customers.

Online

Building strong relationships with our key retail customers is underpinned by our understanding of different retail formats and how the importance of formats is changing for each retailer, for example online.

UK Online grocery sales in 2012 were £5.3bn representing 5.0% of the total grocery market and grew 18% in 2012. Internet usage is increasing in importance with 29m people in the UK now viewing the internet daily and offers growth opportunities for Premier Foods. However, the channel has different dynamics to the traditional shopping trip which need to be understood and addressed.

Working with our customers

Celebrating Chinese New Year with *Sharwood's*!

Seasonal events are a significant opportunity for both Premier Foods and our customers to grow sales. Christmas and Easter are two established opportunities. However, Chinese New Year is another event which is growing in popularity. In early 2013 we partnered with number of large customers to capitalise jointly on this growing event with our *Sharwood's* brand. Throughout 2013 we will investigate opportunities to collaborate with our customers around seasonal events.

Sustainability in everything we do . . .

EMPLOYEE RECOGNITION AWARDS

The Premier Food's "Best in British Foods Awards" recognises the outstanding achievements of employees working at locations across the country. In 2012 we had a record number of nominations under the four headings that are aligned to our strategy – building our brands, collaborative working, focus, and sustainability.

The winner of the Collaborative Working Award was the *Mr. Kipling* team who worked with Carleton Community High School as part of an initiative to engage children in the manufacturing industry. The school children came up with the idea of the British Summer Mini *Batts*; a twist on the traditional Battenberg range. The school children wanted a product that portrayed Britain and out of this came the Rhubarb and Apple Mini Batt, a product with truly British flavours. Packaging was also conceptualised and the team, assisted by the school children, settled on pink and green union jack inspired packaging to give real stand out on shelf. Finally a listing with a major retailer was secured. This was a major collaborative project building relationships both within the local community and also with a key customer.

For 2013 our focus will be:

- Improving the shopper experience, making sure our products receive prominence in online searches and that they are correctly described with up to date product images;
- Maximising the potential for cross selling opportunities; and
- Linking with key seasonal events to capture peak trading opportunities.

Diagnostic capability

We have been investing in our systems to improve our decision making process. The commercial team is developing an integrated plan to improve:

- Forecasting – to simplify processes and improve accuracy;
- Retailer profitability modelling – to support joint business plans (JBPs) with customers; and
- Promotional evaluation and modelling – to understand the impact of promotions on category, brand and customer.

Working with suppliers on Sustainability

In recent years sustainability has become a much bigger part of our relationship with all of our retail customers. An increasing number of retail customers are now working to embed sustainability into their businesses. They are setting ambitious targets in areas as diverse as sustainable and ethical sourcing, health and nutrition, packaging, energy use, waste reduction and greenhouse gas emissions.

Premier Foods' produces both branded and retail customer own label food products and we have found many opportunities, both through direct collaboration and industry programmes, to engage with our customers and improve the sustainability of our businesses.

Engaging our employees

We provide employment for around 9,000 employees at over 40 sites across the UK including production sites, bakeries, mills and offices.

We are committed to providing high standards of learning and development to deliver excellence in all our business activities while equipping our employees with the right skills they need to progress. We continually assess the Learning & Development requirements of our employees and our challenge is to deliver high quality training.

We strive to attract and retain talented, committed employees and actively encourage development from within. We have developed a talent identification and succession planning programme which has now been rolled out across the business to help build our internal pool of talent so we can resource roles internally wherever possible.

We also run a successful student workplace placement programme within our Technical function which gives us a talent pool for future recruitment and support site based learning such as NVQ and ILM training through our Learning Resource Centres.

Leadership

Over the year we have made significant progress in strengthening capabilities particularly within the commercial team with a number of senior appointments. We now have in place a strong team with significant brand experience and a focus on execution and delivery.

Breakthrough Leadership Programme

The Breakthrough Leadership Programme is one of our main management learning and development activities; giving key managers training and experience on being a senior manager and giving them the confidence and skills to develop their own leadership style.

The programme is designed to work with our business strategy and develop our leadership behaviours. We believe that the programme is fundamental to the success of the business as it equips colleagues to support change though increased confidence and knowledge. The programme also prepares leaders for bigger roles, to build effective cross-functional teams.

In 2012, the Breakthrough Programme won the John Sainsbury Award for Learning and Development. This Award is a national food industry accolade and is given at the IGD Food Industry Awards, which recognise the achievements of companies in food manufacturing, farming, retail, distribution, wholesaling and foodservice, as well as best-in-class programmes that demonstrate exciting new thinking in the sector.

Suppliers

We are committed to working in close partnership with our key suppliers to facilitate value creation and enhance long term sustainable relationships. As one of the UK's largest food producers our preference is to source ingredients, products and services from UK producers and suppliers. Last year we spent around £1.3bn with suppliers, and of this, 82% was with UK producers and suppliers.

During 2012 our team of category procurement experts continued to consolidate our supply base, manage key supply chain risks through effective risk management and ensure that we have fully leveraged our scale across all areas of the business.

As part of our efforts to simplify the business and increase leverage we have actively reduced our supply base and increased spend with our leading strategic and preferred suppliers. Over the past five years we have reduced the number of our suppliers by 65% from 9,472 in 2008 to 3,299 last year and we are targeting a further reduction of 5% during 2013. During this period the total spend with our top 250 suppliers has increased, reaching over 82% in 2012.

RAW MATERIALS
£589m

INDIRECT
£369m

PACKAGING
£164m

BOUGHT IN
£78m

ENERGY
£82m

Focus
Simplification, efficiency and effectiveness

We continue to focus on ways to simplify the business, improve efficiency and reduce our costs. In 2012, we divested a number of non-core businesses, significantly reduced our overhead costs, progressed the consolidation of our Grocery logistics and began a broader restructuring of our Bread supply chain.

At the same time we will not compromise on our commitment to food quality, food safety and health & safety ensuring it remains at the forefront of everyone's mind – we call this Operational Excellence.

Business simplification, efficiency and effectiveness

Disposal of non-core businesses

During 2012 we completed a major disposal programme exceeding our lender agreed disposal target of £330m by £40m. The proceeds of £369.5m have been used to reduce net debt and further details on the disposals is set out on page 92. The disposals allow the business to focus on its Power Brands helping to simplify the business and our overhead costs. The disposals require careful management of complex transitional services between the Company and purchaser to provide an orderly separation of the business. This ensures that orders, production and delivery standards are maintained for our customers. Further information of how we have managed separation risk over the year is provided on page 49.

Cost savings initiative

In January we announced an initiative to deliver £40m in overhead cost savings by 2013 and have been able to significantly exceed this target by delivering savings of £48m in 2012.

The project is part of our ongoing simplification exercise across the business reflecting the Company's scale following the disposal activity outlined above. This has focused on the optimisation of structures particularly within central functions; simplifying reporting structures; the introduction of new IT systems; and reviewing ways of working to focus on key requirements.

We have committed to deliver a further £20m of overhead cost savings in 2013 and the majority of these savings have now been identified.

Consolidation of Grocery logistics

The disposal programme has been concentrated on brands within the Grocery business and has provided the opportunity to significantly reduce the complexity and size of our logistics footprint.

Our Grocery distribution footprint is being restructured as our centre of gravity moves away from East Anglia. We have now reduced our original seven distribution centres to three including a new outsourced distribution centre at Corby, operated on our behalf by Wincanton. Our ambient logistics are now fully outsourced. This removes disynergies of more than £4m a year. Again it's a highly complex project with 27 separate work streams to ensure customer service levels are maintained throughout the process.

Progress in 2012 saw our new distribution centre in Corby go live – the 252,000ft site has a capacity to hold 35,000 pallets and has facilitated the closure of several smaller sites.

Sustainability in everything we do...

TRACEABILITY

We have put in place integrated traceability and monitoring systems from animal and crop husbandry, via delivery of these raw materials to our factories, through the manufacturing process and distribution system, to our products being consumed within the home. This traceability system is tested during all factory audits, and annually as part of the Quality Management System.

The following table highlights some elements of testing and control throughout our supply chain:

From the field ...
- inspection of crops throughout the growing season
- inspection and checking field pesticide records
- harvest risk assessments

... to delivery to factory
- incoming testing of raw materials against agreed specifications
- screening tests to ensure compliance to EU regulations

... through the manufacturing process
- process control checks for taste, appearance and other parameters
- random screening tests of products based on risk assessments

... and distribution to customers
- full traceability of all finished products through the distribution chain to retail customer

... all the way to the consumers table
- quality benchmarking to ensure consumer satisfaction
- consumer helpline for comments and queries

Ongoing cost reduction exercise

Underlining our commitment to efficiency and effectiveness there have been a number of cost reduction initiatives running across our sites in 2012. Within Grocery there have been projects to reformulate recipes and reduce packaging from our products. Indirect procurement have addressed all areas of indirect spend, including energy saving initiatives, reduced costs of engineering spares and agency labour. The sites have also been successful in flexing labour costs to respond more efficiently to changes in production volumes.

Within Bread, cost saving initiatives focused on wastage, labour flexibility, recipe reformulations, reliability, indirect procurement and capex investment. Logistics savings in Bread were generated through a variety of projects including driver management software and working practice improvements.

Investing for growth

The savings generated from improved efficiency are being used to fuel investment behind our Power Brands. We are also increasingly targeting more of our capex spend into growth projects rather than repairs. In 2011 growth capex accounted for 46% of the total capex spend. This increased to 52% in 2012 and for 2013 we are targeting 64%.

Food quality and safety

As one of the UK's leading food producers we are committed to producing high quality, safe and wholesome food products. Food safety and quality are of paramount importance to Premier Foods and are a core requirement throughout our organisation. Premier Foods has had no public food safety recalls during 2012 demonstrating the effectiveness of the investment and improvements made in supply chain management, factory facilities, manufacturing controls risk mitigation and horizon scanning for emerging issues.

Resource and Capability

Premier Foods has a high calibre technical team who support the operational and innovation programmes within the business. This includes research facilities, chefs, pilot plant facilities and an analytical testing facility (Premier Analytical Services) which carries out work for Premier Foods, other food manufacturers, Government agencies and research institutes.

Product Quality

In 2012 we have put in place a Finished Product Evaluation programme at each site to ensure that product quality and consistency is maintained. We have made in excess of 11,000 assessments and the results have been used to focus quality improvement programmes at manufacturing sites. The programme has been augmented by an independent Consumer Quality Benchmarking programme where we have carried out blind evaluations with consumers to test our product against the key competitor product.

For information about Consumer Quality Benchmarking go to page 18.

Quality Audits

Premier Foods has carried out an extensive review of supply chain food safety and quality controls including the combining of co-manufacturing and Premier Foods factory compliance controls and audits. In 2012 a total of 142 audits were conducted globally. These audits are carried out to the British Retail Consortium ("BRC") Global Standard for Food Safety version 6, and/or our bespoke Corporate Technical Standard to guarantee the quality and consistency of the ingredients we use.

Premier Foods maintains a comprehensive raw materials risk assessment covering all food ingredients. A risk based due diligence contaminant testing programme is in place with 561 tests carried out to verify regulatory compliance of the ingredients we use and the finished products we sell with both food regulation and our own stringent policies. In addition, a range of audits, assessments and visits were carried out on our raw material suppliers in the UK, Europe and other regions.

Industry leading workplace health & safety

Providing a safe workplace for our staff and others who work within our business remains a key priority for the Group.

Since 2007, in collaboration with employees, we have led a step-change in health & safety management which has resulted in significant and sustained improvements in health & safety performance across the Group. Our Health & Safety Corporate Plan, setting out our strategy and the bespoke initiatives which deliver it, has been fully adopted and embedded across our sites.

At the end of 2012, our RIDDOR Frequency Rate of 0.07 reportable accidents per 100,000 hours worked represented a year on year improvement of 42% and is the lowest achieved to date. Since 2007 this rate has been reduced by 87%, delivering what we believe to be an industry leading performance.

During 2012, we adopted a Lost Time Accident (LTA) Frequency Rate as a key performance indicator signalling our determination to apply a preventative focus on all accidents which caused absence from work, not only those which were reportable under RIDDOR.

At the end of 2012, the Group LTA Frequency Rate was 0.20 LTA's per 100,000 hours worked, representing a 46% reduction over 2011.

2012 A Safe Workplace for All

Throughout 2012 we continued to drive our health & safety strategy, a strategy which defines Premier Foods' pioneering approach to Safety Leadership at all levels in our workplaces.

Through the commitment and dedication of our Site Managers and their Teams critical components of our strategy were further advanced.

Total Observation Process ("TOPS")

Our unique, inclusive approach to hazard identification and control continued to identify and address work place hazards.

Since its launch in 2008;

128,580 TOPs Hazards have been identified.

124,292 TOPs Hazards have been closed-out.

In this way, 124,292 potential accidents have been prevented and injuries to our employees and others avoided, enabling them to return safely to their homes at the end of their shift.

BS OHSAS 18001:2007

Through a site audit programme undertaken by an independent 3rd party auditor, the Health & Safety Management system across all our sites continues to be certificated to BS OHSAS 18001:2007.

And our passion for the health, safety and wellbeing of our employees and others was externally recognised.

SEQOHS Accreditation: The Royal College of Physicians, commissioned by the Faculty of Occupational Medicine, awarded SEQOHS (Safe Effective Quality Occupational Health Service) Accreditation to Premier Foods' Occupational Health and Wellbeing Service.

In October 2012, Premier Foods became one of only 63 UK organisations, and the first within the UK Food Manufacturing Sector, to receive SEQOHS accreditation.

In addition our performance was recognised by the Royal Society for the Prevention of Accidents (RoSPA) winning the RoSPA UK Food and Drink Sector Award. 36 RoSPA Gold Achievement awards were also received by our individual sites.

Sustainability
We strive for Sustainability in everything we do

We have developed an end to end approach to sustainability encompassing all areas of our business and addressing a broad range of social, economic and environmental issues.

We have many stakeholders for whom sustainability has become more and more important including our consumers, customers, employees and stakeholders in general.

We have embedded sustainability within our core business strategy. By promoting '*sustainability in everything we do*' we believe we will build a foundation for a more stable, sustainable business which will deliver long-term profitable results and shareholder value.

Our integrated approach to managing our key environmental impacts has delivered continual improvement and commercial benefits. We have set ourselves targets relating to wider sustainability challenges including how we source our raw materials and ensure the highest levels of quality and food safety whilst also addressing consumer concerns on health issues in respect of certain ingredients, calorie control and portion size.

You can read more about our performance in these areas within the sustainability section of our Company web site but we have included some of the highlights within this summary.

If you would like to read more about our approach to sustainability, our key targets and highlights, please go to the sustainability section of our company website.

Buying Responsibly

We procure the best quality raw materials that meet our current and future needs. We try to deliver long-term value, maximise social and economic benefits as well as minimise associated environmental impact when buying our goods and services. For example, we are committed to sourcing 100% sustainable palm oil by 2015, playing our part in helping to prevent damaging deforestation in South East Asia.

We place a high value on the integrity, provenance and traceability of all the ingredients we buy. Wherever possible we actively look to support UK agriculture as this gives us greater confidence, control and influence over our supply chain. It also gives confidence to our customers and consumers who are increasingly interested in the provenance of the food they buy. In 2012, we spent 82% of our £1.3 billion procurement budget with UK producers and suppliers.

Sustainable Manufacturing

Making more from less makes good business sense. Using fewer natural resources and generating less waste not only lowers our costs but also reduces our environmental footprint. By creating a culture of environmental improvement across the business, we are able to encourage new ideas to continue improving our efficiency year on year. We continue to build on our strong track record of environmental progress and in 2012 we made good progress against our targets. Our performance has been tracked over the past five years in the table opposite.

Particular highlights include a 41.8% reduction in our waste to landfill against a 20% target reduction* bringing us closer to reaching our ambition of sending zero waste to landfill by 2015 and we reduced actual road miles travelled by 16% against a 5% target*.

Our achievements in using less natural resources contributed to us being awarded the *'Green and Sustainable Manufacturing Award'* at the 2012 European Strategic Manufacturing Awards for demonstrating unparalleled performance in environmental manufacturing.

* Performance in 'relative' terms to tonnes of product manufactured (excluding divested manufacturing sites).

Diet & Health

We aim to offer a wide choice of products to help our consumers manage their busy lifestyles. For each of our Power Brands and our portfolio as a whole, we've developed health and nutrition action plans setting out

Sustainability in everything we do...

HAPPY HENS LAY GOOD EGGS

At the prestigious Good Farm Animal Welfare Awards last year we were awarded a Good Egg Award by Compassion in World Farming in recognition of our commitment to improving animal welfare.

We are the first food producer in the UK to commit to using free range or barn eggs across our entire brand portfolio which is the equivalent to over 70 million eggs. This pioneering work forms part of our broader commitment to guarantee full traceability and high safety, quality and animal welfare for all the eggs that we use.

Hosted by top cook, food writer and broadcaster, Valentine Warner, the Good Farm Animal Welfare Awards recognises and awards food companies that are committed to implementing substantial policy changes that result in positive impacts for farm animals.

Including animal welfare as part of our sustainable procurement programme not only improves the lives of thousands of laying hens, it also meets the growing expectations of our customers and consumers that food systems are kind to animals and care for the environment. We're proud to be leading the way on this important animal welfare issue.

targets for the number of products that will have an improved nutritional value whether through the addition of 'positive' ingredients such as wholegrains, cereals, oats, fruits or vegetables, or the reduction in ingredients of concern including salt, saturated fat or trans fats. More than half of all our new product innovations must be for products that have a claimable health or nutrition benefit or otherwise offer portion sizes that discourage excessive consumption. We've also made a number of public commitments to improve the nutritional value of our products within the framework of the Public Health Responsibility Deal.

To help consumers understand the nutritional impact of our products, we are committed to labelling all key nutrients on pack, wherever possible per 100g and per serving. For many years we have also included information on energy, fat, saturated fat, sugars and salt content in the form of Guideline Daily Amounts (GDAs) on both the front and back of pack. Whenever possible, we highlight the nutritional benefit of our brands in our communications and marketing. And we provide balanced recipe suggestions via our 'Great Little Ideas' programme both on pack and via a dedicated website.

Quality & Food Safety

The quality of our products is a key priority for us. We are committed to ensuring that all factors relating to the quality and safe production of our food consistently meets the highest of standards. We maintain far reaching and stringent quality standards within our supply chain which exceed legal requirements. This includes rigorous systems of supplier approvals and auditing, traceability and testing to ensure our raw materials, ingredients and production processes conform to our specific specifications.

Quality for us also includes our dedicated programme to ensure that we are constantly improving our ingredients and recipes to deliver great tasting food as well as bring new high quality products to the market each year. We launched a number of new products to the market in 2012 including our *Sharwood's* Wrap Kits and *Bisto Stock Melts*, *Ambrosia* Rice Pots, *Mr. Kipling* Snack Packs and *Hovis* British Farmers Loaf. Nearly 18% of Premier Foods branded portfolio by sales value over the last 2 years are new products.

Our People

We provide employment for around 9,000 employees at over 40 sites across the UK including production grocery sites, bakeries, mills and offices.

As well as putting the safety of our people first, we offer excellent learning and development opportunities and recognise people who go the extra mile through our annual Best in British Food Awards (BIBFA).

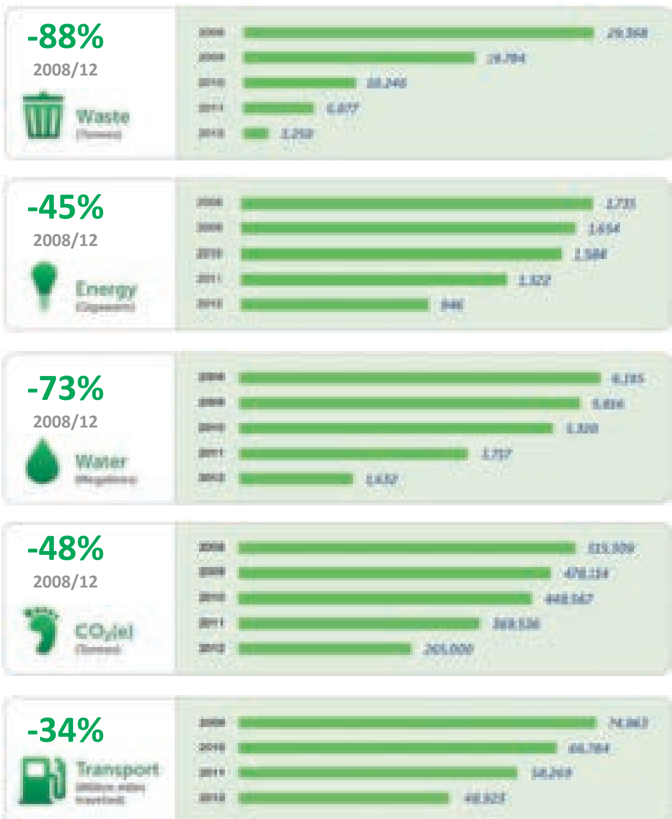
The winners of our 2012 BIBFA Sustainability Award, which goes to the person or team who has strengthened the sustainability of our brand portfolio or our environmental programme, was presented to the site service team at our Carlton site for reducing waste consumption by 25% in the period 2011/12.

More detailed information on our approach to training and development can be found on the sustainability section of our Company website.

Community Involvement

We strive to make a difference to the local communities in which we operate and our people are extremely passionate about charitable giving. We support community development projects and local charities across our sites, and have a corporate charity partnership that unites our business in their fundraising activities. Our collective employee fundraising for Help for Heroes raised over £260,000 over a two-year partnership. This has enabled us to leave a lasting legacy with the charity, which amongst other initiatives, supported the creation of a new dining room at their state of the art recovery centre for the wounded, Tedworth House in Tidworth, Wiltshire. This year, employees have chosen Macmillan Cancer Support as our new partner and we are committed to funding 10,000 vital nursing hours over the next two years.

Historical environmental performance 2008/12*



*Absolute terms including divested manufacturing sites

Environmental performance 2012

2012 Target	2012 Performance Absolute	2012 Performance Relative	2013 Target
Reduce waste sent to landfill by 20%	-52.6%	-41.8%	-10.0%
Reduce energy consumption by 3%	-28.4%	-2.0%	-2.50%
Reduce water usage by 5%	-56.0%	-4.2%	-3.0%
Reduce Carbon equivalent (CO_2e) emissions by 4%	-28.2%	-3.2%	-2.5%
Reduce actual road miles travelled by 5%	-16.0%	-28.0%	-3.0%

We have historically reported performance against our environmental KPIs in 'absolute' terms as a year on year comparison. In 2012, we divested a number of our businesses and to ensure transparency and take into account the impact of these disposals, we are reporting our performance in both 'absolute' and 'relative' terms. The divested businesses included our Histon and Middleton manufacturing sites. Performance in absolute terms includes divested manufacturing sites and performance in relative terms relates to tonnes of product manufactured excluding divested manufacturing sites.

Key Performance Indicators

We use Key Performance Indicators (KPIs) to help drive focus and measure performance across a number of areas which are aligned to the strategic priorities of the Group.

Power Brand sales growth (value)	Deliver £40m of overhead cost savings by 2013	Increase in trading profit (underlying)	Recurring cash flow	Reduction in Net Debt
+2.1% **£889.2m**	**£48m**	**+10.6%** **£123.4m**	**£50.0m** (versus -£122.0m in 2011)	**-24.3%** **£950.7m**
Measurement YoY growth in sales from Power Brands.	**Measurement** YoY overhead savings identified as part of our previously announced cost saving programme.	**Measurement** Underlying profit excludes the results of disposals and non-core discrete contract losses as this better illustrates the performance of the core business.	**Measurement** Cash flow attributable to the Ongoing business. This is before non-recurring items such as the proceeds from disposals and associated restructuring costs and financing fees.	**Measurement** Reduction in net debt versus pro forma net debt which includes the additional term loan and the securitised debtor programme following the re-financing in March 2012 (see page 33).
Link to Strategy Investing behind our Power Brands to maximise future growth is one of our strategic priorities. Focusing on Branded products improves margin potential and therefore increases profitability.	**Link to Strategy** Driving business simplification and efficiency is one of our strategic priorities.	**Link to Strategy** Supports focus on overall growth agenda.	**Link to Strategy** Cash flow is a good indicator of the underlying quality of earnings and the overall health of the business. It also identifies cash available to repay debt.	**Link to Strategy** Given the Group's high gearing reduction of debt is a key focus area.
Performance We have successfully demonstrated growth with Power Brand sales up 2.1% and Grocery Power Brands up 4.0% YoY. In addition marketing investment increased by 59% in the year.	**Performance** In 2012 we exceeded target by delivering £48m of overhead cost savings ahead of the £40m target.	**Performance** The increase in trading profit was helped by the successful overhead cost reduction exercise undertaken in 2012 and increased Power Brand Sales.	**Performance** Positive cash flow generated from strong trading profit, control on capex, reduction in cash interest following the re-financing and tight management of working capital.	**Performance** There was a significant reduction in net debt over the course of the year following the successful completion of our disposal programme.
Focus for 2013 Power Brand growth remains a strategic priority for 2013.	**Focus for 2013** Cost savings will remain an area of focus as we complete the turnaround of the business. We have committed to deliver a further £20m of overhead cost savings by the end of 2013.	**Focus for 2013** Trading profit growth remains a strategic priority for 2013.	**Focus for 2013** Cashflow remains a strategic priority for 2013.	**Focus for 2013** Reduction in debt remains a strategic priority for 2013.

10% of sales from new products	% of products testing superior or at par with competitors	At least 50% of NPD to be "better for you" choices	Achieve a Lost Time Accident (LTA) rate of 0.29 per 100,000 hours	4% reduction in Carbon (CO_2) equivalent emissions
13.8%	**94%**	**70%**	**-46%** 0.20 per 100,000 hours	**-28%** 265,000 tonnes of CO_2(e) at the end of 2012
Measurement Sales of new products as a % of our branded sales, within Power Brand categories.	**Measurement** Consumer panel blind testing of our major branded products against their main competitor whether branded or own label.	**Measurement** Sales value of NPD with a claimable health and nutritional benefit.	**Measurement** Lost Time Accident (LTA) rate per 100,000 hours worked.	**Measurement** YoY reduction in reduction in Carbon (CO_2) emissions in absolute terms.
Link to Strategy In order to generate long term Power Brand growth we must focus on innovation and NPD. This measure is an important indicator of whether we are responding to consumer trends.	**Link to Strategy** Important measure of the quality of our product portfolio. Drives recipe improvements and ensures focus on consistent production quality. Highlights areas where action required.	**Link to Strategy** Aligns with consumer focus for wider product choice and better for you options.	**Link to Strategy** The LTA frequency rate signals our determination to apply a preventative focus on all accidents which caused absence from work.	**Link to Strategy** We report on a range of environmental targets — CO_2(e) emissions are seen as a measure of our overall commitment to responsible manufacturing and reducing our impact on the environment.
Performance The % of sales from NPD increased from 7.1% in 2011 to 13.8% in 2012.	**Performance** Over the course of the year we extended the product testing to cover 66% of the Power Brands portfolio, up from 53% in 2011.	**Performance** At the end of 2012, 70% of new products we developed delivered 'better for you' choices.	**Performance** At the end of 2012, the Group LTA frequency rate was 0.20 LTAs per 100,000 hours worked, representing a 46% improvement over 2011.	**Performance** We disposed of a number of manufacturing sites in 2012. Taking into account the performance of sites for the period they were held by the Group we achieved an 3.2% reduction in CO_2(e) emissions relative to tonnes of product manufactured.
Focus for 2013 The ability to launch new products is essential to the sustainable growth of the business and we will continue to target 10% of sales for 2013.	**Focus for 2013** We will continue to focus on consumer quality benchmarking and reformulate any products testing below par.	**Focus for 2013** Health remains a major area of interest for consumers and for 2013 we will continue to target for at least 50% of NPD to be made up of "better for you" choices.	**Focus for 2013** As a major employer, ensuring a safe work place for all employees remains a key area of focus. Target for 2013 is to achieve an LTA rate of 0.18 per 100,000 hours worked representing a 10% YoY improvement.	**Focus for 2013** No further disposals are planned for 2013 and our target for 2013 is to reduce CO_2(e) emissions by 2.5% in relative terms.

Did you know?

£260,000

Over the last 2 years employees raised over £260,000 for our corporate charity partner "Help for Heroes".

Photograph

New *Sharwood's* Wrap Kits launched in 2012

Detailed analysis of our business performance as reported in our preliminary results announcement in February 2013. This section covers the operating reviews for the Grocery and Bread business and the Financial review.

Business Performance **Contents**

Operating review

Gavin Darby
Chief Executive Officer

"The Management team did a great job in 2012 to lay the foundations for future growth."

Underlying business

Underlying business excludes all disposals announced in 2011 and 2012, non-core discrete contract losses and Milling sales. The following commentary is based on Underlying business unless otherwise stated. A reconciliation from statutory to underlying performance measures is set out in the tables on page 34.

£m	2012	2011	Change
Sales			
Grocery	**856.7**	811.2	5.6%
Bread	**497.1**	500.5	(0.7%)
Total	**1,353.8**	1,311.7	3.2%
Grocery divisional contribution	**195.5**	206.9	(5.5%)
Bread divisional contribution	**26.9**	51.7	(48.0%)
S,G&A	**(99.0)**	(147.0)	(32.7%)
Total Trading profit	**123.4**	111.6	10.6%

Introduction

Underlying business sales increased by 3.2% to £1,353.8m in the year, an increase of £42.1m compared to the prior year. Underlying business Trading profit increased by £11.8m to £123.4m in the year.

Grocery divisional contribution decreased by £11.4m to £195.5m during the year, reflecting increased consumer marketing investment partly offset by growth in Power Brand sales.

Bread divisional contribution declined by £24.8m to £26.9m due to adverse customer mix, wheat quality affecting manufacturing efficiencies and higher costs to serve.

Divisional contribution is the measure which the Company uses for managing and reporting divisional performance and excludes all selling, general and administrative (S,G&A) costs.

The Company exceeded its target to reduce S,G&A costs by £40m in 2012, achieving total cost reductions of £48m by the end of the year, contributing to the increase in Underlying Trading Profit. As previously announced, a further £20m of overhead cost savings are expected to be delivered in 2013.

In the year, the Company benefitted from pension credits of approximately £32m. Additionally, the Company increased certain balance sheet provisions on onerous lease provisions relating to vacant properties held by the Company and cleaned up certain legacy fixed assets. These items offset the pension credits recognised in the year, and therefore the impact on Underlying business Trading profit in the year is neutral.

Sales

£m	2012	2011	Change
Power Brands	**889.2**	871.2	2.1%
Support brands	**227.2**	233.9	(2.9%)
Total Branded	**1,116.4**	1,105.1	1.0%
Non-branded	**237.4**	206.6	14.9%
Group Sales	**1,353.8**	1,311.7	3.2%

Total Underlying business sales increased by 3.2% to £1,353.8m compared to 2011. Sales of the Company's Power Brands grew by 2.1%; in line with the trend seen in the first three quarters of the year.

In the support brand portfolio, sales declined by 2.9% reflecting declines in Homebaking, owing to a highly competitive business to business channel and lower promotional activity.

Consumer Marketing

£m	2012	2011	Change
Consumer Marketing	**39.4**	24.7	59.5%

Total consumer marketing investment increased by nearly £15m in 2012 compared to the prior year, principally due to new TV advertising campaigns for seven of the Company's Power Brands. Investment in the Grocery Power Brands nearly doubled compared to the prior year and included new campaigns for *Sharwood's* (Great British Curry), *Ambrosia* (Picnic) and *Bisto* (Pledge).

The Company expects to continue to benefit from the significant step-up in investment in 2012, with consumer marketing expenditure expecting to remain at similar levels in 2013, but with greater emphasis on Grocery marketing investment.

Did you know?

82%

We spend over £1.3 billion annually with suppliers 82% of which is with UK producers and suppliers.

Grocery division

£m	2012	2011	Change
Branded sales	**742.0**	724.2	2.5%
Non-branded sales	**114.7**	87.0	31.8%
Total sales	**856.7**	811.2	5.6%
Power Brands sales	**533.1**	512.6	4.0%
Divisional contribution	**195.5**	206.9	(5.5%)

Sales in the Grocery division increased by 5.6% to £856.7m compared to £811.2m in 2011. Following recent disposals, this business has increased its proportion of branded sales by over five percentage points to 86.6% and retains strong EBITDA margins which the Company believes it can build on.

Grocery Power Brand sales, in particular, continued to gather momentum during the year increasing by 4.0%, demonstrating four successive quarters of growth. This growth was driven by improved customer collaboration and increased levels of consumer marketing investment.

Marketing investment in the Grocery division increased by 96% compared to the prior year, as consumer marketing spend rose by around £16m reflecting higher spend across all the Grocery Power Brands.

During the year, *Sharwood's* benefitted from the launch of Wrap Kits, *Batchelors* growth was well supported by the new *Deli Box* range and *Ambrosia* Rice pots performed well.

Consequently, Divisional contribution was £195.5m, a 5.5% decrease on the previous year.

In the fourth quarter, the Company confirmed it has agreed an extension to the licence it holds to produce *Cadbury* branded cakes and ambient desserts until June 2017. The brand is the fastest growing in the ambient cake category and the Company plans to work closely with *Cadbury* to leverage the potential of other *Cadbury* trademarks over time, where appropriate.

Non-branded sales in the Grocery division increased by 31.8% in the year, due to contract gains in Cake and additional co-pack arrangements following recent disposals.

Savings in manufacturing controllable costs are expected to continue to deliver gross savings in 2013 through process improvements at our manufacturing sites.

Bread division

£m	2012	2011	Change
Branded bread sales	**374.4**	380.9	(1.7%)
Non-branded bread sales	**122.7**	119.6	2.6%
Total bread sales	**497.1**	500.5	(0.7%)
Milling sales	**191.4**	193.0	(0.8%)
Total sales	**688.5**	693.5	(0.7%)
Divisional contribution	**26.9**	51.7	(48.0%)

Sales for the Bread division excluding Milling declined 0.7% to £497.1m in the year while total sales for the division decreased by 0.7% to £688.5m. Divisional contribution declined by £24.8m to £26.9m in the year.

During the year, *Hovis* maintained its value market share in a highly competitive market, where promotional activity levels remain high.

However, changes in the customer and product mix during the course of the year, as a result of a number of contract gains and losses, have adversely impacted Divisional contribution. Additionally, some of the contract gains require higher costs to serve. Continued collaboration with our retail customers in 2013 is expected to result in an improved mix impact year on year.

Adverse wheat quality following the worst harvest for 35 years also affected manufacturing efficiencies and negatively impacted Divisional contribution in the second half of the year. Price increases were achieved in the Baking and Milling businesses in the third quarter of 2012 to offset wheat price inflation following the lower quality harvest seen during the year, and while the Company has taken the decision to diversify its sources of wheat in the short-term, it remains committed to supporting British farming.

As previously announced, the Company will lose a branded and non-branded bread contract with a retail customer in the second quarter of 2013, equivalent to approximately £75.0m of annual sales. The lost volume and margin from this contract is expected to be offset by manufacturing and distribution cost savings from the previously announced closures of the Birmingham, Greenford and Eastleigh bakeries and distribution centres at Mendlesham and Plymouth. Additionally, the Company recently announced the proposed closure of its Glasgow Mill to optimise capacity in its Milling business in light of reduced volumes. As previously announced, the cash costs associated with this restructuring are expected to be approximately £28m in 2013.

Milling sales were £191.4m in 2012, down 0.9% compared to the prior year, while margins were also affected by the lower wheat quality from the 2012 harvest.

In 2013, the Company plans to re-build value in its Bread division through focusing on reducing costs to serve, improving profitability and targeting capital investment to enhance flexibility, efficiency and customer service.

In September 2012 we received a Good Egg Award by Compassion in World Farming in recognition of our commitment to farm animal welfare by becoming the first UK food producer to source free range or barn eggs across our entire brand range.

Operating review

Cost Savings Programme and SG&A costs

£m	2012	2011	Change
Total S,G&A	99.0	147.0	32.7%

The restructuring of the S,G&A cost base announced at the beginning of 2012 has delivered savings of £48m, ahead of plan. This has been achieved through right-sizing both the commercial and support functions to ensure the overhead cost base better reflects the Company's scale following disposal activity.

As previously announced, a further £20m cost savings are expected to be delivered in this area during 2013. The expected costs to achieve the delivery of the total savings programme are £32m, of which approximately £24m were taken in 2012 and a further £8m are expected to be charged in 2013. The cash impact of this programme is expected to be approximately £12m in 2013.

The Company will continue to explore further cost opportunities to fuel branded growth.

Net regular interest

£m	2012	2011	Change
Term debt interest	36.0	40.1	10.2%
Swap contract interest	17.3	59.7	71.0%
Securitisation interest	3.1	2.5	(24.0%)
	56.4	102.3	44.9%
Amortisation and deferred fees	13.1	13.4	2.2%
Net regular interest	69.5	115.7	39.9%

Net regular interest charge was £69.5m in the year, 39.9% lower than the prior year, and compares to guidance of £70-£75m. This lower charge was principally due to the conversion of the higher rate interest rate swaps into additional term loan at the end of March, at a significantly lower interest rate and following completion of the previously announced re-financing agreement. Term debt interest was lower reflecting reduced levels of Net debt following the disposal of businesses during the course of the year.

The Company expects Net regular interest for 2013 to be in the range of £60-65 million, of which amortisation of deferred financing fees are expected to be approximately £22 million.

Cash flow

£m	2012	2011
Underlying business Trading profit	123.4	111.6
Depreciation	37.5	39.0
Other non-cash items	8.8	(44.1)
Interest	(52.5)	(108.3)
Taxation	0.3	(2.4)
Pension contributions	(17.7)	(56.0)
Regular capital expenditure	(56.4)	(61.7)
Working capital	6.6	(0.1)
Recurring cash inflow/(outflow)	50.0	(122.0)

Group recurring cash inflow before non-recurring items such as restructuring activity, financing fees and the impact of disposals was £50.0m in the year.

Underlying business Trading profit was ahead of last year while depreciation was £1.5m lower. Other non-cash items in 2012 largely reflect the add-back of share based payments.

Cash interest was significantly lower in the year owing to the close out of the higher rate interest rate swaps following the re-financing agreement announced in March 2012. A tax credit in the year of £0.3m reflected tax relief from allowances on capital expenditure, pension contributions and brought forward losses. Cash tax in 2013 is expected to be minimal.

Pension deficit contribution payments to the Company schemes in the year (including administrative costs) were £17.7m, compared to £56.0m last year, owing to reduced pension deficit contribution payments as agreed with the Trustees as part of the re-financing agreement concluded earlier this year.

Regular capital expenditure was £56.4m, in line with guidance of approximately 3% of sales. Capital expenditure for 2013 is expected to be in the range 3-3.5% of sales.

£m	2012	2011
Recurring cash inflow/(outflow)	50.0	(122.0)
Trading profit & other cash flows from disposed businesses	5.8	14.0
Restructuring activity	(21.6)	–
Operating cash flow from total Company	34.2	(108.0)
Disposal proceeds	312.2	400.2
Financing fees & finance leases	(24.0)	(7.3)
Free cash flow	322.4	284.9

Free cash flow, before repayment of borrowings, was £322.4m in the year, compared to £284.9m in 2011. Restructuring activity relating to disposed businesses, including costs related to the cost savings programme, resulted in a cash outflow of £21.6m in the year.

Disposal proceeds of £312.2m are from the sale of the Irish brands, *Vinegar & Sour Pickles*, *Elephant Atta Ethnic Flour* and *Sweet Spreads & Jellies* businesses. Cash paid due to fees directly relating to the re-financing agreement concluded in March 2012 accounted for outflows of £24.0m.

Net debt

	£m
Reported Net debt at 31 December 2011	**995.1**
Additional term loan	188.1
Securitised debtors programme	73.8
Pro forma Net debt at 31 December 2011	**1,257.0**
Movement in cash 2012	(322.4)
Other non-cash items	16.1
Reported Net debt at 31 December 2012	**950.7**

Group Net debt at 31 December 2012 was £950.7m.

Following the re-financing agreement announced in March 2012, both the mark to market of interest rate swap liabilities and the securitised debtors programme the Company participates in, are now included in the definition of Net debt. The interest rate swap liabilities have been restructured into an additional term loan as part of the banking agreements. The securitised debtors programme is excluded from the definition of Net debt for covenant purposes.

Disposal proceeds received during the year amounted to £312.2m. Additionally, proceeds from the *Sweet Pickles and Table Sauces* disposal of £92.5m were received in February 2013.

Pensions

Cash paid to pension schemes in the year was £39.1m. This comprised £21.4m regular contributions and £17.7m for deficit contributions, administrative expenses and government levies. The net IAS 19 deficit at 31 December 2012 was £466.8m, equivalent to £352.4m net of deferred tax. The next triennial valuation date of the Company pension schemes is on 5 April 2013, the outcome of which is expected in early 2014.

Pensions (£m)	31 Dec 2012	31 Dec 2011
Assets		
Equities	**411.3**	425.1
Government & Corporate bonds	**1,197.7**	1,077.4
Property	**105.3**	92.1
Absolute/Target returns	**712.1**	790.9
Swaps	**(169.0)**	231.6
Cash	**494.4**	239.1
Other	**457.5**	299.8
Total Assets	**3,209.3**	3,156.0
Liabilities		
Discount rate	**4.45%**	4.80%
Inflation rate (RPI/CPI)	**2.95%/2.15%**	3.15%/1.95%
Total Liabilities	**(3,676.1)**	(3,438.4)
Gross deficit (IAS 19)	**(466.8)**	(282.4)
Deferred tax (24.5% 2012)	**114.4**	70.0
Net deficit (IAS 19)	**(352.4)**	(212.4)

In the classification disclosed in the table above, 'Other' includes investments in infrastructure assets and private equity funds. The negative swaps valuation is due to these assets having been re-couponed to release cash in 2012; this is reflected in the higher cash asset balance compared to the prior year.

The Group acknowledges the significance of the current pension deficit in determining a fair reflection of the Group's Enterprise value. The Group's preferred approach is to discount the post tax future cash flows of the agreed pension deficit contribution schedule, which amount to approximately £275 million.

Sustainability in everything we do…

GREEN AND SUSTAINABLE MANUFACTURING AWARD

This 6th Annual Strategic Manufacturing Awards took place in Düsseldorf in 2012 as part of the European Manufacturing Strategies Summit. This is one Europe's leading events for the manufacturing industry and promotes both learning about and applying manufacturing best practice and innovative solutions to boost overall production excellence.

Over 200 industry leaders were present and during the Summit, we were presented with the highly acclaimed 'Green and Sustainable Manufacturing Award' for demonstrating significant reductions in energy, water, waste and overall carbon footprint.

The core of our submission was based on our Green Matters employee engagement programme, so this achievement belongs to all of the site teams who put so much passion and effort into driving our manufacturing excellence and environmental performance.

The range of criteria was extensive and included manufacturing excellence, innovation and quality of implementation. The judging panel felt that we had demonstrated unparalleled performance in environmental manufacturing, including maximising energy efficiency levels, addressing water use and treatment, compliance with environmental regulations and minimising waste from their production process.

Operating review

Business Disposals

During the course of the year, the Company was successful in exceeding its planned disposals proceeds target by nearly £40 million and 20 months early, achieving total proceeds of £369.5 million. This has resulted in lower Net debt, allowing the Company to focus on investing behind its Power Brands. The average EBITDA multiple for the four transactions announced in 2012, based on expected 2012 results and including additional £20m S,G&A cost savings recently announced, was 8.9x EBITDA.

Proceeds from *Vinegar & Sour Pickles*, *Ethnic Flour* and *Sweet Spreads & Jellies* businesses are reflected in reported Net debt as at 31 December 2012. *The Sweet Pickles and Table Sauces* divestiture completed on 2 February 2013, therefore gross proceeds of £92.5m will be included in reported Net debt in 2013.

	Vinegar & Sour Pickles	*Elephant Atta* Ethnic Flour	Sweet Spreads & Jellies	Sweet Pickles & Table Sauces
Announcement	15 Jun 2012	6 Jul 2012	23 Aug 2012	30 Oct 2012
Completion	28 Jul 2012	6 Jul 2012	27 Oct 2012	2 Feb 2013
Gross Proceeds	£41.0m	£34.0m	£202.0m	£92.5m

Outlook

In 2012, the Company delivered its strategic priorities to stabilise the business, re-focus the portfolio and invest in its future growth. Growth momentum was generated behind the Company's Grocery Power Brands and strategic decisions were taken to re-build value in Bread. While markets are expected to remain challenging in 2013, the Company believes the right strategies and plans are in place, including the delivery of further cost savings, to make progress in 2013.

Reconciliation from Statutory to underlying performance

Reconciliations from trading to operating profit and the calculation of adjusted earnings per share are set out in the notes 4 and 9 of the financial statements, respectively.

£m	**Continuing operations**	Less: 2011 Disposals	**Sub-total**	Less: 2012 Disposals	**Sub-total**	Less: Milling sales	Less: Contract Loss	**Underlying business**
2012								
Sales	**1,756.2**	(0.9)	**1,755.3**	(210.1)	**1,545.2**	(191.4)	–	**1,353.8**
Trading profit	**154.7**	(0.3)	**154.4**	(31.0)	**123.4**	N/A	–	**123.4**
EBITDA	**194.3**	(0.3)	**194.0**	(35.4)	**158.6**	N/A	–	**158.6**
2011								
Sales	**1,999.5**	(188.5)	**1,811.0**	(282.9)	**1,528.1**	(193.0)	(23.4)	**1,311.7**
Trading profit	**188.3**	(14.6)	**173.7**	(56.5)	**117.2**	N/A	(5.6)	**111.6**
EBITDA	**230.1**	(14.6)	**215.5**	(62.6)	**152.9**	N/A	(5.6)	**147.3**

Disposed businesses

	Announced in 2011			**Announced in 2012**					
£m	Canned Grocery	Irish brands	**Sub-total**	Vinegar & Pickles	Ethnic Flour	Sweet Spreads	Sweet Pickles	**Sub-total**	**Total**
2012									
Sales	0.9	–	**0.9**	14.8	8.8	128.3	58.2	**210.1**	**211.0**
Trading profit	0.3	–	**0.3**	0.5	3.3	23.1	4.1	**31.0**	**31.3**
EBITDA	0.3	–	**0.3**	0.9	3.3	24.8	6.4	**35.4**	**35.7**
Months owned				7	7	10	12		
2011									
Sales	166.7	21.8	**188.5**	34.0	17.8	165.1	66.0	**282.9**	**471.4**
Trading profit	5.4	9.2	**14.6**	5.5	6.4	36.1	8.5	**56.5**	**71.1**
EBITDA	5.4	9.2	**14.6**	6.2	6.4	38.2	11.7	**62.6**	**77.2**

Financial review

Mark Moran
Chief Financial Officer

"While it is clear that markets will remain challenging, we believe we have the right strategies in place to make further progress in 2013."

The Company presents its financial results for the year ended 31 December 2012 with comparative information for the year ended 31 December 2011.

Company structure

The Company completed the disposals of the following businesses during the year: Irish brands, *Vinegar and Sour Pickles*, *Elephant Atta Ethnic Flour* and *Sweet Spreads and Jellies*. Additionally, the Company announced the disposal of the *Sweet Pickles and Table Sauces* business on 30 October 2012, and completed this transaction on 2 February 2013.

The Canned grocery operations business is treated as a continuing operation in the financial statements and reported separately as an operating segment, 'Disposed of Canning Operations'.

All commentary on the performance of the Company included below refers to continuing operations unless otherwise stated and therefore reflects the respective periods that the Company maintained ownership of the businesses disposed during the year. For example, the *Vinegar and Sour Pickles* business disposal completed on 28 July; therefore the results of the continuing operations include seven months' results of the *Vinegar and Sour Pickles* business.

Income statement

Revenue from continuing operations was £1,756.2m, a decrease of £243.3m compared to the prior year. The major driver of the decline is attributed to the disposals of the canned grocery operations, Irish brands, *Vinegar and Sour Pickles*, *Elephant Atta Ethnic Flour* and *Sweet Spreads and Jellies* businesses, partly offset by Power Brands sales growth.

Operating profit

Operating profit for continuing operations was £96.3m, compared to a prior year loss of (£176.3m).

Trading profit was £154.7m in the year, a decline of £33.6m, principally reflecting the impact of the businesses disposed during 2011 and 2012. During the year, significant savings in the overhead cost base were partly offset by increased consumer marketing investment.

Restructuring costs and losses associated with disposal activity were £46.1m in the year. These charges relate to access costs associated with the Company's cost savings programme and restructuring activity associated with the previously announced closure of three bakeries and two distribution sites in the Bread division.

Amortisation of intangible assets was £53.3m in year, a reduction of £18.7m from the prior year. This reflects the impairment of goodwill and the *Hovis* brand in 2011 and also the impact of disposals made during 2012. Impairment charges in 2012 were £36.2m which relate to the write down of part of the carrying value of the Bread business following the decision to restructure the supply chain. This compares to a charge in 2011 of £282.0m.

The pension financing credit was £12.5m in 2012, £4.5m lower than the prior year, primarily due to lower expected asset returns.

Finance expense

Net finance expense in the year to 31 December 2012 was £91.9m, compared to £82.8m in the prior year. Net regular interest reduced from £115.7m to £69.5m, due to the conversion of higher rate interest rate swaps into additional term loan at a significantly lower interest rate in addition to lower levels of Net debt following the disposal of businesses during the course of the year. Partly offsetting this reduction in net finance expense is the year on year net movement of interest rate instruments. In the prior year, there was a positive movement in the fair valuation of interest rate derivatives of £36.9m, compared to an adverse movement of £9.7m in the year to 31 December 2012. Additionally, an exceptional write off of financing costs amounting to £10.8m was recognised in the year, relating to debt issuance costs associated with the previous financing agreement. This compares to a £1.6m charge in the prior year.

Profit before taxation

The Company made a profit before tax of £4.4m, compared to a prior year loss of £259.1m. Operating profit in the year was £96.3m due to the reasons outline above and net finance expense was £91.9m. The prior year loss of £259.1m was principally due to impairment charges associated with goodwill in the Bread division and the *Hovis* brand.

Taxation

The taxation credit for the year was £21.9m (31 December 2011: £29.1m). The rate of corporation tax for the year was 24.5%. The taxation credit during the year is principally a result of recognising a deferred tax asset for prior year tax losses.

The corporation tax rate for 2013 is expected to be 23.25%. The deferred tax rate is expected to be 21.0% for the tax year ending 5 April 2014.

Earnings per share

Basic earnings per share of 11.0 pence for the year on continuing operations is calculated by dividing the profit attributed to ordinary shareholders of £26.3m (31 December 2011: £230.0m loss) by the weighted number of shares in issue during the year. This compares to a loss per share of 95.9p for the prior year.

Adjusted earnings per share for continuing operations was 26.8 pence (31 December 2011: 22.3 pence). Adjusted earnings per share on continuing operations has been calculated by dividing the adjusted earnings (defined as Trading profit less net regular interest payable and notional taxation) attributed to ordinary shareholders of £85.2m (31 December 2011: £72.6m) by the weighted number of ordinary shares in issue during each period. These earnings have been calculated by reflecting tax at a notional rate of 24.5% (31 December 2011: 26.5%).

At the Annual General Meeting held on 3 May 2012, a resolution was passed for a 10:1 share consolidation of the issued share capital of the Company. Accordingly, the weighted number of shares in issue for the period reduced from 2,398.0 million to 239.8 million; the latter being used for earnings per share calculations.

Financial review

Cash flow and borrowings

Company net borrowings as at 31 December 2012 were £950.7m, a decrease of £44.4m since 31 December 2011. Of the movement since 31 December 2011, the cash and non-cash elements were £250.0m inflow and £205.6m outflow respectively. The non-cash movement principally reflects the conversion of the previous mark to market swap liabilities to additional term loan, which amounted to £188.1m.

The cash inflow from operating activities to 31 December 2012 was £4.2m (31 December 2011: outflow of £29.1m). This included cash inflow from continuing operations of £54.8m (31 December 2011: £134.6m) and cash inflow from discontinued operations of £1.6m (31 December 2011: £47.9m outflow). Additionally, net cash interest paid was £52.5m (31 December 2011: £113.4m) due to lower bank margins following the re-financing agreement concluded in March 2012. Tax received in the year was £0.3m (31 December 2011: £2.4m paid).

Sale of subsidiaries and property, plant and equipment in the year amounted to £312.2m following the completed disposals outlined above. Net capital expenditure on tangible and intangible assets in the year was £66.4m (31 December 2011: £73.5m), of which £56.4m relates to Underlying business.

Net proceeds from borrowings and the debtors securitisation programme were £1.5m and £72.4m respectively, reflecting the conversion of the debtors securitisation programme to Net debt. Financing fees associated with the re-financing agreement in March 2012 were £24.0m.

Pension schemes

At 31 December 2012 the Company's pension schemes under the IAS 19 accounting valuation showed a gross deficit of £466.8m, compared to £282.4m at 31 December 2011. The valuation at 31 December 2012 comprised a £131.6m deficit in respect of the RHM schemes and a deficit of £335.2m in relation to the Premier Foods schemes.

The deficit increase reflects an increase in the scheme liabilities of £237.7m to £3,676.1m, partly offset by an increase in the valuation of assets of £53.3m to £3,209.3m. The adverse movement in liabilities is predominantly due a reduction in the discount rate from 4.80% at 31 December 2011 to 4.45% at 31 December 2012. The increase in the valuation of the scheme assets is due to investment performance.

In 2012, the Group and trustees of the RHM Pension Scheme agreed to change the inflation assumption used in calculating certain scheme liabilities, for the majority of scheme members, from an RPI to CPI basis, following a similar move by the Premier Foods Schemes in 2011. The impact of this change was to reflect a credit of £44.0m, and is partially offset by an equalisation charge of £12.3m, resulting in a net credit of £31.7m.

Following the re-financing package concluded with the banking syndicate, swap counterparties and pension schemes in March 2012, pension deficit contribution payments were suspended from March 2012 to December 2013; deficit contribution payments resume from January 2014.

The next triennial actuarial valuation date of the pension schemes is on 5 April 2013, the outcome of which is expected in early 2014.

Mark Moran
Chief Financial Officer

Our commitment to health & safety was recognised by the Royal Society for the Prevention of Accidents (RoSPA) in 2012. We were UK Food and Drink Sector Award Winner and also received a Gold Achievement Award for the Management of Occupational Road Risk.

Photograph

'Loyd for one' pouches range - a new Bolognese sauce variety was launched in 2012

As a Company we are committed to the highest standards of corporate governance. This section sets out a summary of the key issues we have discussed during the year and our approach to governance, risk management and executive remuneration.

Governance **Contents**

Chairman's introduction

David Beever
Non-executive Chairman

"Good corporate governance is essential for building a successful and sustainable business. This report sets out our approach to corporate governance and our commitment to work towards best practice recognising our position as one of the largest manufacturers in the UK food industry."

As highlighted earlier in this report, a lot has happened in 2012 as we have moved to stabilise and turnaround the business. At the same time, it is also important to ensure that sound governance principles underpin the way we operate, both at Board level and throughout the organisation. This section of the annual report sets out our governance framework, the work of our Committees and our Risk Management framework. We believe in transparency in governance and in maintaining the highest ethical standards in all our business dealings. As corporate governance continues to evolve, we will continue to monitor our procedures to respond to new issues and strive for best practice.

Board changes

In addition to Gavin Darby's appointment as Chief Executive in February 2013 there have been a number of changes to the Board over the course of 2012. Following Ronnie Bell's retirement from the Board it was agreed that I would become Chairman to ensure continuity during the period of rapid change that the business is going through. Ian McHoul who has served on the Board for 8 years took over from me as Senior Independent Director. In addition, Louise Makin advised that she would be stepping down as a director at the end of her second 3 year term in September. I would like to thank both Ronnie and Louise for their contribution to the Company.

Following these changes the composition of the Board was carefully reviewed and it was agreed that it would be appropriate to appoint two new non-executive directors. Jennifer Laing, who has extensive brand building and communications experience, joined the Board in October and Ian Krieger, who has considerable business and financial expertise having worked with a wide variety of companies throughout his finance career, was appointed as a director in November.

Geoff Eaton was appointed as Chief Operating Officer in October 2012. However, following the appointment of Gavin Darby a flatter executive management structure has been implemented, that will enable commercial and functional management to report directly to the CEO. As a consequence Geoff left the Company in February 2013.

Following these changes we now have in place a strong and effective Board. The Board is fully engaged and there is lively debate, and where necessary, robust challenge to management and the Group's business plans. There is open and transparent dialogue between executive management and non-executive directors producing strong alignment on delivering the strategy and driving long term sustainable growth.

There is now an appropriate combination of executive and non-executive directors on the Board with at least half the Board (excluding myself) comprising non-executive directors. The independence, external experience and challenge non-executive directors bring to the Board is essential to its effective operation. The current non-executive directors bring an extensive and broad ranging mix of experience which is highlighted in the biographies on pages 40 to 41. The Board considers that all the non-executive directors, with the exception of Charles Miller Smith, are independent in character and judgement. Charles Miller Smith, whilst fully independent of management, is a shareholder appointed director representing our largest shareholder, Warburg Pincus.

During October 2012 the number of non-executive directors temporarily fell below the required number. In addition the number of independent members of the Audit and Remuneration Committee fell from three members to two for a short period of time. Both were essentially timing issues during a period when the membership of the Board was being refreshed and were remedied with the appointment of Ian Krieger in November. Details of the executive director/non-executive director split can be found on page 44.

Board effectiveness

The Board believes that keeping up-to-date with developments in corporate governance is important and therefore it is a regular item on the Board agenda. The General Counsel & Company Secretary prepares a regular Board paper and present updates on recent legal, regulatory and governance issues including relevant case law. During the year this has included updates on the government's draft Remuneration Reporting Regulations and the FRC's 2012 revisions to the UK Cororate Governance Code ("the Code").

The Board has a policy to conduct performance reviews on its own performance and that of its committees. Alongside this review each director receives an appraisal. Appraisals are conducted by the Chairman for the CEO and by the Senior Independent Director (following discussions with the other non-executive directors) for the Chairman.

In December 2011 one-to-one interviews were undertaken by the General Counsel & Company Secretary and a written report was presented to the Board. During the year, the Board has received updates on the progress made on the action plan for 2012 and is satisfied with the progress which has been made.

Changes to the Board process during the year have included strengthening communication and alignment between the Board and senior management with greater attendance of Group Executive members at Board meetings. The Board and Group Executive have also met a number of times over dinner to allow a more informal opportunity for discussion. There has also been an increased focus on brand strategy and I expect this to continue as priorities move from restructuring to growth. For 2013 a number of two day meetings have been introduced to allow more time to review the business in depth.

2012 Review

In line with the recommendations of the Code we conduct an annual effectiveness review and every three years this is conducted by an external firm. The last external review was undertaken in 2009 by Boardroom Review and we are therefore due to undertake another external review in respect of 2012. However, given the changes in Board membership over the last few months, the Board agreed to defer the evaluation exercise until the first half of 2013. This evaluation will be undertaken by an external facilitator.

Remuneration strategy

There was a significant vote against the Remuneration Report at the AGM in 2012. Over the course of the year David Wild (Chairman of the Remuneration Committee) and myself have met with a number of major shareholders and investor representative bodies to listen to their views and explain the reasons behind the remuneration decisions we made in 2011 and 2012. These meetings were very constructive and we have continued to engage with stakeholders in 2013. A full review of our remuneration strategy is set out in the Remuneration report on page 56.

Audit independence and non-audit fees

The independence of the external audit is an essential element of our overall governance framework and allows shareholders to gain comfort that the financial statements give a fair and understandable view of the Group's affairs and have been prepared in accordance with applicable standards. The Board is sensitive to investor body guidelines on non-audit fees; however, non-audit fees for 2012 have again been significant and have exceeded the audit fee.

We believe it is important to recognise that Premier Foods is not a "steady state" company; but is in the process of a significant transformation. In 2011 and 2012 this resulted in significant work being undertaken by PwC in respect of the Group's re-financing and over the course of the year PwC have also been engaged to undertake working capital reports in connection with two Class 1 disposals which required shareholder approval.

The Audit Committee monitors non-audit spend closely in accordance with the Group's internal policy and procedures. The Committee also received updates from the external audit's lead partner on PwC's internal controls to safeguard their independence. On this basis we remain satisfied that PwC were best placed to undertake the work, given the time constraints and the likely cost of the work and that the engagement of PwC for the non-audit work was in the best interests of shareholders. Additional safeguards to the independence of the auditors are given by the fact that in 2012 a new lead audit partner was appointed (as part of PwC's normal rotation process) and that since 2011 there has been a complete change in the executive management team at the Company. Further disclosure on auditor independence and non-audit fees is set out on page 54. We believe that with the stabilisation of the business, the level of non- audit fees will reduce significantly going forward.

David Beever

Non-executive Chairman

Compliance with the UK Corporate Governance Code 2010 ("the Code")

During 2012, except as highlighted above with regard to the temporary fall in the number of independent directors and the deferral of our external Board evaluation, the Company complied with all of the provisions of the Code.

In September 2012 the FRC published changes to the Code (which will apply to the Company for the financial year ending 31 December 2013) and companies are encouraged to consider early adoption of the new requirements. The Board is committed to good governance and we believe we are compliant with a number of the new requirements, namely: effectiveness of the external audit process; length of tenure of auditors; and Boardroom diversity.

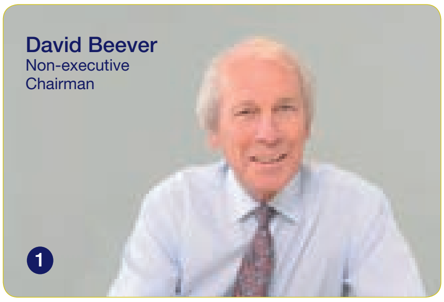
Governance Focus: Code of Conduct

Q: What has the Company done to improve its governance structure during the year?

A. During 2012 we launched the Company's first code of conduct (Code of Conduct) with the aim of communicating expected standards of behaviour, building a common sense of ethics and integrity, providing some practical guidance to all Premier Foods' employees in the event of uncertainty, highlighting additional responsibilities of managers to uphold the Code of Conduct and helping to protect the Company's external reputation and provide assurance to stakeholders.

We communicated the Code of Conduct via our internal intranet site, PremierNet, and management grades were asked to confirm their acceptance of the policy when logging onto their computers. Additionally printed copies were distributed to all staff and copies of the Code of Conduct are now included in induction materials for new staff. A copy of the Code of Conduct can be found on our website: ***www.premierfoods.co.uk/about-us/corporate-governance/code-of-conduct.cfm***

Board of directors



1 David Beever

Non-executive Chairman

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

Skills and experience: After qualifying as a Chartered Engineer, David has spent most of his career in the financial sector. He was a Vice-Chairman of S. G. Warburg where he handled many corporate finance transactions for major UK and international companies. He was later a board member of KPMG and Chairman of Corporate Finance and was previously Chairman of several major companies including London & Continental Railways Limited and Volex plc. He has also been a non-executive director of a large number of companies including Stobart Group Ltd., Servomex Limited, TLS plc and Paragon Group of Companies plc.

Board contribution: David was appointed Chairman in June 2012 having previously been the Senior Independent Director. As Chairman he is responsible for leading the Board and ensuring it operates in an effective manner, setting Board agendas and ensuring sufficient time is available for discussing key strategic issues. He is also responsible for promoting constructive relations between the executive and non-executive directors and ensuring effective communication with shareholders. During 2012 David introduced two new non-executive directors, Ian Krieger and Jennifer Laing. David also managed the orderly CEO succession process with the appointment of Gavin Darby in 2013.

Other appointments: David is a Member of the Board of Trustees at the University of London.

Committee membership: David is a member of the Remuneration and Nomination Committees and attends the Audit Committee by invitation.

2 Gavin Darby

Chief Executive Officer

Appointed to the Board: February 2013

Skills and experience: Gavin has a strong consumer goods pedigree and extensive senior leadership experience. He spent fifteen years at the Coca-Cola Company in various senior positions, including Division President roles for North West Europe and Central Europe. Prior to joining Premier Foods, Gavin served as CEO of Cable & Wireless Worldwide plc, leading a successful turnaround of the business before negotiating its eventual sale to Vodafone plc. Previously he worked at Vodafone plc for nine years, during which time he served as UK CEO and CEO of Americas, Africa, India and China. Earlier in his career Gavin held various sales and marketing roles in SC Johnson and Spillers Foods. He graduated with a degree in Management Science from the University of Manchester. Gavin served as a non-executive director of Intertek plc between 2009 and 2011.

Board contribution: Gavin is responsible for the executive management of the Group and ensuring the overall implementation of the strategic plan within approved budgets and timescales.

Committee membership: Gavin regularly attends meetings of Board committees by invitation.

❸ Mark Moran
Chief Financial Officer

Appointed to the Board: December 2011

Skills and experience: Prior to joining the Group Mark served as Chief Financial Officer of SSL International plc where he gained extensive experience of working with global brands during his six years including strategic and day-to-day financial management, executive Board responsibilities and investor relations. Prior to this he was Group Finance Director of Porvair plc and also held senior roles at Caradon plc. Mark served as a non-executive director of Brixton plc between 2008 and 2009. Mark trained as a Chartered Accountant with Arthur Andersen.

Board contribution: Mark is responsible for overseeing the financial operations of the Group and setting its financial strategy in conjunction with the Board. He also oversees the overall framework for financial forecasting, planning, analysis and reporting. During 2012 Mark has been responsible for the financial aspects of the disposal programme.

Committee membership: Mark regularly attends meetings of Board committees by invitation.

❹ Ian Krieger
Non-executive director

Appointed to the Board: November 2012

Skills and experience: Ian has a wealth of business, accounting and finance experience gained during a 40 year career, first with Arthur Andersen and, from 2002, with Deloitte. He was a senior partner and Vice-Chairman at Deloitte until his retirement in 2012. Previous management responsibilities included heading the Corporate Finance Practice, the London Corporate Audit Division and the Private Equity Practice. Ian has significant boardroom experience and has worked with a wide variety of companies throughout his career, including many in the consumer goods sector. Ian qualified as a Chartered Accountant with Arthur Andersen.

Board contribution: Ian has extensive financial experience and expertise which is utilised by the Board on the Audit Committee.

Other appointments: Ian is a Director of Anthony Nolan where he is Chairman of the Audit Committee.

Committee membership: Ian is a member of the Audit, Remuneration and Nomination Committees.

❺ Jennifer Laing
Non-executive director

Appointed to the Board: October 2012

Skills and experience: Jennifer has over 30 years experience in brand building and communications including 16 years with Saatchi & Saatchi, twice as Chairman of the London office, and culminating in her role as Chairman and CEO of Saatchi & Saatchi North America. In the early 1990s she led her own advertising agency, Laing Henry, which was subsequently sold to Saatchi & Saatchi. From 2002 to 2007 Jennifer was Associate Dean, External Relations at London Business School.

Board contribution: Jennifer has extensive brand building experience which is utilised by the Board.

Other appointments: Jennifer is currently a non-executive director of InterContinental Hotels Group plc where she chairs the Corporate Responsibility Committee, and of Hudson Global, Inc., a global recruitment company, where she is Chairman of the Compensation Committee.

Committee membership: Jennifer is a member of the Audit, Remuneration and Nomination Committees.

❻ Charles Miller Smith
Non-executive director

Appointed to the Board: June 2009

Skills and experience: Charles is a senior adviser at Warburg Pincus LLC and prior to this was an International Adviser at Goldman Sachs International from 2001 until 2005. Charles worked with Unilever plc for over 30 years, the last five of which he served as a Director of Finance and then Foods. He held a wide range of financial and general management positions in the UK, the Netherlands and India. Charles was Chief Executive Officer and then Chairman at ICI plc from 1994 to 2001. He has served as a non-executive director of Midland Bank and HSBC Holdings PLC and served as Chairman of Scottish Power plc between 2000 and 2007.

Board contribution: Charles has extensive commercial experience both as an executive director of a number of multinational companies and also in advising a range of financial organisations.

Other appointments: Charles is a member of the international advisory council for Principal Financial in the USA and also Chairman of Firstsource Solutions UK Ltd and is a director of Firstsource Solutions Ltd.

Committee membership: Charles is a member of the Nomination Committee.

❼ Ian McHoul
Non-executive director

Appointed to the Board: July 2004

Skills and experience: Ian's earlier career was spent in the brewing industry where he spent ten years with Courage Ltd and its parent company Foster's Brewing Group in a variety of roles and served as General Manager of Strategy of Foster's Brewing Group and executive director of Strategy and Planning of Courage Ltd from 1992 to 1995. He was Finance and Strategy Director of the Inntrepreneur Pub Company Ltd from 1995 to 1998. Ian then served at Scottish & Newcastle plc between 1998 and 2008, holding the position of Finance Director from 2001. Ian qualified as a Chartered Accountant with KPMG in 1985.

Board contribution: Ian is the Chief Financial Officer of a FTSE 100 company, AMEC plc. Ian has extensive financial experience and expertise which is utilised by the Board in his capacity as Chairman of the Audit Committee. The Audit Committee has responsibility for monitoring the integrity of the Group's financial reporting systems, financial controls and the effectiveness of the internal audit function. As Senior Independent Director he has responsibility for meeting with the other non-executive directors to review the Chairman's performance and is available to shareholders to discuss their concerns.

Other appointments: Ian is currently Chief Financial Officer of AMEC plc.

Committee membership: Ian is Chairman of the Audit Committee and also a member of the Nomination Committee.

❽ David Wild
Non-executive director

Appointed to the Board: March 2011

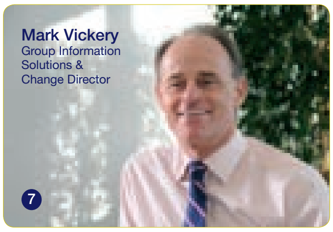
Skills and experience: David was Chief Executive Officer of Halfords Group plc until July 2012 and was previously with Walmart where he was Senior Vice-President of US New Business Development and President of Walmart Germany. Earlier in his career he was with Tesco plc (1985 to 2003) where he held a variety of roles including 10 years in Buying and 6 years as Chief Executive of Tesco Central Europe.

Board contribution: David brings over 25 years' retailing experience, gained at two world-leading businesses and the skills and ability to develop growth strategies.

Committee membership: David is the Chairman of the Remuneration Committee and is also a member of the Audit and Nomination Committees.

Group Executive

The Group Executive is appointed by the Chief Executive Officer. The Group Executive is responsible for the day-to-day management of the business and implementing the Group's strategy. Details of the Group Executive are set out below:



1 Brian Carlton

Group HR Director

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

Key responsibilities: These include leadership development, talent management, remuneration, resourcing and employee relations management across the business.

2 Ian Deste

Commercial Director, Grocery

Skills and experience: Ian joined Premier Foods in September 2011 as Group Sales Director and was appointed as Commercial Director Grocery in November 2012. He previously spent 20 years with Coca-Cola Enterprises Ltd (CCE), including nine years as a member of the GB board. Most recently, Ian held the position of Vice-President, Sales and Customer Development, prior to which he held other senior positions in sales, marketing and communications at CCE. In his early career, he worked in the beer and tobacco industries.

Key responsibilities: Ian is responsible for marketing, innovation and sales within our ambient Grocery and Cake portfolio. This includes, all aspects of commercial strategy and customer management, and the delivery of revenue, profitability and market-share metrics for the Grocery brands.

3 Mark Hughes

Group Procurement Director

Skills and experience: Mark joined Premier Foods and the Group Executive in 2007 following the acquisition of RHM. Mark joined RHM in 2003 as Divisional Services Director (Bread Bakeries) and became a member of the Bread Bakeries Division Executive in 2004, and was Group Procurement and Logistics Director and a member of the Group Executive of RHM in 2006. Mark was previously director at Archer Daniels Midland Milling (UK) and has held a number of senior positions with Associated British Foods plc.

Key responsibilities: Control and risk management of *c.* £1.3bn of spend on ingredients, packaging, energy, machinery, facilities, engineering, marketing and all corporate spend. Responsibilities include ensuring the Group remains competitive and well placed within a changing market through the provision of innovative procurement processes, policies, stakeholder engagement and external supplier relationship management.

4 Richard Johnson

Group Corporate Affairs Director

Skills and experience: Richard joined Premier Foods in October 2011 as Group Corporate Affairs Director. Previously, Richard spent a total of 18 years with Kraft Foods (now Mondelēz International) during which time he held senior corporate affairs roles across a number of businesses and geographies, including the UK, Belgium and the US. Most recently he was Corporate Affairs Director for Kraft Foods' European business based at the company's headquarters in Switzerland. He was also Vice-President Corporate Affairs for McDonald's Europe and earlier in his career, he worked for the Food and Drink Federation.

Key responsibilities: These include leading the Group's internal and external communications, media relations, public affairs, sustainability and community relations activities.

5 Andrew McDonald

General Counsel & Company Secretary

Skills and experience: Andrew joined the Company in November 2011 as General Counsel & Company Secretary. Prior to this he held the same position at Uniq plc, before its acquisition by the Greencore Group. Andrew is a qualified solicitor and worked as a corporate lawyer at Freshfields Bruckhaus Deringer before moving into industry. He is a law graduate of Manchester University.

Key responsibilities: Andrew has responsibility for the legal, company secretarial and internal audit functions and is actively involved in business development and key operational issues facing the business. He is on the steering group of all corporate and strategic projects pursued by the Group. He also supports the Chairman with the management of the Board to ensure it fulfils its corporate governance obligations.

6 Bob Spooner

Group Supply Chain Director and Managing Director, Bread

Skills and experience: Bob joined Premier Foods as Group Operations Director in April 2007. In October 2011 Bob was appointed Group Supply Chain Director with responsibility for the Group's combined Operations, Technical and Procurement functions and in October 2012 took on additional responsibility as Managing Director of the Bread division, where he is responsible for all aspects of the Bread business, including full P&L responsibility. Before joining the Group, Bob was Group Supply Director for Northern Foods plc and Managing Director of Northern Foods' Pastry Products business and prior to that held senior operational and supply chain roles with ICI Paints and Sara Lee.

Key responsibilities: These include leading and implementing the Group's manufacturing, logistics, procurement, technical and innovation strategy across the businesses and full responsibility for the Bread division's P&L.

7 Mark Vickery

Group Information Solutions & Change Director

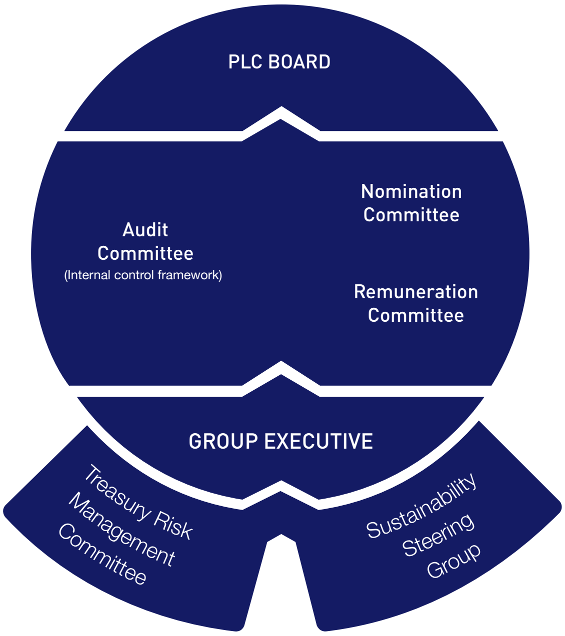
Skills and experience: Mark joined the Group in early 2005 as Director of IS & Change Management. Following the acquisition of RHM he assumed the role of Group IS & Change Director. Mark started his career at Unilever plc where he spent 17 years working in a number of businesses and geographies. He then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

Key responsibilities: These include managing the Information Services function and delivering major system and change programmes into the business.

Corporate Governance

LEADERSHIP

Our Board Structure



Q: How frequently did the Board meet in 2012?

A: The Board held eight scheduled meetings in the year and in addition a number of other meetings and conference calls were convened for specific business. All directors are expected to attend the AGM, scheduled Board meetings and relevant Committee meetings, unless they are prevented from doing so by prior work or personal commitments. Where a director is unable to attend a meeting they have the opportunity to review relevant Board papers and discuss any issues with the Chairman in advance of the meeting. Following the Board meeting the Chairman also briefs any director not present to update them on the key discussions and decisions taken. Details of the attendance at scheduled Board meetings are set out in the table on the right.

Board Members (During 2012)

	Number of possible meetings attended	Actual Meetings attended
Non-executive directors		
David Beever	8	8
Ian Krieger	1	1
Ian McHoul[1]	8	7
Jennifer Laing	2	2
Charles Miller Smith	8	8
David Wild	8	8
Executive directors		
Michael Clarke	8	8
Geoff Eaton	2	2
Mark Moran	8	8
Former Non-executive directors		
Louise Makin[2]	6	5
Ronnie Bell	3	3

[1] Ian McHoul missed the December 2012 Board meeting due to a business commitment with AMEC plc.

[2] Louise Makin missed the September 2012 Board meeting due to a business commitment with BTG plc.

The following Board changes took place:

- David Beever was appointed as Chairman on 1 June 2012 following Ronnie Bell's resignation and Ian McHoul replaced David Beever as Senior Independent Director.
- David Wild was appointed as Chairman of the Remuneration Committee on 1 August 2012.
- Louise Makin resigned as a non-executive director on 30 September 2012.
- Jennifer Laing was appointed as a non-executive director on 1 October 2012.
- Geoff Eaton was appointed Chief Operating Officer and executive director on 3 October 2012 and resigned as an executive director on 4 February 2013.
- Charles Miller Smith's appointment as Deputy Chairman on an interim basis came to an end on 1 October 2012.
- Ian Krieger was appointed as a non-executive director on 1 November 2012.
- Michael Clarke resigned as CEO and an executive director on 28 January 2013 and was replaced by Gavin Darby who was appointed on the 4 February 2013.

Biographies for directors can be found on pages 40 and 41 of this Annual Report.

Corporate Governance

EXECUTIVE
25%
NON-EXECUTIVE DIRECTORS
62%
CHAIRMAN
13%

MALE
87%
FEMALE
13%

0–3 YEARS
62%
4–6 YEARS
25%
7–9 YEARS
13%

BRANDED RETAIL INDUSTRY
37.5%
FINANCE
33%
MARKETING & SALES
17.5%
RETAIL SECTOR
17%

[1] As at 31 December 2012

Q: Is the Board able to appoint additional directors?

A: The Board has the power to appoint one or more directors. Under the Articles any such director shall hold office until the next AGM when they shall be eligible for election. With the exception of Charles Miller Smith (as noted below in conflicts of interest), an ordinary resolution of the shareholders is sufficient to appoint or remove a director.

Q: Do any of the directors have conflicts of interest?

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

Under the terms of the Relationship Agreement between the Company and Warburg Pincus, Charles Miller Smith, a senior adviser to Warburg Pincus, was appointed to the Board. Under the agreement, Warburg Pincus (with the agreement of the Company) may appoint to the Board a director so long as they retain a minimum interest of 23,980,215 shares in the Company.

During the year no other director had a material interest at any time in any contract of significance with the Company or Group other than his/her service contract.

For further details of the role of the committees See pages **53-65**

Governance Focus: Director Induction Programme

Q: Does the Company have a director induction programme?

A. Yes, all directors receive a tailored induction on joining the Board covering their duties and responsibilities as directors. Non-executive directors also receive a full briefing document on all key areas of the Group's business and they may request further information as they consider necessary. A typical non-executive director induction would include:

Stage one	Matters covered
Provision of documents	Duties of a director, Board procedures, corporate governance including provision of an ICSA compliant governance manual.
Stage two	**Matters covered**
Meeting with CEO & CFO	Business overview, current trading, key commercial issues.
Meetings with non-executive directors	Open discussion forums.
Meeting with General Counsel & Company Secretary	Board process and governance issues/updates, key legal, risk and internal audit matters.
Meetings with each of the Group Executive	Commercial issues and projects as applicable for Operations, Sales, Supply Chain, Corporate Affairs, HR, Procurement, Marketing, Technology and Innovation, and ISC.
Meeting with Investor Relations	Investor relations matters and any updates.
Meeting with Treasury	Treasury and insurance matters and any updates.
Stage three	**Matters covered**
Site visits	Understanding of the business and operations.

Q: What are the roles and responsibilities of the Board and its key members?

The Board:	The Chairman:
The Board has an agreed schedule of matters reserved which include: • Setting long-term strategic and commercial objectives; • Approving annual operating and capital budgets; • Reviewing business performance; • Overseeing the Group's internal control systems; and • Ensuring appropriate resources are in place to enable the Group to meet its objectives. The Board delegates to the Group Executive responsibility for overseeing the implementation of the Group's policies and strategy.	Leadership of the Board and ensuring its effectiveness: • Chairing Board meetings; setting the agendas in consultation with the CEO and General Counsel & Company Secretary; and encouraging directors' active participation in Board discussions; • Leading the performance evaluation of the Board, its committees and individual directors; • Promoting the highest standards of corporate governance including compliance with the Code wherever possible; • Ensuring timely and accurate distribution of information to the directors and effective communication with shareholders; • Establishing an effective working relationship with the CEO by providing support and advice whilst respecting executive responsibility; and • Periodically holding meetings with the non-executive directors without the executive directors present.
The Chief Executive Officer:	**The Senior Independent Director:**
• The executive management of the Group; and • Ensuring the implementation of Board strategy and policy within the approved budgets and timescales. The CEO is assisted in meeting his responsibilities by the CFO and the Group Executive (who head up the Group's principal operations and functions).	• Supporting the Chairman and leading the non-executive directors in the oversight of the Chairman and CEO. The SID's specific responsibility is to be available to shareholders if they have concerns which the normal channels have failed to resolve or where such contact is inappropriate.

Q: What are the directors paid?

A: Details of the directors' service contracts, letters of appointment, emoluments, personal interests and beneficial interests in Company shares and share options are found in the remuneration report on pages 56 to 65.

Q: How does the Board allocate its time?

A: Below is a chart which summarises the approximate time the Board has spent discussing agenda items at scheduled Board meetings during the year to 31 December 2012:

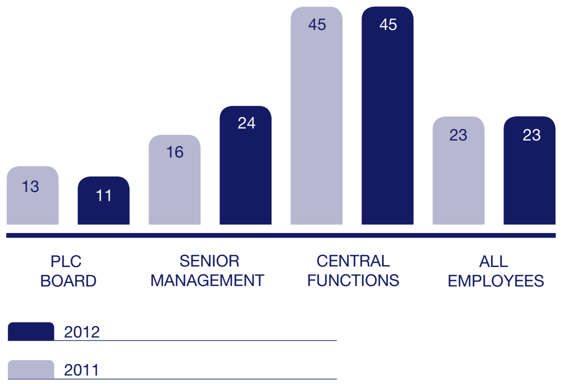
Corporate Governance

Q: What is the Company's approach to diversity?

A: The Board aims to have at least two female Board directors by 2015. The Board believes in the importance of diversity in its widest sense and the benefits that it can bring to the operation of an effective Board. This is taken into account whenever a new appointment is undertaken with the aim to have individuals with a broad range of skills, backgrounds and experience reflecting both the type of industry and the geographical locations in which we operate. Since adopting this policy four additional appointments have been made to the Board: three male and one female. Following the departure of Geoff Eaton, female representation on the Board is currently 13%.

We are also focusing on opportunities to drive gender diversity at levels below the Board, both within the organisation as a whole and particularly within senior management. During the year a number of appointments have been made to strengthen the Group's capabilities particularly within the commercial team. This has resulted in an increase in female representation at the senior management level.

% Female workforce as at 31 December 2012 at Premier Foods



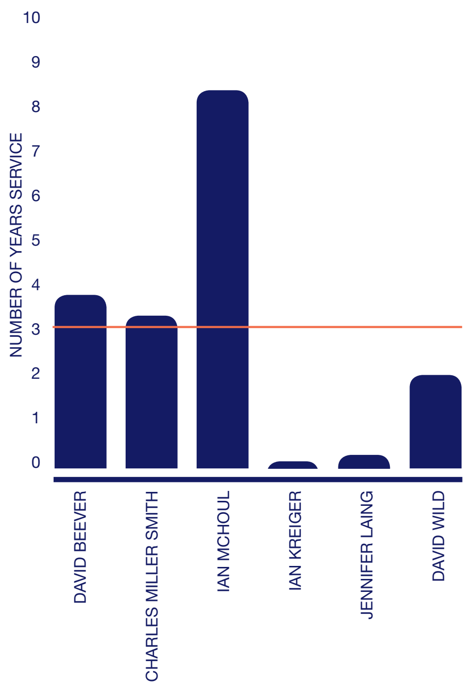
EFFECTIVENESS

Q: Does the Chairman meet with the non-executive directors in the absence of the executive directors?

A: Yes, this is one of the Chairman's responsibilities and is essential to maintain transparency and independence in the governance process. Over the course of the year the non-executive directors met independently on a regular basis both after Board meetings and also over dinner. Topics discussed included key strategic issues, succession planning, a review of key risks facing the business, Board effectiveness and a review of the external auditor's performance.

Q: What is the average length of time directors are appointed to the Board?

A: The Board believes it is important to maintain an appropriate balance between length of service, to ensure independent judgement, and an appropriate level of experience and skill. The Board regularly undertakes a review of succession plans for both executive and non-executive directors with consideration of the need to refresh Board and Committee membership and the Board's gender diversity targets. A succession plan is under consideration for Ian McHoul whose third term of appointment automatically expires in July 2013. As at year end the length of service of the current non-executive directors is shown in the graph below against the average length of service, which currently stands at
three years.



Details of all directors' appointment terms are set out on pages 62 to 63.

Q: Does the Company offer the directors access to independent professional advice?

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

Q: How does the Board keep up-to-date with business developments?

A: The main source of information is via the Board pack provided to directors. These cover the following standing items which are designed to keep directors up to date with all material business developments:

- CEO introduction;
- Commercial review of brand and sales;
- Customer service levels;
- H&S and employee issues;
- Restructuring projects;
- Capital expenditure; and
- CFO report.

A detailed strategy review took place over a two day meeting in June and there was a comprehensive review of 2013 brand, sales and supply chain plans as part of the approval of the 2013 business plan in October and November 2012.

Q: What committees does the Board have?

A: The Board has three committees which assist in the discharge of its responsibilities:

- Audit Committee;
- Nomination Committee; and
- Remuneration Committee.

A Finance Committee was established in 2011 to provide additional Board oversight of the Group's financing arrangements. The Finance Committee met twice in 2012 and following the successful completion of the Group's re-financing in March 2012 the Finance Committee was disbanded in April 2012.

In addition executive management are assisted by the work of the Group Executive and its sub-committees. Together these form part of the Company's corporate governance framework, but are not formally appointed committees of the Board.

Group Executive Committee— Responsible under the leadership of Gavin Darby for the day-to-day management of the business, setting performance targets and implementing the Group's strategy and direction as determined by the Board. The Committee is also responsible for the effective implementation of policies taking into account changes in regulations and other business risks. The Committee drives effective risk management throughout the business and makes recommendations to the Audit Committee as appropriate; monitoring and reporting on all material business risks which might impact the delivery of the Group's strategic goals and objectives; and agreeing with management appropriate mitigating actions.

Members of the Committee include Gavin Darby, Mark Moran and members of the Group Executive.

Sustainability Steering Group — Responsible for providing direction to, and oversight of, the implementation of the Group's sustainability programme which is built around the five core themes, these being; Buying Responsibly, Sustainable Manufacturing, Nutrition & Quality, Our People and Giving. Its objective is to identify and mitigate, both environmental and social risks in order to protect and enhance the Group's reputation and build trust amongst its many stakeholders. The Sustainability Steering Group is made up of members from the Group Executive and senior operational management.

Treasury Risk Management Committee — Responsible for the oversight of designated material foreign currency and commodity exposures and agreeing with senior management appropriate mitigating actions. Members of the committee include members of the Group Executive and senior operational management.

For further details of the role of the committees See pages 53-65

Did you know?

83%

We have reduced our RIDDOR reportable accident frequency rate by 83% since 2007.

Risk Management

ACCOUNTABILITY

Managing our risks to achieve our strategic objectives

Our risk control framework operates as follows:

Group Governance Framework		
Board Review		
1st Line of Defence	**2nd Line of Defence**	**3rd Line of Defence**
Organisation & Management Control processes	Policies Procedures Risk Management	Internal Audit Other third party Audit

Q: What are the Board's responsibilities for Risk Management?

A: Effective risk management is integral to the achievement of the Group's strategic objectives. The Group has a well established governance structure which was operated throughout 2012 that identifies and monitors the key risks, puts in place mitigating activities and reports on their effectiveness.

The Board has ultimate responsibility for ensuring that business risks are effectively managed. The Board has considered and approved the risk management policy, the risk appetite of the Group and has delegated the review of the risk management process to the Audit Committee. The Audit Committee receives regular reports from management, internal and external auditors, detailing the effectiveness of our internal controls applied to the relevant risk and any required remedial actions along with an update on their implementation.

The day to day risk management is the responsibility of senior management as part of their everyday business processes and is underpinned by the Group's policies and procedures to ensure this is fully embedded. There is a structured business review process that operates across all business areas which ultimately reports to the Board and this along with the corporate governance framework further underpins the ongoing management of risk.

Q: What are the aims of the internal control system?

A: The internal control system provides senior management with an ongoing process for the identification, evaluation and management of the risks that could impact on the fulfilment of the Group's business objectives. The system is designed to manage rather than eliminate risk and provides reasonable but not absolute assurance against material misstatement or loss. The system also supports senior management's decision making processes improving the reliability of business performance.

Q: How is the Group's internal audit programme decided?

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

Q: How are internal controls monitored?

A: Annually comprehensive internal control assessment questionnaires are submitted by senior management from all areas of the Group. These give an assessment of the effectiveness of controls to mitigate key risks to an acceptable level. The results of these assessments are reviewed by executive management and presented to the Audit Committee.

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

Q: Does the Board conduct an annual review of internal controls?

A: In accordance with the Turnbull Guidance an annual review of internal controls is conducted. The Board has delegated authority to the Audit Committee to regularly monitor internal controls and conduct the full annual review. This review covers all material controls such as financial, operational and compliance, and also the risk management system in place throughout the year under review up to the date of the annual report. The Committee reports the results of this review to the Board for discussion and agreement on the actions required to address any material control weaknesses.

Q: What financial reporting controls are in place?

A: The Group maintains a strong system of accounting and financial management controls.

Our accounting controls ensure data in the Group's financial statements is reconciled to the underlying financial systems. A review of the data is undertaken to ensure that the true position of the Group is reflected, through compliance with approved accounting practices.

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

Q: Does the Group have a formal risk management process?

A: The Group operates a formal risk management process designed to provide assurance to the Board and support the executive and senior management in identifying and mitigating the key risks facing the business on an ongoing basis.

There are four key elements to the process;

1. The executive's collective top down review of risks, facilitated by the Director of Internal Audit and Risk creating the corporate risk register;
2. The bottom up view of risk is determined by management for each key business area supported by a member of the Group Executive.

Both elements above are captured in risk registers and for each risk identified an owner assigned, mitigating actions are developed and monitored on an ongoing basis.

3. Appropriate operational procedures and controls have been put in place to mitigate these risks and all employees are provided with appropriate information training and supervision; and
4. Our control environment is regularly audited by internal audit, third parties with specific experience in systems, (e.g. health & safety food hygiene requirements) and by our external auditors.

The Group Executive provide the link between the Corporate and individual risk registers ensuring that a consistent view is maintained and major risks to the business are appropriately identified. This is reviewed as a standing item in the monthly Group Executive meetings.

The corporate risk register is presented to the Audit Committee for consideration on behalf of the Board twice per annum. Included within this review is a session of the non-executive directors without the presence of management but including both the Director of Internal Audit and Risk and the external audit partner. The purpose of this session is to provide additional challenge to the internal risk process. The Audit Committee also review the effectiveness of the controls designed to mitigate the risks identified through the activities of the various audit functions.

Q: What are the current principal risks facing the Group and what actions have been taken to manage them?

A: The business monitors and manages the principal (high Gross) risks facing the business. Over the page we highlight these risks, what activity we have in place to mitigate them, as well as those activities that we have completed in order to reduce the risk to an acceptable level.

Case study — Managing Business Separation Risk

We have undertaken a significant number of business disposals amounting to £369.5m in value in 2012. This will allow the business to focus on its core Power Brands and also aids business simplification and drives the reduction in overhead costs. The disposals involve complex transitional services between the Company and buyer to ensure an orderly separation of the business. To manage this effectively we have established a dedicated project team involving Sales, Finance, Technical, Logistics, Procurement, ISC and HR. This ensures that orders, production and delivery standards are maintained for our customers. Transitional arrangement typically involve 3 phases.

SCOPING – PRE SIGNING

Initial process to understand potential separation complexities with the disposal and agreeing the approach with the business. Working with the purchaser to establish likely requirements for assistance during the transitional service and designing detailed service scope, duration and costs which complement their existing infrastructure.

PROCESS DESIGN – POST SIGNING

Establishing a joint steering team to manage the process for both parties and jointly agree and design operational processes to support the transitional services. This is the critical phase and a single disposal can involve over 120 specific process designs. Service users are provided with comprehensive training to ensure seamless business as usual operation from day 1.

TRANSITIONAL SERVICES – POST COMPLETION

Operation of transitional services begins on a business as usual basis. We jointly execute plans with the buyer and monitor progress against plan. We work with the buyer to agree the approach and timing of the final separation and ensure this is communicated and coordinated with customers and suppliers.

Risk Management

Business Strategy and reliance on business recovery

1. Power Brands and restructuring

Risk
The Group has strategically focused on its eight Power Brands which management believes has the strongest potential for long term sustainable growth. This strategy relies on simplification and cost saving initiatives to improve the underlying performance of the business. All or any of these initiatives may fail to improve performance and consequently have an adverse impact on the Group's financial position.

Mitigation
The strategy is clear and a strong management team is in place to execute it. There is continuous review of progress against key milestones and regular engagement with all stakeholders.

Trading

2. Market place risks

Risk
The Group operates in a highly competitive environment, exacerbated by continued difficult general economic conditions, and in fast moving sectors of the food industry.

If we are unable to respond to consequent changes in consumer requirements on price or quality, the demands of our customers in supporting our products with sales and marketing spend and the reactions of our competitors on innovation and profitability this could adversely impact the Group's performance.

Mitigation
For the consumer the Group will focus on brand differentiation, demonstrating quality, taste and more convenient packaging. We will drive investment in new product development, where we have a good track record, anticipating 10% of sales in FY13 from this activity. We regularly monitor consumer trends and consumption habits to inform this activity. We will focus our marketing activity in support of our core brands.

With our customers we will use our new organisation structures in sales and marketing to continue to work collaboratively with appropriate strategies for each channel. With the major retailers we develop joint business plans aligning our pricing and promotional activities.

We will maintain our competitiveness through our restructuring of the Group, in FY12 we announced ongoing annual costs savings exceeding £40m. In FY13 we will focus on the supply chain within the Bread division and continue to challenge costs throughout the business.

3. Changes in the cost and availability of raw materials

Risk
The Group purchases its raw materials, many of which are commodities, from numerous suppliers and many of these raw materials are subject to potentially significant price fluctuations. If the costs of raw materials were to rise and the Group was unable to absorb/mitigate or pass such increases on to its customers in full or in a timely manner, then its operating profits and cash flow would be adversely affected. If the supply of any of the Group's raw materials is constrained for any reason this could also have an adverse impact on the business.

Mitigation
We have experienced continued inflation in raw materials throughout FY12. However our targeted forward buying of products through the centralised procurement function has effectively managed our exposure to these increases. We have also used our supplier relationships to manage our raw materials supply protecting quality whilst effectively managing cost. We will continue with this effective approach through FY13.

Financing

4. Banking covenants

Risk
The Group continues to operate with a high level of debt (£0.9bn) and is subject to operating within banking covenants set out in its re-financing agreement agreed with its bank syndicate in March 2012. This includes net debt/EBITDA and EBITDA/interest covenant tests. In the event these covenants are not met then the Group would be in breach of its financing agreement and, as would be the case in any covenant breach, the banking syndicate could withdraw their funding to the Group.

In addition to covenant compliance the Group must ensure that it manages its liquidity such that it has sufficient funds to meet its obligations as they fall due.

The Company does not pay dividends and this is a restriction under the terms of its financing arrangements. The Group is also restricted from raising additional forms of debt finance (other than a basket of c.£20m) and is not able to use free cash flow for acquisitions.

Mitigation
The Group successfully finalised financing arrangements in March 2012 which will provide funding until June 2016. The Group achieved its trading expectations for FY12, its lender agreed divestment programme and successfully implemented a debtor securitisation program to provide additional funding and liquidity.

The Group reviews it's performance on an ongoing basis and formally tests and reports on covenant compliance to the Group's banking syndicate every six months as well as providing forecast covenant compliance tests twice a year. In the event of a forecast covenant breach the Group would seek a covenant waiver or amendment from its banking syndicate, which it could obtain with a two-thirds majority vote.

The Group manages liquidity risk through both the treasury and finance functions. Cash flow forecasts are prepared and reviewed on a weekly basis, normally covering a period of three months. In addition, cash flow forecasts are prepared as part of the Group's overall budgeting and forecasting processes and performance is monitored against this each month.

5. Pensions liability

Risk
The Group supports three defined benefit pension schemes in the UK. All three schemes have significant technical funding deficits which could have an adverse impact on the financial condition of the Group. The level of deficit fluctuates with changes to the underlying assumptions in calculating both the assets and the liabilities of the schemes. Adverse movements in these assumptions could impact on the level of deficit.

Mitigation
Funding agreements have been reached with the trustees of the pension schemes which coupled with the changes to the schemes in the prior year mitigate our exposure in FY13. The Group continues to monitor the pension risks closely working with the trustees to ensure a collaborative approach.

Industry Risks

6. Health & safety

Risk
By the nature of production and warehouse environments the Group carries a level of intrinsic risk from these activities. The Group is subject to legislation and regulations in the UK with respect to the health & safety of its employees, permanent contractors and visitors. Violations of such laws could lead to significant fines and imprisonment of its directors.

Mitigation
The Group maintains an excellent health & safety record by constantly re-enforcing high standards of protection and creating a culture that ensures all personnel on site are made acutely aware of risks and procedures designed to mitigate them. Each site retains responsibility for its own health & safety supported by central co-ordination of monitoring and reporting and a training and education program. Through our Total Observation Process (TOPs) we make health & safety an inherent part of each employee's day to day responsibility.

7. Food regulation

Risk
As a food manufacturer, the Group is subject to legislation and regulations in relation to food and its production. Violations of any laws could result in fines and sanctions as well as reputational risk with consumers and customers. Should any product contamination occur, it could lead to product recalls or liabilities to customers or consumers. Health scares can significantly impact demand for certain foods.

Mitigation
The Group has developed and implemented a policy to ensure that its entire business understand and comply with relevant laws and regulations. The Group has an excellent food safety record and continues to focus on high levels of operational control and continued improvement in all related areas. We have a leading technical function which sets high standards for hygiene and product quality, and these processes are subject to internal review and frequent external monitoring.

Employee motivation and retention

8. Management and employee motivation and retention

Risk
The level of restructuring experienced by the Group has been significant over the past two years. Poor management of this restructuring and lack of effective succession plans could lead to a loss of critical knowledge and a lack of continuity damaging our operating performance. In addition poor employee engagement could adversely impact our ongoing change programme. Degradation of our control processes due to a lapse in management controls could lead to reputational damage to the business as well as financial loss suffered through areas such as breaches, bribery and corruption or unfair competition regulations.

Mitigation
We have put in place a program of communication covering our vision, values and behaviours as well as clearly re-enforcing our strategy to our employees. Our restructuring has been managed in a manner which treats those impacted with respect, has ensured appropriate compensation and support in areas such as outplacement advice whilst also ensuring that those individuals who we wish to retain in the business to drive and deliver our strategy understand and are enthused about their new or ongoing roles. We continue to provide all our employees with learning and development opportunities supported with an ongoing personal performance management process. We have implemented a policy and relevant procedures to deal with the requirements of the Bribery Act 2010. These are regularly communicated and in FY13 we will conduct a full review of the effectiveness of this process.

Business separation

9. Business disposals

Risk
Our business disposals have involved complex transitional service arrangements between the company and respective buyers to ensure an orderly separation over a 6 to 12 month period. These arrangements include us providing indemnities and warranties in favour of the purchasers which if breached may result in financial claims against the Group, and continuing to service customer needs in various product categories for the period of transition. Poor management of these activities could result in financial loss and reputational damage with our customers.

Mitigation
We have established dedicated project teams drawn from various functions of the business to manage these transitional arrangements to ensure that orders, production and delivery standards are maintained to our customers. We have placed a significant emphasis on ensuring the arrangements have been properly scoped and designed working with the buyer in joint steering teams. We have developed joint operating plans with the buyers and ensured these are communicated and co-ordinated with customers and suppliers.

Our legal team have a good record of transactional management and in each sale have undertaken an appropriately thorough disclosure process and negotiated robust legal documentation to mitigate the risks of claims from the purchasers.

Systems infrastructure

10. Systems infrastructure

Risk
Disruption to systems as a result of new implementations, natural disasters, systems failures or breaches in systems security may result in a significant loss of operation or of competitive advantage. Breaches in systems security could also result in breaches of data protection regulation.

Mitigation
During the course of our core systems implementation, the majority of which is now complete, we have developed a well established and tested implementation process which will be applied to the few remaining areas of the business. We have in place a robust disaster recovery process which is regularly tested and the lessons learnt incorporated into our procedures. The Group operates an IT governance framework including relevant policies, has put in place a management structure to effectively monitor systems performance with structured change management, systems lifecycle and capacity planning. We also have a dedicated systems access process which is managed within our IT function but also works in conjunction with the business to ensure appropriate controls are maintained to minimise the risks of unauthorised access.

Communication

11. External communications

Risk
If the Group does not effectively communicate with its external audiences, shareholders, analysts, our financing partners, customers, suppliers and the media it may impact on our share price or result in reputational damage.

Mitigation
The Group has a dedicated in-house Corporate Affairs department and a professional PR agency who work with management and the Group Executive to ensure all external communications are appropriately addressed. All significant corporate communications are reviewed by the Group Executive and where appropriate by the Board prior to release.

Corporate Governance

RELATIONS WITH SHAREHOLDERS

Q: How does the Company engage with shareholders?

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

The Board believes it is very important to engage with its shareholders and does this in a number of ways through presentations, conference calls, investor roadshows, face-to-face meetings and the AGM. Following the announcement of the Group's half year and year-end results, presentations are made to analysts, banks and major shareholders to update them on the progress the Group has made towards its goals and invite them to ask questions.

Currently around eight sell-side research analysts publish research on the Group. Full details on results presentations, RNS releases, interim management statements and conference calls are available on the Group's website:

www.premierfoods.co.uk/investor-relations/

The Company Chairman and Senior Independent Director speak with major shareholders on a regular basis and brief the Board to ensure that they are aware of the views of shareholders. In addition meetings were held over the year with many of the Company's largest shareholders as part of a review of Remuneration arrangements (see page 56 for further information).

The main channel of communication to institutional investors is through the CEO, CFO and Head of Investor Relations. The CEO and CFO are available to meet with shareholders during the year; the Chairman and Senior Independent Director are also available to discuss any issues and concerns of shareholders and welcome questions posed to the Board and committees.

Q: How does the Company engage with other stakeholders?

A: The Company holds meetings throughout the year with key stakeholders.

Pensions

The Group has established a Pensions Liaison Forum which meets quarterly. This is attended by the CFO, General Counsel & Company Secretary, Group Pension Manager and Chairmen of the Group's pension schemes. The CEO attends the Forum twice yearly. The Forum discusses and develops funding and investment strategies for the Group's pension schemes and any other pension issues that might impact the schemes and/or the Group.

Banks

Members of the Group Executive hold regular meetings with the Company's banking syndicate to update them on the Group's financial performance and management were able to confirm the completion of the planned divestiture programme at the end of 2012, well in advance of the June 2014 timetable.

Suppliers

The Group holds a conference with the Group's leading suppliers on an annual basis which is attended by executive directors and members of the Group Executive. This is an opportunity to update suppliers on the Group's strategy and growth plans. Due to the focus on the Group's restructuring during 2012, no supplier conference was held; however a conference is being planned for 2013.

Sustainability

We work with a number of Government departments, non-ministerial Government departments (such as the Food Standards Agency) and other regulatory agencies as well as trade associations (such as the Food and Drink Federation). We engage with these bodies in order to identify and understand key issues facing the food industry and listen to their opinions and guidance — all of which helps to inform our internal policy making.

Q: How is the Board updated on the latest shareholder information?

A: The Board receive a detailed investor relations update at each Board meeting which covers (amongst other things) share price movements, shareholder register movements, analyst reports, a summary of investor meetings and other recent activity. The Board also receives comprehensive feedback from the Company's brokers, following investor roadshows after half year and year-end results.

Did you know?

70m

In 2012 we bought 70 million litres of milk from our British Farm Assured milk suppliers for our Ambrosia Creamery in Lifton, Devon.

Committees

AUDIT COMMITTEE

Ian McHoul
Senior Independent Director/Chairman of the Audit Committee

Over the course of the year there have been a number of significant one off items which have required careful consideration by the Committee to ensure that the appropriate accounting treatment has been adopted and that clear disclosure has been given in the financial statements.

The Committee's terms of reference are available on the Group's website:
www.premierfoods.co.uk/about-us/corporate-governance

The Committee has responsibility, on behalf of the Board, for reviewing the effectiveness of the Group's financial reporting systems and the internal control policies and procedures for the identification, assessment and reporting of risk. The Committee also keeps under review the relationship with the external auditors, including the terms of their engagement and fees, their independence and expertise, resources and qualification, and the effectiveness of the audit process.

Q: Who is on the Audit Committee and how frequently did they meet in 2012?

A: The Committee held four scheduled meetings in the year and an additional meeting was convened for specific business. The Committee met with the internal and external auditors on two occasions in the year without the presence of management. The Committee members are set out in the table below, together with detail of their meeting attendance during the year.

Audit Committee Membership and Attendance

	Number of possible meetings attended	Actual meetings attended
Members		
Ian McHoul (Chairman)	4	4
Ian Krieger	1	1
Jennifer Laing	1	1
David Wild	4	4
Former Members		
David Beever	2	2

Ian McHoul and Ian Krieger both have recent and relevant financial experience, Mr McHoul as the Chief Financial Officer of AMEC plc and Mr Krieger as Vice-Chairman of Deloitte until his retirement in 2012. David Beever was also a member of the Committee until June 2012, however, following his appointment as Chairman it is no longer considered appropriate for him to be a member, although he will still attend meetings by invitation.

In addition to the Committee members, the following individuals are regularly invited to the Committee's meetings; the CFO, Director of Internal Audit and Risk, External Audit Lead Partner and CEO. The General Counsel & Company Secretary attends in his capacity as Secretary of the Committee.

Q: What is the role of the Committee?

A: The Committee has been delegated authority by the Board to:

- Monitor financial reporting, including the annual and interim reports, preliminary results announcements and formal announcements relating to financial performance and reporting;
- Ensure the effectiveness of the Group's internal controls and risk management systems;
- Review and update the whistleblowing arrangements;
- Monitor and review the effectiveness of the Group's internal audit function, including the approval of any appointment or removal of the head of the internal audit and risk function;
- Consider and make recommendations to the Board on the appointment, reappointment and removal of external auditors including the setting of their remuneration;
- Review the external auditors' independence and objectivity and the effectiveness of the audit processes.

Q: Who are the Group's auditors and how long have they held office?

A: Since the Company was listed on the London Stock Exchange in July 2004 PricewaterhouseCoopers LLP ("PwC") have been the Group's auditors. Following revisions to the Code in 2012, going forward large listed companies will be required to put an external audit contract out to tender every ten years or explain why it has not.

The external auditors are required to rotate the audit partner responsible for the Group and subsidiary audits every five years and a new lead audit partner was appointed in 2012. The FRC's transitional arrangements guidance suggest that if an audit partner rotation has recently occurred, it may be appropriate for a listed company to conduct its next audit tender towards the end of the current audit partner rotation, i.e. in 2017. There are no contractual obligations restricting the Group's choice of external auditors.

Committees

Q: How does the Committee monitor the effectiveness of the external auditor?

A: Annually the Committee reviews the relationship the Group has with PwC. The review is conducted by a questionnaire addressed to key management following the year end audit. The responses are collated and reviewed by the company secretariat and the results are categorised, prioritised and presented to the Committee for their review. While there were no significant failings or weaknesses identified in the external audit process for 2012, there were areas where improvement could be made and these recommendations were included in the 2012 external audit plan. The Committee conducted a follow up review and was satisfied that the recommendations had been addressed following the half year audit process.

For the year ended 31 December 2012 the Committee was satisfied with the effectiveness of the external auditor. At the 2013 AGM the re-election of PwC as the Group's auditors will be proposed to shareholders.

Q: What non-audit services were provided by the Group's auditors during the year?

A: There is an established policy governing the engagement of PwC for non-audit services designed to ensure that any non-audit services provided do not impair the independence and objectivity of the external auditors. The policy includes a fee limit for the provision of non-audit services; above which a formal tender process must normally be undertaken. During the year PwC was engaged to provide advice on the re-financing agreement and working capital statements in connection with two disposals. The Committee regularly reviews the level of non-audit fees throughout the year. The Committee also received an update from the external auditors lead partner on their internal controls to safeguard their independence.

Before commissioning PwC to undertake this work the Committee reviewed the proposal in detail with both management and PwC to assess any potential threat to their independence. The Committee is aware of, and sensitive to, investor body guidelines on non-audit fees. However, given the nature of work required in connection with the re-financing of the Group in 2011/2012 and subsequent disposals it was assessed that PwC were best placed to perform these additional services in view of their knowledge of the business, the time constraints in completing the work and the likely cost.

Following the signing of the re-financing package in March 2012 and early completion of the planned disposals programme, the Committee believe the level of non-audit fees will be significantly lower in the current financial year and within a level acceptable to investor guidelines. As at the date of this report PwC have not been engaged to undertake any further non-audit work.

Q: What significant issues did the Committee discuss during the year?

A: During the year the Committee:

- Considered a number of key accounting matters including matters relating to pensions, accounting for disposals and impairment;
- Received regular reports from the internal audit function, ensured it was adequately resourced, monitored its activities and effectiveness, and agreed the annual internal audit plan;
- Conducted a review of the effectiveness of the internal control system including Internal Control Self Assessments;
- Agreed the appointment of a new Director of Internal Audit and Risk;
- Reviewed operational accounting issues including the shared service centre in Manchester, the processes for reviewing and recovering commercial debtors and the control and accounting for inventory;
- Received updates on the Group's whistleblowing arrangements;
- Reviewed the non-audit services spend and approved the engagement of PwC as an adviser in relation to disposal projects;
- Conducted an internal review of the Group's external auditors which included a review of the auditors' independence, objectivity and the effectiveness of the audit process; and
- Considered the external auditors' report for the year ended 31 December 2011 and recommended the reappointment of the external auditors.

Going concern

The Group entered into a revised facility agreement in March 2012 which provides financing to 2016. There are a number of covenants to which the Group must adhere including financial measures and an undertaking to generate disposal proceeds of £330m by 30 June 2014 (which has been met). The Committee regularly monitors covenant and liquidity headroom in light of trading performance and the potential impact of a range of downside scenarios. The assessment of going concern also takes into account the work undertaken by PwC as part of the working capital exercise for the disposal circulars that were sent to shareholders in 2012. The Group's auditors are also required to form their own assessment of going concern as part of their ongoing audit work.

Following review the Committee is satisfied with the going concern basis of preparation.

Ian McHoul
Chairman of the Audit Committee

NOMINATION COMMITTEE

David Beever
Non-executive Chairman/Chairman of the Nomination Committee

There have been a number of changes in the Board's composition in 2012 and I am delighted that Jennifer Laing and Ian Krieger have joined the Board as non-executive directors to ensure we maintain an appropriate balance of skills, experience and independence on the Board.

The Committee's terms of reference are available on the Group's website:
www.premierfoods.co.uk/about-us/corporate-governance

The Committee is responsible for considering the size, structure and composition of the Board, retirement and appointment of additional directors, and making appropriate recommendations so as to maintain an appropriate balance of skills and experience on the Board. The Committee reviews the succession requirements of the Board and senior management (including the need for diversity) on an annual basis and makes recommendations to the Board as appropriate.

Q: Who is on the Nomination Committee and how frequently did they meet in 2012?

A: The Committee held six scheduled meetings during the year. The Committee members are set out in the below table, together with detail of their meeting attendance during the year.

Nomination Committee Membership and Attendance

	Number of possible meetings attended	Actual Meetings attended
Members		
David Beever (Chairman)	6	6
Ian Krieger	3	3
Jennifer Laing	3	3
Ian McHoul[1]	6	5
Charles Miller Smith	6	6
David Wild	3	3
Former Members		
Louise Makin	3	3
Ronnie Bell	3	3

[1] Ian McHoul missed the November 2012 Committee meeting due to a business commitment with AMEC plc.

Q: What is the role of the Committee?

A: The Committee has been delegated authority by the Board to:

- Lead the formal, rigorous and transparent process for Board appointments including a review of the skills, experience and knowledge of the existing directors to ensure any potential shortlisted candidates will benefit the balance of the Board;
- Give full consideration to succession planning taking into account the challenges and opportunities facing the Group and what skills and expertise would benefit the Board in the future;
- Regularly review the structure, size and composition (including independence, knowledge, diversity) of the Board and make recommendations to the Board regarding changes; and
- Agree the job specification for the Chairman, including an assessment of the time commitment expected, recognising the need for availability in the event of a crisis.

Q: What key issues did the Committee discuss during the year?

A: As highlighted on page 38 there have been a number of changes to the Board in 2012 and most significantly the appointment of a new CEO in January 2013. Following Ronnie Bell's decision to step down as Chairman in June 2012, the composition of the Board was reviewed and a number of appointments made to ensure orderly succession planning and that the balance of skills on the Board was refreshed. As required by good governance, Ronnie Bell did not participate in the process to appoint his successor.

Changes in the year included the appointment of myself as Chairman, the appointment of Jennifer Laing and Ian Krieger as non-executive directors. The Committee also reviewed the appointment of Geoff Eaton as Chief Operating Officer and in 2013 the appointment of Gavin Darby as Chief Executive Officer. External search agencies were used for all appointments to ensure that a rigorous and transparent process was undertaken. These agencies were independent of the Company and their engagement was conducted on an arms length basis.

In addition the Committee reviewed the talent management process and succession plans for each member of the Group Executive.

As noted earlier a succession plan is under consideration for Ian McHoul whose third term of appointment automatically expires in July 2013.

David Beever
Chairman of the Nomination Committee

Remuneration report

PART 1: UNAUDITED INFORMATION

The directors' remuneration report provides information on the Group's overall remuneration strategy as well as detailed disclosure of directors' remuneration and long-term incentive arrangements. A resolution will be put to shareholders at the Company's 2013 AGM inviting them to approve this report.

David Wild
Chairman of the Remuneration Committee

"Over the last few months we have met with our key shareholders to listen to their views, explain the remuneration decisions we made in 2012 and outline our proposals for 2013."

Dear Shareholder

This is my first report as Chair of the Remuneration Committee having served as a member since March 2011. We have made a number of significant decisions as a result of recent Board changes and an overview of these are set out below. The Committee's overall remuneration strategy remains broadly unchanged and recognises the complexity of the business, the challenges it faces and the need for executive directors with significant experience to continue the business turnaround. Our focus is on rewarding performance – the majority of executive remuneration (approximately 70%) is variable and only payable if demanding performance targets are met. These performance targets are firmly linked to our strategy and ultimately aligned with shareholders' interests in delivering earnings growth and improved shareholder value in the medium term.

CEO change and implications for Remuneration

As indicated in the Chairman's statement on page 10 on 28 January 2013 we announced a change of Chief Executive Officer (CEO). Michael Clarke, having delivered the initial turnaround of the Company and positioned the Company for future sustainable growth, indicated to the Board that he wished to pursue other business opportunities.

The Board was pleased to announce the appointment of Gavin Darby in succession to Michael Clarke. He has a strong background in consumer goods and an exceptional management track record. The remuneration package that we have agreed reflects his experience and was necessary to secure an individual with his talent.

Michael Clarke's arrangements

- He will be employed by the Company to ensure a smooth transition until 30 June 2013. During this time he will receive his salary, benefits and a cash allowance in lieu of pension. No payment will be made in respect of the unexpired portion of his notice period.
- No bonus will be payable in respect of the period of 2013 that he works. His 2012 award under the Premier Foods Long-Term Incentive Plan (LTIP) of 1,304,347 shares issued in March 2012 will lapse on 30 June 2013.
- He was given two deferred awards in 2012 in recognition of bonuses/incentives forfeited from his previous employer. The first of these awards comprising 500,000 shares and a cash payment of £241,500 has vested and will remain exercisable for 12 months. The second of these awards comprising 375,000 shares and a cash payment of £181,125 will lapse.
- He earned a bonus equivalent to 100% of salary for 2012 (out of a maximum bonus opportunity of 150% of salary); this amounts to £750,000. The performance targets for 2012 contained two elements specific to him to reflect the challenges facing the business: firstly 50% relating to the re-financing of the Company and; secondly 50% relating to various financial targets and other strategic measures. The Committee considered that the completion of the re-financing in March 2012 was of critical importance to the business, protecting the interests of all stakeholders and providing the necessary space for the business to execute its turnaround plans. It was agreed that this element had been fully achieved. In addition it was agreed that he had successfully delivered on a range of key strategic priorities in the year and therefore one third of the second element of the performance condition had been met.
- No other payments will be made.

Gavin Darby's arrangements

Gavin Darby's remuneration reflects the calibre of the individual the Board has recruited.

- Annual base salary of £700,000, to be reviewed in April 2015, has been set at a level below that of his predecessor.
- Cash allowance in lieu of pension (due to the restrictions of the Lifetime Allowance) of 20% of base salary.
- Annual bonus opportunity of 150% of salary, 75% payable in cash and 25% in shares. Payment of the bonus will be dependent on the following conditions:
  - Half of the bonus will be dependent on performance against turnover, gross profit, trading profit and cashflow targets subject to achievement of a threshold level of trading profit.
  - One third will be dependent on the achievement of short and medium term strategic objectives which are specific to his role as CEO, subject to achievement of a threshold level of trading profit. For 2013 the Remuneration Committee has determined that these objectives include Power Brand development, defining a strategic plan for Bread and delivery of cost reduction plans.
  - The remaining one sixth will be dependent on personal performance focused on the creation of a cohesive high performing leadership team and the development of effective relationships with key stakeholders.
- Annual grant of shares with a face value of 200% of salary under the Premier Foods Long-Term Incentive Plan subject to the same conditions as for the other executive director. For 2013 the award will be dependent on the Company's average Total Shareholder Return over the three months following the announcement of the 2015 results and the adjusted EPS achieved for the 2015 financial year. These measures were used for 2012, however, the Remuneration Committee has decided that for 2013, as it is critical that executives should be focused on improving the Company's share price, the weighting applied to each measure should be altered so that two-thirds of the award will be dependent on absolute TSR performance and one-third on adjusted EPS performance. The precise targets are set out on page 62. Adjusted EPS and absolute share price performance are considered the most appropriate measures of the Company's performance by reflecting profitability as well as measuring the recovery in the Company's share price.
- It was agreed that on appointment Gavin Darby would acquire shares in the Company worth 100% of his salary and on 21 February 2013 he acquired 750,268 shares. In return it was agreed that the Company would make a matching award of shares to him worth 200% of his salary (the Co-investment award). This enables Gavin to satisfy the Company's share ownership guidelines at the start of his appointment and aligns his personal interests with shareholders' interest from early in his tenure to focus on delivering share price growth. A third of these matching shares will vest on each of the first, second and third anniversaries, subject to a bonus having been paid for the relevant financial year and continued employment. These shares will vest in specified circumstances or on a change of control. Further details of the Co-investment award are set out on page 62.

David Beever

Mr Beever was appointed as Chairman in June 2012, having served as a non-executive director since 2008 and as Senior Independent Director from April 2011. His fee has been agreed as £265,000 which reflects the significant time commitment required to fulfil the role.

Engagement with shareholders

There was a significant vote against the Remuneration Report at the AGM in 2012 and it was therefore important for me to meet with our key shareholders to listen to their concerns and also explain the reasons behind the remuneration decisions we made in 2011 and 2012. As a result I held a number of meetings with both shareholders and investor representative bodies over the course of 2012 which were very constructive. We have continued this dialogue with shareholders in 2013 to discuss remuneration arrangements for Gavin Darby and also our plans for the coming year.

Remuneration strategy and proposals for 2013

The strategy and structure of remuneration is broadly in line with that used for 2012 with the exception that, as noted above, the weighting of the performance conditions for the LTIP have been amended. The performance conditions are linked to strategy and the targets are considered to be stretching. Full details are set out under their specific headings.

David Wild

Chairman of the Remuneration Committee

Remuneration report

Summary of 2013 Remuneration

Element of Pay	Purpose and link to Strategy	Quantum	Changes for 2013
Salary	• Provides an appropriate level of fixed income. • Set at levels to attract and retain talented individuals with reference to market rates. • Assessment by the Committee of the specific experience and responsibilities of the individual. • Annual increases may, exceptionally, result from significant changes to an individual's responsibilities. • Consideration of pay conditions for all employees within the Group. • Reviewed annually, effective 1 April in conjunction with those of the wider workforce.	Gavin Darby £700,000 Mark Moran £425,000	There were no changes to executive directors salary in 2012. Gavin Darby's salary will not be subject for review until April 2015 and any change for Mark Moran will be considered in line with increases for the rest of the Group.
Annual Bonus	• Designed to incentivise delivery of annual financial and operational goals and directly linked to delivery of the Group strategy. • Bonus payments are not pensionable.	Gavin Darby Maximum award — 150% of salary 25% of any bonus payment to be made in the form of shares. Mark Moran Maximum award — 75% of salary.	No change in quantum of award in 2013. Specific performance targets set for 2013 aligned with delivery of business plan and short and medium term strategic objectives.
Deferred Share Bonus Plan	• Performance conditions based on branded sales turnover and trading profit. • Clear link to the strategy of continuous improvement in the sale of branded products emphasising the importance of profitability through the use of sales value and the inclusion of trading profit. • Two year share retention aligns with shareholders interests. • Underpin: delivery of threshold level of trading profit. • Clawback provisions apply.	Gavin Darby CEO does not participate in the DSB. Mark Moran Maximum award - 30% of salary.	No change in quantum of award or performance conditions for 2013.
Long-Term Incentive Plan	• Performance conditions based on absolute TSR (2/3rds) and adjusted EPS (1/3rd). • The targets are aligned with shareholder return and also capture improvements in trading profit The LTIP provides a clear link to our strategic goal of returning to profitable growth with sustainable share price growth over the long term. • Annual grant of awards, three year performance period. • Clawback provisions apply.	Maximum individual limit under the Plan of 200% of salary. Normal award levels: Gavin Darby Up to 200% of salary Mark Moran Up to 150% of salary	No change in quantum of award. Weighting of specific performance measures amended to increase focus on shareholder return.
Pension	• Provides retirement benefits. • Opportunity for executive directors to contribute to their own retirement plan. • Together with salary represents the only fixed elements of remuneration.	Gavin Darby Receives an allowance of 20% of salary in lieu of pension provision. Mark Moran Receives an allowance equal to 9% of the Earnings Cap (£137,400) and a supplement of £20,960 in respect of tax year 2012/13.	No change in arrangements for 2013.

Element of Pay	Purpose and link to Strategy	Quantum	Changes for 2013
Other benefits	Each executive director is entitled to: • Car allowance and fuel cost; • Private health insurance; • Life insurance; • Telecommunication services; • Allowance for personal tax and financial planning; and • Benefits generally in line with those granted to management grade across the group. • In addition Gavin Darby has the use of a chauffeured car exclusively for business purposes.	Company car used within terms of corporate car use policy.	No changes are planned for 2013.
Share Ownership Guidelines	• Provides an effective means of aligning directors' interests with those of our shareholders. • Executive directors are expected to build a holding of shares within three years of appointment at least equal to their annual salary (valued at the time of purchase).	• Shareholding at least equal to their annual salary within three years of appointment. • Gavin Darby and Mark Moran met this requirement on, or soon after, appointment.	No changes are planned for 2013.

The Committee

Q: Who is on the Committee and how frequently did they meet in 2012?

A: The table below identifies the Committee members and attendees. In accordance with the Committee's terms of reference, no one attending a Committee meeting may participate in discussions relating to his/her own terms and conditions of service or remuneration. Only independent non-executive directors may become members of the Committee. In addition the CEO, Group HR Director and New Bridge Street (remuneration advisors to the Committee) regularly attend by invitation. Over the course of the year the Committee held five scheduled meetings and details of attendance at the meetings are shown below.

Members	Number of possible meetings attended	Actual meetings attended
David Wild	5	5
Ian Krieger	1	1
Jennifer Laing	1	1
David Beever	5	5
Former Members		
Louise Makin	3	3
Ronnie Bell	3	3

David Wild was appointed Chairman to the Committee in August 2012. Ronnie Bell and Louise Makin resigned as non-executive directors on 1 June and 30 September 2012, respectively. Jennifer Laing and Ian Krieger were appointed to the Committee on 1 October and 1 November 2012, respectively. Following his appointment as Company Chairman in June 2012, David Beever will remain as a member of the Remuneration Committee but is no longer considered independent under the terms of the UK Corporate Governance Code.

Q: Who advises the Committee?

A: New Bridge Street (NBS) (a trading name of Aon Hewitt Ltd) have been appointed as advisers to the Committee. During the year NBS provided advice in connection with executive remuneration arrangements. NBS are signatories of the Remuneration Consultants Group Code of Conduct. The Trustees of the Group's pension schemes have appointed the pension advisory team of Aon Hewitt Ltd to act as Administrator of the schemes and have also appointed individuals within Aon Hewitt Ltd to act as Actuary to the schemes. NBS operates independently of the pension teams and the Committee is satisfied there is no conflict of interest.

Q: What is the role of the Committee?

A: The Committee has delegated authority from the Board to:

- Determine and agree the overall remuneration strategy for executive directors and senior management;
- Review and approve the remuneration packages for the Chairman, executive directors, General Counsel & Company Secretary and senior management;
- Agree the terms of employment including recruitment and termination terms of executive directors, ensuring any payments on departure are fair to the individual and the Company, whilst avoiding payment for failure and recognising the departing individual's duty to mitigate loss;
- Approve the design of all share incentive plans including all-employee share schemes and where appropriate oversee any subsequent changes; and
- Recommend appropriate performance conditions and targets for the variable element of remuneration packages and determine the extent to which performance targets have been achieved.

Remuneration report

Q: What other issues did the Committee discuss during 2012?

A: In addition to the issues discussed in the letter from the Remuneration Committee Chairman on pages 56 and 57 the Committee also:

- Performed an annual review of executive directors' and senior managers' base salaries in June 2012;
- Reviewed and recommended executive directors' and senior managers' annual bonuses in respect of 2011 and set the targets for the annual bonus in respect of 2012 in accordance with the strategic objectives of the Group;
- Granted 2012 awards under the LTIP;
- Granted 2012 awards under the save as you earn (SAYE) scheme for all eligible employees in the UK;
- Approved awards to senior executives below Board level under the Restricted Stock Plan; and
- Discussed best practice in remuneration policy and disclosure in light of the Department of Business, Innovation and Skills (BIS) proposals in this area.

Remuneration Policy

Q: What is the Group's remuneration strategy?

A: The Committee adheres 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 relevant legal and regulatory requirements, provisions and recommendations of the UK Corporate Governance Code (the "Code") and associated guidance.

The Remuneration Committee formulates remuneration strategy in line with the strategic objectives of the Group and ensures that performance targets, both at a personal level and a group level are sufficiently challenging. Remuneration for executive directors is intended to reward against criteria that are relevant and realistic but also stretching, so that superior performance is encouraged and the realisation of strategic targets is rewarded.

Executive directors should have sufficient focus on the long-term performance of the Group and be aligned with the interests of shareholders. We are therefore committed to the use of equity-based performance-related schemes and encourage executives to build up meaningful shareholdings in the Company. A significant proportion of remuneration is performance linked.

During 2012 the Remuneration Committee reviewed the policy to ensure performance-related incentives, as well as annual salary, are supportive of strategic objectives and conducive to the delivery of shareholder value. It is considered that the policy continues to remain appropriate.

Each year the Committee reviews the remuneration of senior management to ensure it remains competitive and challenging and satisfies the requirement to incentivise managers to deliver our challenging strategic objectives.

Q: What does the Remuneration Committee plan to review in 2013?

A: The Committee believes that the current remuneration structure will continue to support the Group. However, we will continue to monitor developments to ensure our policy is aligned to our strategy and also ensure best practice in reporting to our shareholders, including the new reporting requirements introduced by BIS.

The Committee will ensure that the remuneration arrangements for 2013 are affordable without excessive share dilution and that the performance conditions used in our plans are consistent with delivering strong returns to shareholders. The Committee has also committed to undertake a formal review of remuneration advisers in 2013.

The table on pages 58 and 59 provides an overview of all the elements of our remuneration policy for 2013 outlining how it links to strategy, performance conditions and changes from the prior year.

Q: What is the balance between the fixed and variable elements of executive remuneration?

A: Executive directors are remunerated through a combination of base salary, annual bonus, pension supplements and share-based performance-related awards. The Committee believes that it is important for a significant proportion of their remuneration package to be performance-related. At maximum award levels (excluding share price movements) approximately 75% of the remuneration package for Gavin Darby and 70% of the remuneration packages for Mark Moran are based on variable elements.

Director remuneration: Fixed pay

Q: What salaries do the executive directors receive?

A: The Committee continues to test, review and set salaries at levels not normally exceeding market rates against relevant comparator companies. This takes into account factors such as the Group's revenue, market share and total enterprise value rather than just market capitalisation. It also recognises the complexity of the business taking into account the Group's supply chain, logistics, pension schemes and business restructuring programme.

However, in certain circumstances the Committee recognises that it may be appropriate to set salaries outside of the stated policy. Given the challenges facing the business in early 2013 the Board felt it was necessary to appoint a very experienced executive in Gavin Darby, as CEO in order to lead the Company in the next phase of its strategy and therefore it was necessary to provide a salary commensurate with this experience (albeit at a lower level than his predecessor).

No increases in salary were made in 2012 and the CEO's salary will not be reviewed until April 2015.

Q: Does the Committee consider pay conditions for all employees within the Group when agreeing arrangements for executive directors?

A: 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 and reviews the proposed pay awards for the Group at large with the CEO and Group HR Director.

Director remuneration: Variable pay

Q: How is executive variable remuneration structured and how does it align with the Group's strategy?

A: The structure of incentives for the executive directors comprise of three elements which includes an Annual Cash Bonus, Deferred Share Bonus Plan (DSB) and LTIP Performance Shares.

When determining the structure of variable pay the Committee is mindful of the need to maintain a good line of sight so that executive directors can clearly see how their actions lead to their reward and to have incentives that have specific and clear goals which are clearly linked to business strategy and the key priorities that have been outlined.

Short and medium-term incentives

Q: What annual cash bonuses do the executive directors receive?

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

Annual bonus award and performance conditions for 2013

For 2013 the maximum bonus opportunities for executive directors remain unchanged.

Gavin Darby	150%
Mark Moran	75%

Details of the specific arrangements for Gavin Darby are set out in the Chairman's introduction on pages 56 and 57.

Mark Moran's bonus will be dependant on performance against turnover, gross profit, trading profit and cash flow targets.

Performance will be assessed on the financial achievement across all four elements each of which carries a 25% weighting. Personal performance against individual objectives is also factored into any year end bonus. These include a range of priorities directly linked to the Group's strategy including delivery of cost savings and cash flow management. Any bonus payment is also subject to the delivery of a threshold level of trading profit.

Annual bonus award and performance outcome for 2012

Annual Bonus for Mark Moran

The Company made significant progress in delivering a number of financial and strategic objectives in the year, including improvements in the key measures of turnover, branded sales value growth, trading profit and cash flow. However, overall the performance was below the stretching targets set for 2012 and as a result no awards will be made under the Annual Bonus Plan in respect of 2012.

Q: What awards will be made under the Deferred Share Bonus Plan?

A: The Deferred Share Bonus Plan (DSB) operates alongside the annual cash bonus. Awards are based on the achievement of a Group-wide strategic target which will be set at the start of each financial year. If the objective is met, the bonus will be paid at the end of the financial year in shares deferred for a period of two years. These shares will be subject to forfeiture over the period of deferral. All shares for these awards will be sourced in the market.

DSB award and performance conditions for 2013

The maximum award payable under the DSB remains unchanged at 30% of salary; the CEO does not participate in the DSB.

The targets that apply for the 2013 performance period remain unchanged from 2012 and are as follows:

50% Branded turnover

50% Trading profit

These conditions are fully aligned with the Group's strategy to increase branded sales by focusing on and growing our Power Brands whilst emphasising the importance of profitability and margin performance. The performance conditions are subject to the delivery of a threshold level of trading profit.

DSB award and performance outcome for 2012

The Committee assessed performance against the targets for 2012. The Company made significant progress in delivering a number of strategic objectives in the year including branded turnover and trading profit. However, overall the performance was below the stretching targets set for 2012 and as a result no awards will be made under the DSB in respect of 2012.

Long-term incentives

Q: How are the long-term incentives structured?

A: The awards under the LTIP approved by shareholders in 2011 has two elements:

- Performance Shares
- Matching Shares (not used in 2012 or 2013)

The Matching Shares require participants to make an investment into Company shares in order to receive a match of up to 2:1 on shares invested into the scheme. The maximum grant of Performance Shares and Matching Shares is 200% of salary. The Committee determined in 2012 that whilst the business is in turnaround and the share price continues to be volatile, awards under the LTIP will take the form of Performance Shares only.

LTIP award and performance conditions for 2013

For 2013 the value of LTIP awards made to executive directors remains unchanged from 2012 and is capped at 200% of salary for the CEO and 150% of salary for the CFO. Again, in 2013 awards will only be made in the form of Performance Shares.

The performance conditions attached to the 2013 LTIP awards are aligned with the strategy of the Group. The Company faces a number of challenges including delivering branded sales growth, improving relations with customers, reducing debt and pension liabilities. However, the Committee believes that successful delivery against all these strategic priorities will ultimately be reflected through share price performance and bottom line profit. The performance targets are therefore based on absolute share price and adjusted EPS performance which the Committee believes are fully aligned with the

Remuneration report

interests of shareholders at this stage in the Company's turnaround. These measures are unchanged from 2012, however, in view of the focus on improving shareholder return the Committee has determined that the weighting across each measure should be altered in favour of absolute share price. Awards will only vest following the achievement of stretching performance targets.

The 2013 award will be subject to an absolute TSR condition (2/3rds of the award) and an adjusted EPS condition (1/3rd of the award) based on the following targets:

% of relevant portion of award vesting[1]	Adjusted EPS for the year ended 31 December 2015	Absolute TSR
0%	Below 32.9p	Below 230p
20%	32.9p	230p
50%	36.5p	255p
100%	40.2p or greater	281p or greater

[1] Straight line vesting between these points.

Q: Are clawback provisions in place for the DSB and LTIP awards?

A: Yes. In relation to awards granted under the LTIP the Committee may reduce unvested awards and seek repayment of vested awards if, by the second anniversary of vesting, the Committee forms the view that the vesting was determined based on materially misstated financial results or in the event of misconduct.

In relation to DSB awards the Committee may reduce unvested awards if, prior to vesting, the Committee forms the view that the number of shares over which awards were granted was higher than the number that should have been granted because of materially misstated financial results for the relevant bonus year, or the Committee relied on inaccurate or misleading information.

Q: What were the details of Gavin Darby's Co-investment award?

A: In accordance with Listing Rule 9.4.3 a summary of the principal terms of the Co-investment award are set out below:

- The Co-investment award shall be satisfied using shares purchased in the market by the trustees of the Company's Employee Benefit Trust;
- The Co-investment award is structured as a nil-cost option and no consideration is payable by Gavin Darby for the grant;
- The Co-investment award is non-transferable and shall not be pensionable;
- A third of the Co-investment award will vest on each of the first, second and third anniversaries of the date of grant subject to a bonus having been paid for the relevant financial year and subject to Gavin Darby's continued employment;
- Once vested the Co-investment award will remain exercisable until 30 June 2017;
- If he ceases employment before the relevant vesting dates by reason of death, injury, disability, redundancy or any other reason the Committee may, in its discretion, permit some or all of the Co-investment award to vest and become payable early subject to the satisfaction of the performance conditions and a time pro rata adjustment, unless the Committee determines otherwise. If he ceases employment for any other reason before the relevant vesting dates then the Co-investment award will lapse;
- In the event of a change of control of the Company (excluding certain internal reorganisations or restructurings) whether by way of a general offer or scheme of arrangement the Co-investment award will become exercisable in full and remain exercisable for a period of six months from the date of the change of control;
- The Company may change the terms of the Co-investment award to get or keep favourable tax, exchange control or regulatory treatment for Gavin Darby or the Company and may make minor changes to ease its administration. Except for such changes, no change can be made to Gavin Darby's advantage without the prior approval of shareholders; and
- The Deed of Grant is available for inspection at the Company's registered office.

Q: What is the policy on dilution of share capital by employee share plans?

A: Awards under all Group share plans may be satisfied using either newly issued shares or shares purchased in the market and held in the Company's Employee Benefit Trust. The Group's policy is to comply with the Association of British Insurers ("ABI") guidelines in respect of newly issued shares.

Q: What are the terms of the executive directors' service agreements?

A: Details of the service agreements of the executive directors appear below:

Provision	Detailed Terms
Date of contract	Gavin Darby – 1 March 2013 Mark Moran – 8 December 2011 Michael Clarke – 13 July 2011 Geoff Eaton – 2 October 2012
Notice Period	12 months rolling contract.
Termination Payment (other than summary termination)	Base salary, benefits, and pension contributions for the notice period of 12 months or until such earlier date alternative employment is secured, subject to mitigation.
Bonus entitlement	In line with market practice there is no entitlement to a bonus payment in lieu of notice.
Change of control	The service agreements do not provide for any enhanced payments in the event of a change of control of the Company. Gavin Darby has a provision in his service agreement which provides for immediate payment of the Termination Payment in the event of a change of control.

Q: What is the Group's policy on executive directors holding external appointments?

A: The Group is supportive of executive directors who wish to take on a non-executive directorship with a publicly quoted company in order to broaden their experience and they are entitled to retain any fees they may receive. Michael Clarke received fees of £63,000 p.a. in 2012 in respect of his role as a non-executive director of Wolseley plc.
The current executive directors do not have external appointments.

Non-executive directors

Q: What are the appointment terms and notice periods for non-executive directors?

A: All non-executive directors have entered into letters of appointment as detailed in the table below. The appointments are subject to the provisions of the Companies Act 2006 and the Company's Articles. Terms of appointment are for three years or the date of the AGM immediately preceding the third anniversary of appointment.

Non-executive director	Date of original appointment	Date of current appointment letter	Notice period
David Beever	22 January 2008	21 January 2011	3 months
Ian Krieger	1 November 2012	1 November 2012	3 months
Jennifer Laing	1 October 2012	1 October 2012	3 months
Ian McHoul	19 July 2004	19 July 2010	3 months
Charles Miller Smith	16 June 2009	16 November 2010	1 month[1]
David Wild	7 March 2011	7 March 2011	3 months

[1] The appointment of Charles Miller Smith is governed by the Relationship Agreement between the Company and Warburg Pincus LLC under which he may terminate his appointment as a director by giving one month's notice in writing (see page 44 for further information).

Non-executive directors' continued appointments are evaluated annually, based on their contributions and satisfactory performance. There are no provisions for compensation being payable upon early termination of an appointment of a non-executive director.

Q: What is the policy on non-executive directors' fees?

A: The remuneration of the non-executive directors is determined by the Chairman and executive directors. The remuneration of the Chairman is determined by the Committee. Other changes to non-executive directors' fees are outlined in the notes to the emoluments table on page 64.

Non executive directors' fees

Chairman fee	£265,000
Basic non-executive (NED) fee	£57,000
Additional remuneration;	
Audit Committee Chairman	£13,000
Remuneration Committee Chairman	£10,500
Senior Independent Director	£5,000

To maintain independence and comply with the Code, the Chairman and the other non-executive directors are not eligible to participate in the Group's bonus arrangements, share option schemes, long term incentive plans or pension arrangements.

Shareholdings

Q: What interests did the directors have in the Company's shares on 31 December 2012?

A: The beneficial interest in shares of the Board and connected persons as at 31 December 2012 are presented below:

Director	Ordinary Shares owned as at 31 Dec 2012	Ordinary Shares owned as at 31 Dec 2011	Percentage of salary held under share holding guidelines (value at purchase)[1]	Company Shareholding Guideline met as at 31 December 2012
Michael Clarke	**374,078**	374,078	c.120%	Yes
Mark Moran	**1,754,000**	1,754,000	c.166%	Yes
David Beever	**31,900**	31,900		
Ian Krieger[2]	**0**	N/A		
Jennifer Laing[3]	**0**	N/A		
Ian McHoul	**10,000**	10,000		
Charles Miller Smith[4]	**268,027**	68,027		
David Wild	**5,000**	5,000		

[1] Executive directors are expected to build a holding of shares within three years of appointment at least equal to their annual salary (valued at the time of purchase)

[2] Appointed NED on 1 November 2012

[3] Appointed NED on 1 October 2012

[4] Interests held in the form of contracts for difference

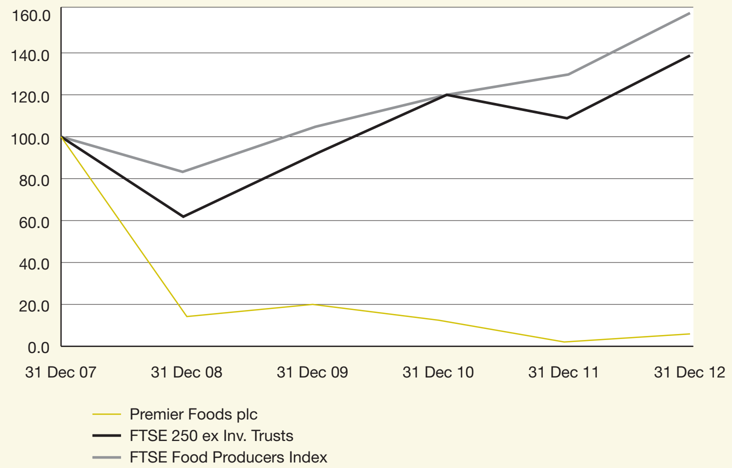
[5] Geoff Eaton did not own any shares in the Company prior to his resignation as an executive director

On 21 February 2013, following the release of the Company's preliminary results for 2012, directors purchased the following shares in the Company: Gavin Darby purchased 750,268 shares, Ian Krieger purchased 20,000 shares, Jennifer Laing purchased 16,078 shares and Charles Miller Smith purchased 57,000 shares (in the form of contracts for difference). Following the purchase Gavin Darby has now satisfied the Company's shareholding guideline for executive directors.

Remuneration report

Total shareholder return graph

The graph illustrates the performance of the Company against the FTSE 250 index and the FTSE Food Producers and Processors Index over the past five years as the Committee consider these to be the most appropriate.



The market price of a share in the Company on the 31 December 2012 was 113 pence; the range during the 2012 financial year was 54.50 pence to 180 pence.

PART 2: AUDITED INFORMATION

Directors' emoluments

The remuneration of each director is shown below. The total for the year also equates to the single figure for total remuneration as there was no vesting in the year under any long term incentive arrangements:

Directors' emoluments	Salary/fee (£)	Taxable benefits[2] (£)	Payments in lieu of pension contribution (£)	Annual bonus (£)	**Total 2012 (£)**	Total 2011 (£)
Executive directors[1]						
Michael Clarke	750,000	49,575	150,000[3]	750,000	**1,699,575**	2,277,070
Geoff Eaton[4]	109,239	5,604	8,090[5]	–	**122,932**	–
Mark Moran	425,000	17,965	32,910[5]	–	**475,875**	34,110
Non-executive directors[1]						
David Beever[6]	174,373	–	–	–	**174,373**	73,480
Charles Miller Smith[7]	81,750	–	–	–	**81,750**	90,000
Ian McHoul[8]	72,917	–	–	–	**72,917**	70,000
Jennifer Laing	14,250	–	–	–	**14,250**	–
David Wild	61,375	–	–	–	**61,375**	46,700
Ian Krieger	9,500	–	–	–	**9,500**	–
Louise Makin	48,875	–	–	–	**48,875**	67,500
Ronnie Bell	216,667	–	–	–	**216,667**	325,580
Payments to former director						
Robert Schofield[9]	208,369	2,675	12,960	–	**224,004**	671,481

1 In 2012 the following Board changes took place: Geoff Eaton was appointed as an executive director on 3 October 2012. Jennifer Laing and Ian Krieger were appointed as non-executive directors on 1 October 2012 and 1 November 2012, respectively. Ronnie Bell and Louise Makin resigned as non-executive directors on 1 June 2012 and 30 September 2012, respectively.

2 Benefits include payments made in relation to car and fuel cost, private health insurance and professional body membership fees. Michael Clarke had the use of a chauffeured car for business travel.

3 Michael Clarke received a salary supplement in lieu of pension of 20% of basic salary, a portion of which he voluntarily salary sacrificed into the Group's defined contribution pension scheme. The Company did not make any contribution to this pension scheme on Michael Clarke's behalf.

4 Geoff Eaton was appointed as Chief Operating Officer in October 2012 on a salary of £450,000, however, following the appointment of Gavin Darby a flatter executive management structure has been implemented, that will enable commercial and functional management to report directly to the CEO, and as a consequence Geoff left the Company in February 2013. All payments are in accordance with his contract i.e. payment in lieu of notice equivalent to 12 months base salary, benefits and pension. These payments will be made on a monthly basis and are subject to mitigation. No annual bonus payment will be made in respect of 2012 or 2013 and there are no rights to any share based awards.

[5] Mark Moran received an annualised salary supplement in lieu of pension of 9% of the Earnings Cap (£135,450) which equates to £12,190 per annum together with an additional pensions supplement of £20,720. Geoff Eaton also received a salary supplement in lieu of pension of 9% of the Earnings Cap (£137,400 for the 2012/2013 tax year) and an additional pension supplement of £20,960.

[6] David Beever received the standard NED fee together with additional fees for his Chairmanship of the Finance Committee and for acting as the Senior Independent Director. Following his appointment as Chairman he receives a single Chairman's fee of £265,000.

[7] Charles Miller Smith received a pro rata fee of £90,000 per annum until 1 October 2012 when his interim role as Deputy Chairman came to an end. He then reverted to the standard NED fee.

[8] In addition to Ian McHoul's standard NED fee and additional fee for acting as Audit Committee Chairman, Ian was appointed as the Senior Independent Director during the year.

[9] Full details of Robert Schofield's retirement payments were made in the 2011 Annual Report, being £895,485, this figure contained all payments to April 2012. For comparative purposes his total figure for 2011 has been reduced by salary and pension supplements paid to Robert Schofield in 2012.

Executive directors who served during the year did not participate in all-employee SAYE schemes, nor did they participate in the 2004 Executive Share Option Scheme, the Co-Investment plan or the Company's defined benefit pension schemes. Accordingly tables in respect of these items have not been included in the Remuneration Report.

Directors' interests in long term incentive plans

Long Term Incentive Plan

	Date of Grant	As at 1 Jan 2012	Performance Shares granted in the year[1]	Shares lapsed during the year	As at 31 Dec 2012	Opening Share price at date of award	Exercise period
Michael Clarke	20 March 2012	–	1,304,347	–	**1,304,347**	115p	March to June 2015-2017
Mark Moran	20 March 2012	–	554,347	–	**554,347**	115p	March to June 2015-2017

[1] Two-thirds of the total number of shares under the Award are subject to growth in EPS. The awards vest on a sliding scale based on EPS in a range from 45 pence (20%), to 51 pence (50%), to 65 pence (100%). No awards vest for EPS growth of less than 45 pence. One-third of the total number of shares under the Award are subject to achievement of net return index measured over the three months following the announcement of the 2014 preliminary results based on Average TSR in a range from 300 pence (20%), to 350 pence (50%) to 500 pence (100%) per share. No award will vest for an Average TSR of less than 300 pence.

Michael Clarke's Recruitment Awards

	Date of Grant	As at 1 Jan 2012	Shares granted in the year	Market Value at 122.5p (£)	Cash balance (£)	Total value of award(£)	Shares lapsed during the year	As at 31 Dec 2012	Vesting period
March 2013 Award	22 March 2012	–	500,000	612,500	241,500	854,000	–	**500,000**	On or around March 2013
March 2014 Award	22 March 2012	–	375,000	459,375	181,125	640,500	–	**375,000**	On or around March 2014
Total			875,000		422,625	1,494,500		**875,000**	

Awards made following the appointment of Michael Clarke to compensate him for forfeited equity awards from his previous employer. The awards comprise of a share element and a cash element and are subject to continued employment and the Committee's assessment of both personal and Group performance at the relevant vesting dates. The March 2013 Award vested on 21 February 2013 and will remain exercisable for 12 months. The March 2014 award will lapse in June 2013 on cessation of employment.

David Wild
Remuneration Committee Chairman

Other statutory information

Pages 1 to 67 and 125 (together with the sections of the annual report incorporated by reference) constitute the Directors' Report. The financial statements are presented on pages 70 to 124.

Principal activities

Premier Foods plc (the "Company") is the holding company of the Premier Foods Group of companies (the "Group"). The Group manufactures processes and distributes some of Britain's favourite food brands. We employ around 9,000 people and operate from over 40 sites in the UK.

General

Articles of Association

The Company's Articles may only be amended by a special resolution at a general meeting. The Articles are available on the Group's website:

www.premierfoods.co.uk/about-us/corporate-governance/articles-of-association.cfm

Profit and dividends

The profit on continuing operations before tax for the financial year was £4.4m (2011: £259.1m loss). The directors do not recommend the payment of a dividend for 2012 (2011: £nil).

Research and development

Applied research and development work continues to be directed towards the introduction of new and improved products; the application of new technology to reduce unit and operating costs; and to improve service to customers. Research and development costs of £7m (2011: £8.4m) were incurred in continuing operations during the year.

Directors' and Officers' liability insurance

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

Employment of disabled persons

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

Employee Communication

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

Significant agreements

The following significant agreements contain provisions that take effect, alter or terminate upon a change of control of the Company following a takeover bid.

The Group has a term and revolving facilities agreement originally for £2.1bn entered into in 2006 and a receivables purchase agreement and guarantee dated 30 December 2007. In 2012 unanimous consent from the Company's banking syndicate, swap counterparties and pension schemes led to a restated re-financing package. The current and new facilities agreements contain customary change of control provisions which allow the lenders or an individual lender to demand repayment of the facilities in full on a change of control. The new receivables purchase agreement contains change of control provisions which allow the provider of the funding to terminate or suspend the operation of the agreement and demand payment of all amounts outstanding under the agreement on a change of control.

The Group entered into a Relationship Agreement with Warburg Pincus LLC in March 2009 setting out the terms and conditions under which Warburg Pincus have the right to appoint a director to the Board and also governing the retention of its shareholding in the Company and the purchase of further shares. Under the Relationship Agreement, Charles Miller Smith was appointed to the Board on 16 June 2009. In the event of a change of control or if the shareholding of Warburg Pincus falls below 23,980,215 shares the Company may give notice to terminate the appointment of Charles Miller Smith.

The Company's share schemes may cause options and awards granted under such schemes to vest as a result of a successful takeover bid.

Substantial Shareholdings

Details of substantial shareholdings are set out on page 125.

Financial

Charitable and political donations

During the year the Group made charitable donations to the following charities: Help for Heroes £32,106, Carnwath Community School £5,000 and Stourscombe Residents Association. Total charitable donations during the year amounted to £60,022 (2011: £85,097). In line with Group policy no political donations were made during the year (2011: £nil).

Financial instruments

The financial risk management objectives and policies of the Group, and its exposure to price, credit, liquidity and cash flow risk are set out in note 21 to the Group financial statements.

Going concern

The Group has obtained consent from its banking syndicate, swap counterparties and pension schemes on a re-financing package in March 2012.

The directors are confident that the Group has adequate resources to operate in the ordinary course of business and to meet its obligations as they fall due. Thus the financial statements have been prepared on a going concern basis.

Supplier payment policy

The Company had no amounts owing to trade creditors at 31 December 2012 (2011: £nil). The Group's creditor days outstanding at 31 December 2012 were 74.5 days (2011: 72.7 days) of purchases, based on the ratio of average Group trade creditors in the current financial year to the amounts invoiced during the year. The Group has standard payment terms of end of the month plus 60 days. Our terms and conditions are available on the Group's website:

www.premierfoods.co.uk/about-us/our-supply-chain/our-suppliers_home.cfm

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

Statement of directors' responsibilities for the annual report

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the Group financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the EU, and the parent company financial statements in accordance with UK Generally Accepted Accounting Practice (UK Accounting Standards and applicable law). Under company law the directors must not approve the Group or Company financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss for that period. In preparing these financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and accounting estimates that are reasonable and prudent;
- State whether IFRSs as adopted by the EU and applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Group and parent company financial statements respectively; and
- Prepare the Group and Company financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

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

The directors are responsible for the maintenance and integrity of the Group's website: www.premierfoods.co.uk. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Information made available on the website does not constitute part of this annual report. The information has been prepared under the relevant accounting standards and legislation.

Each of the directors, whose names and functions are listed on pages 40 to 41, confirms that, to the best of their knowledge:

The Group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and loss of the Group; and

The Directors' Report contained on pages 1 to 67 & 125 includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

Subsequent events

Since the balance sheet date the Group has continued to progress its strategy. In line with this, details of post-balance sheet events are set out in note 30 of the Group financial statements.

Auditors

Independent auditors

The Audit Committee has recommended PricewaterhouseCoopers LLP's ("PwC") reappointment and PwC has indicated its willingness to continue as auditors. The reappointment of PwC and the setting of their remuneration will be proposed at the 2013 AGM.

Auditors and the disclosure of information to auditors

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

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

By Order of the Board:

Andrew McDonald

General Counsel and Company Secretary
1 March 2013

Did you know?

Top 10

Our new *Hovis* British Farmers Loaf was one of the Top 10 Grocery product launches in 2012.

For information about Business Performance See page 31

Photograph

New *Hovis* British Farmers Loaf made from 100% British Wheat

This section contains the independent auditors' report to shareholders, the financial statements and related notes and also supplementary information for shareholders.

Financials Contents

Independent auditors' report to the members of Premier Foods plc

We have audited the Group financial statements of Premier Foods plc for the year ended 31 December 2012 which comprise the consolidated income statement, consolidated statement of comprehensive income, consolidated balance sheet, consolidated statement of cash flows, consolidated statement of changes in equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 67, the directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

Scope of the audit of the financial statements

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

In addition, we read all the financial and non-financial information in the Annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the Group financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 December 2012 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the information given in the Directors' Report for the financial year for which the Group financial statements are prepared is consistent with the Group financial statements.
- the information given in the Corporate Governance Statements set out on pages 38 to 67 with respect to internal control and risk management systems and about share capital structures is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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

- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 66, in relation to going concern;
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on directors' remuneration.

Other matter

We have reported separately on the Parent Company financial statements of Premier Foods plc for the year ended 31 December 2012 and on the information in the Directors' Remuneration Report that is described as having been audited.

Pauline Campbell
(Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

1 March 2013

Independent auditors' report to the members of Premier Foods plc

We have audited the parent company financial statements of Premier Foods plc for the year ended 31 December 2012 which comprise the parent company balance sheet, the accounting policies and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on pages 67, the directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

Scope of the audit of the financial statements

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

In addition, we read all the financial and non-financial information in the Annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the parent company financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2012;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the parent company financial statements are prepared is consistent with the parent company financial statements.

Matters on which we are required to report by exception

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

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

Other matter

We have reported separately on the Group financial statements of Premier Foods plc for the year ended 31 December 2012.

Pauline Campbell
(Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

1 March 2013

Consolidated income statement

	Note	Year ended 31 Dec 2012 £m	Year ended 31 Dec 2011 (Restated)[1] £m
Continuing operations			
Revenue	4	**1,756.2**	1,999.5
Cost of sales		**(1,261.2)**	(1,445.0)
Gross profit		**495.0**	554.5
Selling, marketing and distribution costs		**(262.5)**	(263.3)
Administrative costs		**(132.2)**	(466.8)
Net other operating expense		**(4.0)**	(0.7)
Operating profit/(loss)	5	**96.3**	(176.3)
Before impairment and profit/(loss) on disposal of operations		**68.8**	116.9
Impairment of intangible and tangible assets	14	**(36.2)**	(282.0)
Profit/(loss) on disposal of operations	11	**63.7**	(11.2)
Finance cost	7	**(86.3)**	(126.9)
Finance income	7	**4.1**	7.2
Net movement on fair valuation of interest rate financial instruments	7	**(9.7)**	36.9
Profit/(loss) before taxation from continuing operations		**4.4**	(259.1)
Taxation credit	8	**21.9**	29.1
Profit/(loss) after taxation from continuing operations		**26.3**	(230.0)
Loss from discontinued operations	10	**(13.5)**	(109.0)
Profit/(loss) for the year attributable to owners of the Parent		**12.8**	(339.0)
Basic and diluted earnings/(loss) per share (pence)[3]	9	**5.3**	(141.4)
Basic and diluted earnings/(loss) per share (pence) — continuing[3]	9	**11.0**	(95.9)
Basic and diluted loss per share (pence) — discontinued[3]	9	**(5.6)**	(45.5)
Adjusted basic and diluted earnings per share (pence) — continuing[2,3]	9	**26.8**	22.3

1 Comparatives have been restated following an £8.9m reclassification of certain costs to align categorisation across the Group.

2 Adjusted earnings per share is defined as trading profit less net regular interest payable, less a notional tax charge at 24.5% (2011: 26.5%) divided by the weighted average numbers of ordinary shares of the Company.

3 2011 comparatives have been restated following the 10:1 share consolidation effected during 2012.

Consolidated statement of comprehensive income

	Note	Year ended 31 Dec 2012 £m	Year ended 31 Dec 2011 £m
Profit/(loss) for the year		**12.8**	(339.0)
Other comprehensive losses			
Actuarial losses on pensions	23	**(231.6)**	(79.3)
Deferred tax credit/(charge)	8	**46.7**	(4.1)
Exchange differences on translation		**–**	0.4
Total other comprehensive losses for the year, net of tax		**(184.9)**	(83.0)
Total comprehensive losses attributable to owners of the Company		**(172.1)**	(422.0)

The notes on pages 75 to 120 form an integral part of the consolidated financial statements.

Consolidated balance sheet

	Note	As at 31 Dec 2012 £m	As at 31 Dec 2011 £m
ASSETS:			
Non-current assets			
Property, plant and equipment	13	**374.2**	417.3
Goodwill	14	**713.9**	856.2
Other intangible assets	15	**677.0**	822.7
Deferred tax assets	8	**71.9**	–
		1,837.0	2,096.2
Current assets			
Assets held for sale	12	**81.0**	33.8
Inventories	17	**116.2**	136.8
Trade and other receivables	18	**298.6**	297.4
Financial assets — derivative financial instruments	21	**1.0**	0.5
Current income tax assets		**–**	0.5
Cash and bank deposits	25	**53.2**	45.8
		550.0	514.8
Total assets		**2,387.0**	2,611.0
LIABILITIES:			
Current liabilities			
Liabilities held for sale	12	**(3.4)**	–
Trade and other payables	19	**(406.8)**	(434.8)
Financial liabilities			
— short-term borrowings	20	**(229.8)**	(113.6)
— derivative financial instruments	21	**(19.6)**	(12.6)
— other financial liabilities at fair value through profit or loss	21	**–**	(187.0)
Accrued interest payable		**(5.6)**	(0.9)
Provisions	22	**(25.6)**	(8.3)
Current income tax liabilities		**(0.8)**	–
		(691.6)	(757.2)
Non-current liabilities			
Financial liabilities			
— long-term borrowings	20	**(774.1)**	(927.3)
Retirement benefit obligations	23	**(466.8)**	(282.4)
Provisions	22	**(48.3)**	(38.6)
Other liabilities		**(1.3)**	(21.9)
Deferred tax liabilities	8	**–**	(10.9)
		(1,290.5)	(1,281.1)
Total liabilities		**(1,982.1)**	(2,038.3)
Net assets		**404.9**	572.7
EQUITY:			
Capital and reserves			
Share capital	24	**24.0**	24.0
Share premium	24	**1,124.7**	1,124.7
Merger reserve	24	**587.5**	606.0
Other reserves	24	**(9.3)**	(9.3)
Profit and loss reserve	24	**(1,322.1)**	(1,172.8)
Capital and reserves attributable to owners of the Parent		**404.8**	572.6
Non-controlling interest	24	**0.1**	0.1
Total equity		**404.9**	572.7

The notes on pages 75 to 120 form an integral part of the consolidated financial statements.

The financial statements on pages 72 to 120 were approved by the Board of directors on 1 March 2013 and signed on its behalf by:

Gavin Darby
Chief Executive Officer

Mark Moran
Chief Financial Officer

Consolidated statement of cash flows

	Note	**Year ended 31 Dec 2012 £m**	Year ended 31 Dec 2011 £m
Cash generated from operating activities	25	**56.4**	86.7
Interest paid		**(56.8)**	(120.9)
Interest received		**4.3**	7.5
Taxation received/(paid)		**0.3**	(2.4)
Cash inflow/(outflow) from operating activities		**4.2**	(29.1)
Sale of subsidiaries/businesses		**312.2**	394.8
Purchase of property, plant and equipment		**(49.4)**	(58.0)
Purchase of intangible assets		**(17.2)**	(20.9)
Sale of property, plant and equipment		**0.2**	5.4
Cash inflow from investing activities		**245.8**	321.3
Repayment of borrowings		**(312.2)**	(363.6)
Proceeds from borrowings		**1.5**	124.1
Proceeds from securitisation programme		**72.4**	–
Financing fees and other costs of finance		**(24.0)**	(1.6)
Cash outflow from financing activities		**(262.3)**	(241.1)
Net (outflow)/inflow of cash and cash equivalents		**(12.3)**	51.1
Cash and cash equivalents at beginning of year		**22.1**	(28.7)
Effect of movement in foreign exchange		**(0.1)**	(0.3)
Cash and cash equivalents at end of year	25	**9.7**	22.1

The notes on pages 75 to 120 form an integral part of the consolidated financial statements.

Consolidated statement of changes in equity

	Note	Share capital £m	Share premium £m	Merger reserve £m	Other reserves £m	Profit and loss reserve £m	Non-controlling interest £m	Total £m
At 1 January 2012		**24.0**	**1,124.7**	**606.0**	**(9.3)**	**(1,172.8)**	**0.1**	**572.7**
Profit for the year		**–**	**–**	**–**	**–**	**12.8**	**–**	**12.8**
Actuarial losses on pensions	**23**	**–**	**–**	**–**	**–**	**(231.6)**	**–**	**(231.6)**
Deferred tax credit	**8**	**–**	**–**	**–**	**–**	**46.7**	**–**	**46.7**
Other comprehensive losses		**–**	**–**	**–**	**–**	**(184.9)**	**–**	**(184.9)**
Total comprehensive losses		**–**	**–**	**–**	**–**	**(172.1)**	**–**	**(172.1)**
Share-based payments	**24**	**–**	**–**	**–**	**–**	**4.3**	**–**	**4.3**
Realisation of merger reserve		**–**	**–**	**(18.5)**	**–**	**18.5**	**–**	**–**
At 31 December 2012		**24.0**	**1,124.7**	**587.5**	**(9.3)**	**(1,322.1)**	**0.1**	**404.9**
At 1 January 2011		24.0	1,124.7	890.7	(9.3)	(1,040.7)	0.1	989.5
Loss for the year		–	–	–	–	(339.0)	–	(339.0)
Actuarial losses on pensions	23	–	–	–	–	(79.3)	–	(79.3)
Deferred tax charge	8	–	–	–	–	(4.1)	–	(4.1)
Exchange differences on translation		–	–	–	–	0.4	–	0.4
Other comprehensive losses		–	–	–	–	(83.0)	–	(83.0)
Total comprehensive losses		–	–	–	–	(422.0)	–	(422.0)
Share-based payments	24	–	–	–	–	5.2	–	5.2
Realisation of merger reserve		–	–	(284.7)	–	284.7	–	–
At 31 December 2011		24.0	1,124.7	606.0	(9.3)	(1,172.8)	0.1	572.7

The notes on pages 75 to 120 form an integral part of the consolidated financial statements.

Notes to the financial statements

1. General information

Premier Foods plc (the "Company") is a public limited company incorporated and domiciled in England and Wales, registered number 5160050, with its registered office at Premier House, Centrium Business Park, Griffiths Way, St Albans, Hertfordshire AL1 2RE. The principal activities of the Company and its subsidiaries (the "Group") are food manufacturing, processing and distribution. Further information about the Group's activities can be found in the Group at a Glance section of this annual report on pages 6 to 7. Copies of the annual report and accounts are available from this address.

These Group consolidated financial statements were authorised for issue by the Board of directors on 1 March 2013.

2. Accounting policies

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

2.1 Basis of preparation

The consolidated financial statements of Premier Foods plc have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union (EU) ("adopted IFRS") in response to IAS regulation (EC1606/2002), related interpretations and the Companies Act 2006 applicable to companies reporting under IFRS, and on the historical cost basis, with the exception of derivative financial instruments which are incorporated using fair value. Amounts are presented to the nearest £0.1m.

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

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

International Financial Reporting Standards	
IFRS 7 (Amendment)	'Financial instruments: Disclosures' on transfers of financial assets

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

New standards and interpretations not applied

The following standards have been endorsed by the EU but have not been applied.

International Financial Reporting Standards	
IAS 1	'Financial statement presentation'
IAS 19 (Revised)	'Employee Benefits'
IFRS 10	'Consolidated financial statements'
IFRS 11	'Joint arrangements'
IFRS 12	'Disclosures of interest in other entities'
IFRS 13	'Fair value measurement'

Effective for periods on or after 1 January 2013.
The following standards and amendments to published standards have not been endorsed by the EU:

IAS 27	'Separate financial statements'
IAS 32 (Amendment)	'Financial instruments: Disclosures and Presentation' – offsetting financial assets and liabilities
IFRS 9	'Financial instruments'

With the exception of IAS 19 (Revised) it is not expected that any of the new standards will have a material impact on the results or net assets of the Group. Application of IAS 19 (Revised) in 2012 would have increased the operating profit charge in relation to pensions by £40m.

Notes to the financial statements

2. Accounting policies continued

Basis for preparation of financial statements on a going concern basis

In March 2012 the Group signed a re-financing package with its banking syndicate, swap counterparties and pension schemes whereby the term loan and revolving credit facility were extended from 31 December 2013 to 30 June 2016. The current margin of 2.25% will increase to 3.25% on 1 January 2014.

This facility includes net debt/EBITDA and EBITDA/interest covenant tests and a requirement to realise disposal proceeds of £330m by 30 June 2014. In the event these covenants are not met then the Group would be in breach of its financing agreement and, as would be the case in any covenant breach, the banking syndicate could withdraw their funding to the Group.

Following the completion of the disposal of the Sweet Pickles and Table Sauces business on 2 February 2013 the Group has successfully met the disposal proceeds target. It is also in compliance with covenant tests at 31 December 2012. The Group's forecasts, taking account of reasonably possible changes in trading performance, show that the Group should be able to operate within the level of its current facilities including covenant tests.

The Group meets its day-to-day working capital requirements through its bank facilities. The current economic conditions continue to create uncertainty particularly over (a) the level of demand for the Group's products; and (b) the availability of bank finance for the foreseeable future.

After making enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. The Group therefore continues to adopt the going concern basis in preparing its consolidated financial statements.

2.2 Basis of consolidation

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

The 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. In addition, comparatives are also restated to reclassify material disposed businesses into discontinued operations and to align logistics cost classification across the Group.

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

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

2.3 Revenue

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

(i) Sale of goods

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

(ii) Sales rebates and discounts

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

2.4 Segmental reporting

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

2.5 Share-based payments

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

2. Accounting policies continued

2.6 Foreign currency translation

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into sterling, the Group's 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. The balance sheets of overseas subsidiaries are translated into sterling at the closing rate. Exchange differences arising from retranslation at year end exchange rates of the net investment in foreign subsidiaries are recorded as a separate component of equity in other reserves. When a foreign operation is sold exchange differences previously taken to equity are recognised in the income statement as part of the gain or loss on sale.

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

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

2.7 Property, plant and equipment ("PPE")

Property, plant and equipment is initially recorded at cost. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. Subsequent expenditure is added to the carrying value of the asset when it is probable that incremental future economic benefits will transfer to the Group. All other subsequent expenditure is expensed in the period it is incurred.

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

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

Assets under construction represent the amount of expenditure recognised in the carrying amount of an item of PPE in the course of its construction. When the item of property, plant and equipment is brought into use, it is depreciated.

The cost and depreciation relating to disposed assets is written off on disposal.

2.8 Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the acquisition date fair values of assets given, liabilities incurred or assumed and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition related costs are recognised in profit or loss as incurred.

On the acquisition of a business, fair values are attributed to the identifiable assets, liabilities and contingent liabilities acquired. Goodwill arises when the fair value of the consideration for a business exceeds the fair value 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.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the CGUs, or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

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

2.9 Intangible assets

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

Acquired intangible assets

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

Research and development

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

Costs incurred in developing a product, typically its recipe or packaging, are charged to income in the year in which they are incurred unless the product or process is technically and commercially feasible in which case they are capitalised and amortised over the useful economic lives in accordance with IAS 38 'Intangible Assets'.

Notes to the financial statements

2. Accounting policies continued

Software development costs

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

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

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

2.10 Impairment

The carrying value of non-financial assets, other than goodwill and inventories, are reviewed at least annually to determine whether there is an indication of impairment. Where such indication exists, the recoverable amount is estimated based on the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows, adjusted for the risks specific to each asset, are discounted to their present value using a discount rate that reflects current market assessment of the time value of money and the general risks affecting the food manufacturing industry.

Impairment losses are recognised in the income statement in the year in which they occur.

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

2.11 Financing cost

(i) Finance cost

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

(ii) Finance income

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

2.12 Leases

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

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

2.13 Inventories

Inventory is valued at the lower of cost and net realisable value. Where appropriate, cost includes production and other attributable overhead expenses as described in IAS 2 'Inventories'. Cost is calculated on a first-in, first-out basis by reference to the invoiced value of supplies and attributable costs of bringing the inventory to its present location and condition. Net realisable value is the estimated selling price in the ordinary course of business less estimated costs of completion and the estimated costs necessary to make the sale.

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

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

2. Accounting policies continued

2.14 Taxation

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

Current tax

Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity in which case it is recognised in equity. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax

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

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

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

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

2.15 Employee benefits

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

Defined benefit plans

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

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

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

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

Curtailments are recognised when the Group is demonstrably committed to make a significant reduction in the number of employees covered by a plan or amends the terms of a defined benefit plan so that a significant element of future service by current employees no longer qualifies or qualify for reduced benefits.

Defined contribution plans

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

Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as they fall due. Differences between contributions payable in the year and contributions actually paid are recognised as either accruals or prepayments in the balance sheet.

Notes to the financial statements

2. Accounting policies continued

2.16 Provisions

Provisions for restructuring and property exit costs are recognised when the Group has present legal or constructive obligations as a result of past events, it is probable that an outflow of resources will be required to settle the obligations and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset when the reimbursement is virtually certain. Where material, the Group discounts its provisions using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance expense.

2.17 Contingent liabilities and contingent assets

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

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

2.18 Financial instruments

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

Trade and other receivables

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

The rights and obligations relating to those trade receivables that have been sold to third parties are de-recognised from the balance sheet where the risks and rewards of ownership are considered to have transferred. Cash received from third parties in exchange for the transfer of ownership is recorded within cash and cash equivalents with the cost of financing prior to settlement by the customer recorded as interest on an accruals basis.

Cash and cash equivalents

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

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

Financial liabilities and equity

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

Bank borrowings

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

Trade and other payables

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

Equity instruments

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

Derivative financial instruments

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

2. Accounting policies continued

Other items at fair value through profit or loss

Other items at fair value through profit or loss are initially recognised at fair value on the date the contract is entered into and are subsequently remeasured at their fair value. Movements in fair value are recorded within the net movement on fair valuation of interest rate financial instruments. See notes 7 and 21 for further details.

2.19 Non-current assets held for sale

Non-current assets and associated liabilities that are expected to be recovered primarily through sale rather than continuing use are classified as held for sale. Immediately before classification as held for sale, the assets and associated liabilities are remeasured in accordance with the Group's accounting policies. Thereafter the assets are measured at the lower of their carrying amount and fair value less costs to sell. Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

3. Critical accounting policies, estimates and judgements

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

3.1 Employee benefits

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

At each reporting date, and on a continuous basis, the Group reviews the macro-economic, Company and scheme specific factors influencing each of these assumptions, using professional advice, in order to record the Group's ongoing commitment and obligation to defined benefit schemes in accordance with IAS 19. Key assumptions used are mortality rates, discount rates and inflation set with reference to bond yields. If the Group's assumption on the mortality of its members was amended to assume an increase of a further one year improvement in mortality, total liabilities would increase by approximately 3.1%. Each 0.1% decrease/increase in bond yields would increase/decrease the deficit by a further £62m/£60m. Each 0.1% increase/decrease in the assumed inflation rate would increase/decrease the deficit by a further £27m/£26m. Each of the underlying assumptions is set out in more detail in note 23.

3.2 Goodwill and other intangible assets

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

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

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

3.3 Advertising and promotion costs

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

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

4. Segmental analysis

IFRS 8 requires operating segments to be determined based on the Group's internal reporting to the Chief Operating Decision Maker ("CODM"). The CODM has been determined to be the Chief Executive Officer and Chief Financial Officer as they are primarily responsible for the allocation of resources to segments and the assessment of performance of the segments.

The CODM has changed the measure used to assess segment performance in 2012. Divisional contribution is defined as gross profit after marketing and distribution costs and is a consistent measure within the Group and reflects the segments' underlying trading performance for the period under evaluation. The reporting of this measure at the monthly business review meetings, which are organised according to product types, has been used to identify and determine the Group's operating segments. 2011 comparatives have been restated using the new measure.

Notes to the financial statements

4. Segmental analysis continued

The Group continues to use trading profit to review overall Group profitability. Trading profit is defined as operating profit before re-financing costs, restructuring costs, profits and losses associated with divestment activity, amortisation and impairment of intangible assets, the revaluation of foreign exchange and other derivative contracts under IAS 39 and pension credits or charges in relation to the difference between the expected return on pension assets, administration costs and interest costs on pension liabilities.

The Group's operating segments are "Grocery", "Bread" and "Disposed of Canning Operations". In 2011 the Group completed its disposal of the Meat-free business and the Retailer Branded Chilled business which had previously been aggregated into an "Other" segment, as they did not meet the relevant quantitative thresholds and did not have similar economic characteristics and therefore could not be aggregated into their own separate reporting segment under IFRS 8. In 2011 these were presented as discontinued operations.

During 2012 the Group completed the disposal of the four Irish Brands (*Chivers, Gateaux, McDonnells* and the *Erin* licence), the *Elephant Atta* Ethnic Flour Business, the Vinegar and Sour Pickles business and the Sweet Spreads and Jellies business; the results of these businesses have not been reported separately as they were fully integrated within the Grocery and Bread segments.

The Grocery segment sells ambient food products. The Bread segment sells bread, morning goods, flour products and frozen pizza bases and the Disposed of Canning Operations segment sold canned goods.

The segment results for the year ended 31 December 2012 and for the year ended 31 December 2011 and the reconciliation of the segment measures to the respective statutory items included in the consolidated financial statements are as follows:

			Year ended 31 Dec 2012	
	Grocery £m	Bread £m	Disposed of Canning Operations £m	Total for Group £m
Revenue from continuing operations				
External	1,058.0	697.3	0.9	1,756.2
Inter-segment	0.5	21.2	–	21.7
Result				
Divisional contribution	223.7	30.2	0.2	254.1
Total SG&A costs				(99.4)
Trading profit				154.7
Amortisation of intangible assets				(53.3)
Fair value movements on foreign exchange and other derivative contracts				2.1
Restructuring costs associated with divestment activity				(46.1)
Re-financing costs				(1.1)
Pension financing credit				12.5
Operating profit before impairment and profit on disposal of operations				68.8
Impairment of property, plant and equipment and intangible assets				(36.2)
Profit on disposal of operations				63.7
Operating profit				96.3
Finance cost				(86.3)
Finance income				4.1
Net movement on fair valuation of interest rate financial instruments				(9.7)
Profit before taxation for continuing operations				4.4
Depreciation	21.6	18.0	–	39.6
Amortisation	50.5	2.8	–	53.3
Impairment of property, plant and equipment and intangible assets	–	36.2	–	36.2
Balance sheet				
Segment assets	1,750.0	380.3	–	2,130.3
Unallocated assets				256.7
Consolidated total assets				2,387.0

4. Segmental analysis continued

	Grocery £m	Bread £m	Disposed of Canning Operations £m	Total for Group £m
				Year ended 31 Dec 2011 (Restated)[1]
Revenue from continuing operations				
External	1,121.5	711.3	166.7	1,999.5
Inter-segment	2.5	26.6	–	29.1
Result				
Divisional contribution	253.2	58.1	5.7	317.0
Total SG&A costs				(128.7)
Trading profit				188.3
Amortisation of intangible assets				(72.0)
Fair value movements on foreign exchange and other derivative contracts				(1.7)
Restructuring costs associated with divestment activity				(10.5)
Re-financing costs				(4.2)
Pension financing credit				17.0
Operating profit before impairment and loss on disposal of operations				116.9
Impairment of goodwill and intangible assets				(282.0)
Loss on disposal of operations				(11.2)
Operating loss				(176.3)
Finance cost				(126.9)
Finance income				7.2
Net movement on fair valuation of interest rate financial instruments				36.9
Loss before taxation from continuing operations				(259.1)
Depreciation	24.2	17.6	–	41.8
Amortisation	53.9	18.1	–	72.0
Impairment of property, plant and equipment, goodwill and intangible assets	–	282.0	–	282.0
Balance sheet				
Segment assets	2,042.2	412.2	–	2,454.4
Unallocated assets				156.6
Consolidated total assets				2,611.0

[1] Comparatives have been restated to reflect a change in the measure used to asses segment performance.

Revenues, on a continuing basis, of approximately £329.1m and £213.1m (2011: £333.5m and £274.9m) are derived from two external customers. These revenues are attributable across the grocery and bread segments.

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

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

Unallocated assets comprise cash and cash equivalents, taxation balances, derivative financial assets, Group-wide software and hardware and head office assets.

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

Continuing operations — revenue

	Year ended 31 Dec 2012 £m	Year ended 31 Dec 2011 £m
United Kingdom	**1,697.4**	1,880.8
Other Europe	**36.5**	87.4
Rest of world	**22.3**	31.3
Total	**1,756.2**	1,999.5

Notes to the financial statements

4. Segmental analysis continued

Non-current assets

	As at 31 Dec 2012 £m	As at 31 Dec 2011 £m
United Kingdom	**1,837.0**	2,066.1
Other Europe	**–**	30.1
Total for Group	**1,837.0**	2,096.2

5. Operating profit/(loss) for continuing operations

5a. Analysis of costs by nature

	Year ended 31 Dec 2012 £m	Year ended 31 Dec 2011 £m
Employee benefits expense (note 6)	**369.8**	402.5
Depreciation of property, plant and equipment	**39.6**	41.8
Amortisation of intangible assets:		
— software and licences	**18.9**	17.4
— brands and trademarks	**27.4**	33.0
— customer relationships	**7.0**	21.6
Impairment of property, plant and equipment (note 13)	**12.5**	–
Impairment of goodwill (note 14)	**–**	185.4
Impairment of intangible assets (note 14)	**23.7**	96.6
Operating lease rental payments:		
— plant and machinery	**8.6**	8.4
— land and buildings	**12.2**	11.2
Repairs and maintenance expenditure	**56.1**	52.0
Research and development costs	**7.0**	8.4
Loss/(gain) on disposal of non-current assets	**7.5**	(0.9)
Net foreign exchange loss	**0.2**	0.4
Past service credits relating to defined benefit schemes	**(44.0)**	(41.3)
Past service charge relating to defined benefit schemes	**12.3**	–
Impact of one-off aged receivable and commercial provision review	**–**	37.4
Charge relating to restructuring and onerous lease provisions relating to vacant properties	**37.2**	8.7
Re-financing costs	**1.1**	4.2
Auditor remuneration	**2.2**	1.4

Operating lease obligations are further disclosed in note 26.

5b. Auditor remuneration

	Year ended 31 Dec 2012 £m	Year ended 31 Dec 2011 £m
Fees payable to the Company's auditor for the audit of the Parent Company and consolidated financial statements	**0.4**	0.4
Fees payable to the Company's auditor and its associates for other services:		
— The audit of the Company's subsidiaries, pursuant to legislation	**0.4**	0.4
— Other services relating to taxation	**0.1**	–
— Services relating to corporate finance transactions	**2.3**	2.1
— Other services	**–**	0.1
Total auditor remuneration	**3.2**	3.0

Included within total fees paid to the auditors of £3.2m (2011: £3.0m) were £2.3m of costs directly attributable to co-ordination support and advice related to the Group's re-financing and support with the necessary circulars in connection with the disposal programme (2011: £2.1m). In 2012, £1.0m (2011: £1.6m) of the £2.3m (2011: £2.1m) was capitalised resulting in a total of £2.8m of fees held on the balance sheet at 31 December 2012. The remaining £1.3m (2011: £0.5m) was charged to operating profit. The total operating profit charge for auditors' remuneration was £2.2m (2011: £1.4m).

6. Employees

	Year ended 31 Dec 2012 £m	Year ended 31 Dec 2011 £m
Staff costs for the Group during the year — continuing operations		
Wages and salaries	**(333.0)**	(380.1)
Social security costs	**(32.6)**	(31.5)
Termination benefits	**(12.1)**	(11.2)
Share options granted to directors and employees	**(4.7)**	(3.9)
Contributions to defined contribution schemes (note 23)	**(0.8)**	(0.1)
Credit for defined benefit schemes (note 23)	**13.4**	24.3
Total	**(369.8)**	(402.5)
Staff costs for the Group during the year — discontinued operations		
Wages and salaries	**–**	(45.9)
Social security costs	**–**	(4.1)
Termination benefits	**–**	(2.5)
Share options granted to directors and employees	**–**	(0.9)
Contributions to defined contribution schemes (note 23)	**–**	(0.2)
Charge for defined benefit schemes (note 23)	**(17.7)**	(2.1)
Total	**(17.7)**	(55.7)
Total — continuing and discontinued	**(387.5)**	(458.2)

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

	2012 Number	2011 Number
Management	**1,417**	1,769
Administration	**894**	1,116
Production, distribution and other	**7,476**	10,916
Total	**9,787**	13,801

Within the employee numbers above nil (2011: 2,081) relate to discontinued operations.

Directors' remuneration (including retirement benefits accruing to the directors under defined benefit schemes) is disclosed in the audited sections of the directors' remuneration report on pages 56 to 65, which form part of these financial statements.

Notes to the financial statements

7. Finance income and costs

	Year ended 31 Dec 2012 £m	Year ended 31 Dec 2011 £m
Interest payable on bank loans and overdrafts	**(10.3)**	(13.6)
Interest payable on term facility	**(24.6)**	(28.6)
Interest payable on revolving facility	**(9.4)**	(7.6)
Interest payable on interest rate derivatives	**(5.8)**	(19.1)
Interest payable on interest rate financial liabilities designated as other financial liabilities at fair value through profit or loss	**(11.5)**	(40.6)
Unwind of discount on provisions	**(0.8)**	(2.4)
Amortisation of debt issuance costs and deferred fees	**(13.1)**	(13.4)
	(75.5)	(125.3)
Write-off of financing costs[1]	**(10.8)**	(1.6)
Total finance cost	**(86.3)**	(126.9)
Interest receivable on bank deposits	**4.1**	7.2
Total finance income	**4.1**	7.2
Movement on fair valuation of interest rate derivatives	**(14.8)**	17.6
Movement on fair valuation of interest rate financial liabilities designated as other financial liabilities at fair value through profit or loss	**5.1**	19.3
Net movement on fair valuation of interest rate financial instruments	**(9.7)**	36.9
Net finance cost	**(91.9)**	(82.8)

[1] For 2012 this relates to the write-off of debt issuance costs relating to the Group's previous financing agreement.

2012

The net movement on fair valuation of interest rate financial instruments relates to £9.5m favourable movement on swaps held before re-financing in March 2012 offset by adverse movement of £19.2m on swaps entered into as part of the re-financing package.

2011

The fair value of interest rate swaps and other financial liabilities at fair value through profit or loss has decreased from a £234.5m liability at 31 December 2010 to a £197.6m liability at 31 December 2011 resulting in a net movement of £36.9m for the year. The change in fair value in the year is due to a change in the yield curve offset by amortisation (refer to note 21). The liability at 31 December 2011 represents the net present value of the interest cash flows calculated using the contracted fixed rates compared to the net present value of interest cash flows that would arise if the interest was calculated on a floating basis.

The total facility as at 31 December 2012 was £1,142.4m (2011: £1,233m).

8. Taxation

Current tax

Analysis of the credit for the year:

	Continuing operations £m	Discontinued operations £m	Total £m
2012			
Current tax			
— Current year	**–**	**–**	**–**
— Prior years	**0.1**	**–**	**0.1**
Overseas current tax			
— Current year	**(1.1)**	**–**	**(1.1)**
— Prior years	**–**	**–**	**–**
Deferred tax			
— Current year	**31.4**	**4.0**	**35.4**
— Prior years	**(13.9)**	**–**	**(13.9)**
— Adjustment to restate opening deferred tax at 23.0%	**5.4**	**–**	**5.4**
Income tax credit for the year	**21.9**	**4.0**	**25.9**
2011			
Current tax			
— Current year	–	–	–
— Prior years	1.5	–	1.5
Overseas current tax			
— Current year	(1.2)	–	(1.2)
— Prior years	–	–	–
Deferred tax			
— Current year	20.6	11.5	32.1
— Prior years	0.3	–	0.3
— Adjustment to restate opening deferred tax at 25.0%	7.9	0.7	8.6
Income tax credit for the year	29.1	12.2	41.3

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

	Year ended 31 Dec 2012 £m	Year ended 31 Dec 2011 £m
Deferred tax charge on reduction of corporate tax rate	**(4.5)**	(4.5)
Deferred tax credit on pension movements	**43.6**	0.4
Deferred tax credit on losses	**7.6**	–
	46.7	(4.1)

Notes to the financial statements

8. Taxation continued

The tax credit for the year differs from the standard rate of corporation tax in the United Kingdom of 24.5% (2011: 26.5%). The reasons for this are explained below:

	Year ended 31 Dec 2012 £m	Year ended 31 Dec 2011 £m
Profit/(loss) before taxation for continuing operations	**4.4**	(259.1)
Tax (charge)/credit at the domestic income tax rate of 24.5% (2011: 26.5%)	**(1.1)**	68.7
Tax effect of:		
Non-deductible items[2]	**19.4**	(47.8)
Other disallowable items	**(0.2)**	(0.5)
Adjustment for overseas results taxed at different rate	**(1.1)**	1.4
Adjustment for share-based payments	**(1.1)**	(1.3)
Previously unrecognised losses utilised	**11.6**	16.3
Capital gain on disposal of business	**(13.0)**	(16.3)
Adjustment due to current year deferred tax being provided at 23.0% (2011: 25.0%)	**(1.0)**	(1.1)
Previously unrecognised losses recognised	**16.8**	–
Adjustment to restate opening deferred tax at 23.0% (2011: 25.0%)	**5.4**	7.9
Adjustments to prior years[1]	**(13.8)**	1.8
Income tax credit	**21.9**	29.1

1 In 2012 this largely relates to a disclaim of capital allowances in 2011 Group accounts not repeated in the tax returns.
2 Non-deductible items relates primarily to profits made on the disposal of businesses during the year.

The Finance Act 2012, enacted on 3 July 2012, reduces the main rate of corporation tax from 26% to 24% from 1 April 2012. This gives rise to an effective rate of corporation tax for the year of 24.5%.

Deferred tax balances at 31 December 2011 were calculated at 25%, the rate applicable at that time. The Finance Act 2012 also reduces the main rate of corporation tax to 23% from 1 April 2013. This 2% reduction for the 2012 financial year has been reflected in the financial statements by restating the deferred tax liability at 31 December 2011 giving a credit of £5.4m to continuing operations, off-set by a charge to equity of £4.5m to reflect where the charges and credits were originally made. In addition, the deferred tax movements in the period have been reflected at 23%, being the rate at which the liabilities are expected to reverse, which has resulted in a £1.0m decrease to the income tax credit.

A further 2% reduction to the main rate of corporation tax is proposed to reduce the rate to 21% from 1 April 2014. However, as this further reduction in the main rate of corporation tax was not substantively enacted at the balance sheet date it is not reflected in the deferred tax recognised on the balance sheet.

Deferred tax

Deferred tax is calculated in full on temporary differences using the tax rate appropriate to the jurisdiction in which the asset/(liability) arises and the tax rates that are expected to apply in the periods in which the asset or liability is settled. In all cases this is 23.0% (2011: 25.0%) except for an asset of £1.7m (2011: £0.7m) relating to Irish retirement benefit obligations where the local rate of 12.5% has been used.

	2012 £m	2011 £m
At 1 January	**(10.9)**	(56.1)
Credited to the income statement	**26.9**	41.0
Credited/(charged) to equity	**46.7**	(4.1)
Transferred to held for sale	**3.4**	–
Disposal of subsidiaries/businesses	**5.8**	8.3
At 31 December	**71.9**	(10.9)

The increase in the deferred tax asset in the year is driven by a credit to equity relating to the actuarial loss in the year and credit to income statement as a result of the recognition of an asset for a portion of tax losses.

Due to the level of taxable profits anticipated the Group has not recognised deferred tax assets of £20.5m (2011: £27.6m) relating to capital losses, £33.9m (2011: £23.4m) relating to UK corporation tax losses and £28.6m (2011: £31.1m) relating to ACT. Under current legislation these losses can generally be carried forward indefinitely.

8. **Taxation** continued

Deferred tax liabilities	Accelerated tax depreciation £m	Intangibles £m	Other £m	Total £m
At 1 January 2011	(10.4)	(190.6)	(4.6)	(205.6)
Prior year restatement of opening balances	0.7	14.2	0.3	15.2
Deferred tax credit on discontinued activities	11.5	–	–	11.5
Disposal of subsidiaries/businesses	1.3	7.0	–	8.3
Current year credit	3.2	36.5	–	39.7
At 31 December 2011	**6.3**	**(132.9)**	**(4.3)**	**(130.9)**
Prior year restatement of opening balances	**(0.5)**	**10.6**	**0.3**	**10.4**
Disposal of subsidiaries/businesses	**–**	**5.8**	**–**	**5.8**
Current year (charge)/credit	**(0.4)**	**14.9**	**–**	**14.5**
Prior year charge	**(12.6)**	**(0.7)**	**(0.6)**	**(13.9)**
Transfer to held for sale	**1.1**	**2.3**	**–**	**3.4**
At 31 December 2012	**(6.1)**	**(100.0)**	**(4.6)**	**(110.7)**

Deferred tax assets	Retirement benefit obligation £m	Share-based payments £m	Financial instruments £m	Losses £m	Total £m
At 1 January 2011	85.8	0.3	63.7	(0.3)	149.5
Prior year restatement of opening balances					
— To income statement	(1.8)	(0.1)	(4.7)	–	(6.6)
— To equity	(4.5)	–	–	–	(4.5)
Current year charge	(9.9)	(0.3)	(8.9)	–	(19.1)
Prior year credit					
— To income statement	–	–	–	0.3	0.3
— To equity	0.4	–	–	–	0.4
At 31 December 2011	**70.0**	**(0.1)**	**50.1**	**–**	**120.0**
Prior year restatement of opening balances					
— To income statement	**(1.0)**	**–**	**(4.0)**	**–**	**(5.0)**
— To equity	**(4.5)**	**–**	**–**	**–**	**(4.5)**
Current year (charge)/credit	**(6.2)**	**0.4**	**1.8**	**20.9**	**16.9**
Credited to equity	**43.6**	**–**	**–**	**7.6**	**51.2**
Deferred tax credit on discontinued activities	**4.0**	**–**	**–**	**–**	**4.0**
At 31 December 2012	**105.9**	**0.3**	**47.9**	**28.5**	**182.6**

Net deferred tax asset/(liability)	£m
At 31 December 2012	**71.9**
At 31 December 2011	(10.9)

Where there is a legal right of offset and an intention to settle as such, deferred tax assets and liabilities may be presented on a net basis. This is the case for most of the Group's deferred tax balances and therefore they have been offset in the tables above. Substantial elements of the Group's deferred tax assets and liabilities, primarily relating to the defined benefit pension obligation, are greater than one year in nature.

Deferred tax assets in respect of losses are only recognised to the extent that it is anticipated they will be utilised in the foreseeable future. During the year an asset was recognised for losses forecast to be utilised by taxable profits.

Notes to the financial statements

9. Earnings/(loss) per share

Basic earnings per share has been calculated by dividing the profit attributable to ordinary shareholders of £12.8m (2011: £339.0m loss) by the weighted average number of ordinary shares of the Company.

	Year ended 31 Dec 2012			Year ended 31 Dec 2011 (Restated)[1]		
	Basic	**Dilutive effect of share options**	**Diluted**	Basic	Dilutive effect of share options	Diluted
Continuing operations						
Profit/(loss) after tax (£m)	**26.3**	**–**	**26.3**	(230.0)	–	(230.0)
Weighted average number of shares (m)	**239.8**	**–**	**239.8**	239.8	–	239.8
Earnings/(loss) per share (pence)	**11.0**	**–**	**11.0**	(95.9)	–	(95.9)
Discontinued operations						
Loss after tax (£m)	**(13.5)**	**–**	**(13.5)**	(109.0)	–	(109.0)
Weighted average number of shares (m)	**239.8**	**–**	**239.8**	239.8	–	239.8
Loss per share (pence)	**(5.6)**	**–**	**(5.6)**	(45.5)	–	(45.5)
Total						
Profit/(loss) after tax (£m)	**12.8**	**–**	**12.8**	(339.0)	–	(339.0)
Weighted average number of shares (m)	**239.8**	**–**	**239.8**	239.8	–	239.8
Earnings/(loss) per share (pence)	**5.3**	**–**	**5.3**	(141.4)	–	(141.4)

1 Comparatives have been restated following the 10:1 share consolidation effected during 2012.

Dilutive effect of share options

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

For the years ended 31 December 2012 and 31 December 2011, there is no dilutive effect as the outstanding share options that could have been acquired at fair value is less than the monetary value of the subscription rights attached to these options.

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

	2012 Number	2011 Number (Restated)[1]
Weighted average number of ordinary shares for the purpose of basic earnings/(loss) per share	**239,806,206**	239,805,802
Effect of dilutive potential ordinary shares:		
— Share options	**–**	–
Weighted average number of ordinary shares for the purpose of diluted earnings/(loss) per share	**239,806,206**	239,805,802

1 Comparatives have been restated following the 10:1 share consolidation effected during 2012.

Adjusted earnings per share ("Adjusted EPS")

Adjusted earnings per share is defined as trading profit less net regular interest payable, less a notional tax charge at 24.5% (2011: 26.5%) divided by the weighted average number of ordinary shares of the Company. There is no difference between basic and diluted adjusted EPS

Trading profit is defined as operating profit before re-financing costs, restructuring costs, profits and losses associated with divestment activity, amortisation and impairment of intangible assets, the revaluation of foreign exchange and other derivative contracts under IAS 39 and pension credits or charges in relation to the difference between the expected return on pension assets, administration costs and interest costs on pension liabilities.

9. Earnings/(loss) per share continued

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

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

	Year ended 31 Dec 2012		
	Continuing £m	**Discontinued £m**	**Total £m**
Operating profit/(loss)	**96.3**	**(17.5)**	**78.8**
Impairment of property, plant and equipment and intangible assets	**36.2**	**–**	**36.2**
Profit on disposal of operations	**(63.7)**	**–**	**(63.7)**
Operating profit/(loss) before impairment and profit on disposal of operations	**68.8**	**(17.5)**	**51.3**
Pension financing credit	**(12.5)**	**–**	**(12.5)**
Fair value movements on foreign exchange and other derivative contracts	**(2.1)**	**–**	**(2.1)**
Amortisation of intangible assets	**53.3**	**–**	**53.3**
Restructuring costs associated with divestment activity	**46.1**	**–**	**46.1**
Re-financing costs	**1.1**	**–**	**1.1**
Trading profit/(loss)	**154.7**	**(17.5)**	**137.2**
Less net regular interest payable	**(69.5)**	**–**	**(69.5)**
Adjusted profit/(loss) before tax	**85.2**	**(17.5)**	**67.7**
Notional tax at 24.5%	**(20.9)**	**4.3**	**(16.6)**
Adjusted profit/(loss) after tax	**64.3**	**(13.2)**	**51.1**
Average shares in issue (m)	**239.8**	**239.8**	**239.8**
Adjusted EPS (pence)	**26.8**	**(5.5)**	**21.3**
Net regular interest payable			
Net interest payable	**(91.9)**	**–**	**(91.9)**
Exclude write-off of financing costs and other	**11.9**	**–**	**11.9**
Exclude fair value adjustments on interest rate financial instruments	**9.7**	**–**	**9.7**
Exclude unwind of discount on provisions	**0.8**	**–**	**0.8**
Net regular interest payable	**(69.5)**	**–**	**(69.5)**

	Year ended 31 Dec 2011 (Restated)[1]		
	Continuing £m	Discontinued £m	Total £m
Operating loss	(176.3)	(106.5)	(282.8)
Impairment of goodwill and intangible assets	282.0	80.4	362.4
Loss on disposal of operations	11.2	—	11.2
Operating profit/(loss) before impairment and loss on disposal of operations	116.9	(26.1)	90.8
Pension financing credit	(17.0)	—	(17.0)
Fair value movements on foreign exchange and other derivative contracts	1.7	—	1.7
Amortisation of intangible assets	72.0	11.9	83.9
Restructuring costs associated with divestment activity	10.5	—	10.5
Re-financing costs	4.2	—	4.2
Trading profit/(loss)	188.3	(14.2)	174.1
Less net regular interest payable	(115.7)	(0.1)	(115.8)
Adjusted profit/(loss) before tax	72.6	(14.3)	58.3
Notional tax at 26.5%	(19.2)	3.8	(15.4)
Adjusted profit/(loss) after tax	53.4	(10.5)	42.9
Average shares in issue (m)	239.8	239.8	239.8
Adjusted EPS (pence)	22.3	(4.4)	17.9
Net regular interest payable			
Net interest payable	(82.8)	(0.1)	(82.9)
Exclude write-off of financing costs	1.6	—	1.6
Exclude fair value adjustments on interest rate financial instruments	(36.9)	—	(36.9)
Exclude unwind of discount on provisions	2.4	—	2.4
Net regular interest payable	(115.7)	(0.1)	(115.8)

1 Comparatives have been restated folllowing the 10:1 share consolidation effected during 2012.

Notes to the financial statements

10. Discontinued operations

Discontinued operations in 2011 comprise the Meat-free business and the Retailer Branded Chilled business which were sold in 2011. Income and expenditure incurred in discontinued operations throughout the year relates to operations that were disposed of in previous years and predominantly comprises of past service costs in relation to the Premier Foods pension scheme. There are no new discontinued operations in 2012.

	Year ended 31 Dec 2012 £m	Year ended 31 Dec 2011 £m
Revenue	–	218.6
Operating expenses	**(17.5)**	(325.1)
Operating loss before loss on disposal	**(17.5)**	(106.5)
Interest payable	–	(0.1)
Loss before taxation	**(17.5)**	(106.6)
Taxation credit	**4.0**	12.2
Loss after taxation on discontinued operations for the year	**(13.5)**	(94.4)
Loss on disposal	–	(14.6)
Total loss arising from discontinued operations	**(13.5)**	(109.0)

Included in the operating expenses for the year end 31 December 2011 above is an impairment charge of £80.4m, recognised against the assets allocated to the Retailer Branded Chilled CGU.

During the year, discontinued operations contributed to a net inflow of £1.6m (2011: £47.9m outflow) to the Group's net operating cash flows, and nil to investing activities (2011: £6.9m outflow).

11. Disposal of businesses

Irish Brands

On 23 January 2012, the Group completed its sale of the four Irish Brands (*Chivers*, *Gateaux*, *McDonnells* and the *Erin* Licence) to The Boyne Valley Group for £34.7m (€41.4m) before disposal costs.

Elephant Atta ethnic flours

On 6 July 2012, the Group completed its sale of the *Elephant Atta* ethnic flour business to Westmill Foods (a subsidiary of Associated British Foods) for £34.0m before disposal costs.

Vinegar and sour pickles

On 28 July 2012, the Group completed its sale of its Vinegar and Sour Pickles business to the Mizkan Group for £41m before disposal costs.

Sweet spreads and jellies

On 27 October 2012, the Group completed its sale of its Sweet Spreads and Jellies business to the Hain Celestial Group for £202m before disposal costs.

11. Disposal of businesses continued

The results of all the businesses above are included within continuing operations as they were integrated and reported as part of the Grocery and Bread businesses.

	Irish Brands £m	*Elephant Atta* £m	Vinegar and sour pickles £m	Sweet spreads and jellies £m	Total £m
Net cash inflow arising on disposal:					
Initial consideration	34.7	34.0	41.0	202.0	311.6
Working capital adjustments and disposal costs	(1.3)	(1.2)	(1.9)	(6.8)	(11.1)
Net cash inflow for the year	33.4	32.8	39.1	195.2	300.5
Property, plant and equipment	–	–	7.8	33.5	41.3
Intangible assets and goodwill	32.1	2.9	23.7	118.4	177.1
Inventories	1.4	–	5.6	17.4	24.4
Provisions and lease obligations	–	(0.7)	(1.3)	(4.0)	(6.0)
Net assets disposed	33.5	2.2	35.8	165.3	236.8
(Loss)/profit on disposal	(0.1)	30.6	3.3	29.9	63.7

12. Assets and liabilities held for sale

	2012 £m	2011 £m
Non-current assets:		
Property, plant and equipment	**37.6**	–
Goodwill	**31.1**	31.2
Other intangible assets	**3.1**	0.9
Current assets:		
Inventories	**9.2**	1.7
Total assets held for sale	**81.0**	33.8
Non-current liabilities:		
Deferred tax liabilities	**(3.4)**	–
Total liabilities held for sale	**(3.4)**	–
Net assets and liabilities held for sale	**77.6**	33.8

As at 31 December 2012, the assets and associated liabilities relating to the Sweet Pickles and Table Sauces business were held for sale in light of the announcement of the conditional sale of this business on 30 October 2012. The disposal completed on 2 February 2013 for consideration of £92.5m.

As at 31 December 2011, the assets and associated liabilities relating to certain Irish brands were held for sale in light of the decision to sell this business. The disposal completed on 23 January 2012.
Both businesses are part of the Grocery segment.

Notes to the financial statements

13. Property, plant and equipment

	Freehold land and buildings £m	Long leasehold land and buildings £m	Short leasehold land and buildings £m	Vehicles, plant and equipment £m	Assets under construction £m	Total £m
Cost						
At 1 January 2011	133.4	11.1	28.3	444.3	44.8	661.9
Additions	0.5	–	–	6.1	47.5	54.1
Disposals	(36.4)	–	–	(66.4)	–	(102.8)
Reclassifications	–	–	–	0.2	–	0.2
Transferred into use	3.8	–	–	20.1	(23.9)	–
Transferred to held for sale	–	–	2.5	–	–	2.5
At 31 December 2011	**101.3**	**11.1**	**30.8**	**404.3**	**68.4**	**615.9**
Additions	**–**	**–**	**–**	**–**	**43.4**	**43.4**
Disposals	**(16.5)**	**–**	**–**	**(73.7)**	**(4.5)**	**(94.7)**
Reclassifications	**–**	**–**	**(1.4)**	**1.4**	**–**	**–**
Transferred from intangible assets[2]	**–**	**–**	**–**	**44.8**	**–**	**44.8**
Transferred into use	**1.5**	**–**	**–**	**78.2**	**(79.7)**	**–**
Reversal of fair value adjustment[1]	**88.9**	**4.6**	**(14.0)**	**7.9**	**–**	**87.4**
Transferred to held for sale	**(12.0)**	**–**	**–**	**(51.4)**	**(0.8)**	**(64.2)**
At 31 December 2012	**163.2**	**15.7**	**15.4**	**411.5**	**26.8**	**632.6**
Aggregate depreciation and impairment						
At 1 January 2011	(12.0)	(4.1)	(4.0)	(156.7)	–	(176.8)
Depreciation charge for the year	(5.0)	(0.5)	(0.7)	(40.1)	–	(46.3)
Disposals	7.3	–	–	45.1	–	52.4
Impairment charge	–	–	–	(27.2)	–	(27.2)
Reclassifications	–	–	–	(0.2)	–	(0.2)
Transferred to held for sale	–	–	(0.5)	–	–	(0.5)
At 31 December 2011	**(9.7)**	**(4.6)**	**(5.2)**	**(179.1)**	**–**	**(198.6)**
Depreciation charge for the year	**(3.7)**	**(0.3)**	**(0.8)**	**(34.8)**	**–**	**(39.6)**
Disposals	**5.4**	**–**	**–**	**39.9**	**–**	**45.3**
Impairment charge	**(5.6)**	**–**	**–**	**(4.1)**	**(2.8)**	**(12.5)**
Reclassifications	**–**	**–**	**(0.4)**	**0.4**	**–**	**–**
Reversal of fair value adjustment	**(26.6)**	**0.4**	**2.6**	**(56.0)**	**–**	**(79.6)**
Transferred to held for sale	**2.9**	**–**	**–**	**23.7**	**–**	**26.6**
At 31 December 2012	**(37.3)**	**(4.5)**	**(3.8)**	**(210.0)**	**(2.8)**	**(258.4)**
Net book value						
At 31 December 2011	91.6	6.5	25.6	225.2	68.4	417.3
At 31 December 2012	**125.9**	**11.2**	**11.6**	**201.5**	**24.0**	**374.2**

1 Following an exercise to verify property, plant and equipment in the year, fair value adjustments that arose on the acquisition of RHM in 2007 have been corrected.
2 £44.8m of assets were classified as intangible assets at 31 December 2011. These have been reclassified as property, plant and equipment during 2012.

The net book value of the Group's vehicles, plant and equipment includes an amount of £0.7m (2011: £0.4m) in respect of assets held under finance leases. None of the additions of £43.4m for the year related to assets held under finance leases. The increase in the year is due to a reclassification between categories.

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

Impairment
An impairment charge of £12.5m was recognised in the year due to planned site closures and restructuring from the Group's decision to exit a branded and own label contract in the Bread division.

An impairment charge of £27.2m was recognised in 2011 against assets relating to the Retailer Branded Chilled business as a result of an impairment review carried out in light of the decision to sell this business. (Refer to note 14).

14. Goodwill

	2012 £m	2011 £m
Carrying value		
At 1 January	**856.2**	1,096.1
Impairment — continuing	**–**	(185.4)
Impairment — discontinued	**–**	(23.3)
Disposals	**(111.2)**	–
Transferred to held for sale	**(31.1)**	(31.2)
At 31 December	**713.9**	856.2

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

	2012 £m	2011 £m
Grocery	**713.9**	856.2
Net carrying value of goodwill	**713.9**	856.2

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

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

Cash flow assumptions
The cash flows used in the value in use calculation are pre-tax cash flows based on the latest approved management forecasts in respect of the following four years. These are calculated as trading profit before depreciation. Assumptions regarding these future cash flows are based upon actual results in prior periods adjusted for expected developments in the following years with reference to market conditions and reasonable management expectations for the businesses including short-term growth projections where appropriate. All income and costs are taken into account.

An estimate of capital expenditure required to maintain these cash flows is also made.

Long-term growth rate assumptions
The four year management forecasts are extrapolated in perpetuity using growth assumptions relevant for the business sector. The growth rate applied is 2.25% (2011: 2.25%) and is not considered to be higher than the average long-term industry growth rate.

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

The Group has considered the impact of the current economic climate in determining the appropriate discount rate to use in impairment testing. At 31 December 2012, the pre-tax rate used to discount the forecasted cash flows has been determined to be 11.2% (2011: 12.1%).

Changing the assumptions selected by management, in particular the discount rate and growth rate assumptions used in the cash flow projections, could significantly affect the Group's impairment evaluation and hence results.

Impairment
A total impairment charge of £23.7m was recognised in the year against intangible assets allocated to the Bread CGU.

The impairment has arisen as a result of adverse trading conditions experienced during the year. Further impairment would be required in the future if performance fell below that which was used in the value in use calculation or the discount rate were to increase. A increase of 0.5% in the pre-tax discount rate would decrease the recoverable amount by £13m. A reduction of 1% in the perpetual growth rate would decrease the recoverable amount by £20m. Lastly, a 5% decrease in cash flows after the fifth year would decrease the recoverable amount by £17m. Current forecasts project revenue growth in the Bread business of 8% over the next four years. Taking into account a reasonable possible change in circumstances, for example, a loss of a major contract in 2014, revenue could fall by 5% resulting in a further impairment of £15m.

A total impairment charge of £362.4m was recognised in 2011 against goodwill, other intangible assets and tangible fixed assets. £282.0m was recognised against the goodwill and intangible assets allocated to the Bread CGU.

With regards to the Grocery CGU, the directors believe no reasonable change in circumstances that would impact the key assumptions used in the impairment testing would cause the carrying value to exceed its recoverable amount.

Also included within this charge was £80.4m recognised against the assets allocated to the Retailer Branded Chilled CGU which was recorded within discontinued operations. This reduced the goodwill and intangible assets to £nil and also reduced the value of tangible fixed assets to their recoverable amount. The remaining assets and associated liabilities attributable to the Retailer Branded Chilled business were sold on the 30 December 2011.

Notes to the financial statements

14. Goodwill continued

Impairment charge

2012	Goodwill £m	Other intangibles £m	Property, plant and equipment £m	Total £m
Bread	–	23.7	12.5	36.2
	–	23.7	12.5	36.2
2011				
Bread	185.4	96.6	–	282.0
Retailer Branded Chilled	23.3	29.9	27.2	80.4
	208.7	126.5	27.2	362.4

15. Other intangible assets

	Software/ licences £m	Brands/ trademarks £m	Customer relationships £m	Assets under construction £m	Total £m
Cost					
At 1 January 2011	160.4	893.2	243.0	23.2	1,319.8
Additions	–	–	–	16.8	16.8
Disposals	–	–	(91.5)	–	(91.5)
Reclassifications	–	–	–	–	–
Transferred into use	2.7	–	–	(2.7)	–
Transferred to held for sale	–	–	(2.4)	–	(2.4)
At 31 December 2011	**163.1**	**893.2**	**149.1**	**37.3**	**1,242.7**
Additions	–	–	–	12.7	12.7
Disposals	(1.2)	(44.9)	(14.3)	–	(60.4)
Transfer to property, plant and equipment[1]	(44.8)	–	–	–	(44.8)
Transferred into use	32.9	–	–	(32.9)	–
Transferred to held for sale	–	(7.1)	–	–	(7.1)
At 31 December 2012	**150.0**	**841.2**	**134.8**	**17.1**	**1,143.1**
Amortisation					
At 1 January 2011	(37.8)	(133.2)	(131.6)	–	(302.6)
Disposals	–	–	91.5	–	91.5
Charge for the year	(17.3)	(33.0)	(33.6)	–	(83.9)
Impairment	–	(67.9)	(58.6)	–	(126.5)
Transferred to held for sale	–	–	1.5	–	1.5
At 31 December 2011	**(55.1)**	**(234.1)**	**(130.8)**	**–**	**(420.0)**
Disposals	1.0	14.8	11.1	–	26.9
Charge for the year	(18.9)	(27.4)	(7.0)	–	(53.3)
Impairment	–	(23.7)	–	–	(23.7)
Transferred to held for sale	–	4.0	–	–	4.0
At 31 December 2012	**(73.0)**	**(266.4)**	**(126.7)**	**–**	**(466.1)**
Net book value 31 December 2011	108.0	659.1	18.3	37.3	822.7
Net book value 31 December 2012	**77.0**	**574.8**	**8.1**	**17.1**	**677.0**

1 £44.8m of assets were classified as intangible assets at 31 December 2011. These have been reclassified as property, plant and equipment during 2012.

15. Other intangible assets continued

Brands and trademarks are considered to have finite useful lives and are amortised on a straight-line basis over their estimated useful lives of 20 to 40 years. Software is amortised on a straight-line basis over its estimated useful life of 3 to 10 years. Customer relationships are amortised on a straight-line basis over their estimated useful lives of 7 years. All amortisation is recognised within administrative costs for 2012 and 2011.

Included in the assets under construction additions for the year above are £6.1m of internal costs (2011: £5.6m).

As at 31 December 2012, the Group's borrowings are secured on the assets of the Group including other intangible fixed assets.

Impairment

An impairment charge of £23.7m was recognised in the year against other intangible assets (2011: £126.5m). Refer to note 14.

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

Brand/Trademark	Carrying value at 31 Dec 2012 £m	Estimated useful life remaining years
Bisto	145.3	24
OXO	92.4	34
Batchelors	76.3	24
Hovis	54.6	34
Sharwood's	68.7	24
Mr. Kipling	56.4	24

16. Investments

Principal subsidiaries

Name of Subsidiary	Country of incorporation or registration and principal operations	Principal activity	Effective interest in ordinary share capital at 31 December 2012	2011
Operating subsidiaries				
Premier Foods Group Limited	United Kingdom	Manufacture and distribution of ambient food products, cakes, bread, own label and other food products	**100%**	100%
Premier Foods Group Services Limited	United Kingdom	Head Office company	**100%**	100%
Other subsidiaries				
Premier Foods Investments Limited	United Kingdom	Financing company	**100%**	100%

Each of the principal subsidiary undertakings has the same year-end as Premier Foods plc. The companies listed above are those that materially affect the results and the assets of the Group. The Company has taken advantage of s.410 (2) of the Companies Act 2006 and in accordance a full list of subsidiary undertakings will be annexed to the Company's next annual return.

Notes to the financial statements

17. Inventories

	2012 £m	2011 £m
Raw materials	**45.7**	50.4
Work in progress	**2.6**	3.6
Finished goods and goods for resale	**67.9**	82.8
Inventories	**116.2**	136.8

Inventory write-offs in the year amounted to £15.7m (2011: £16.4m). The borrowings of the Group are secured against all the assets of the Group including inventory.

18. Trade and other receivables

	2012 £m	2011 £m
Trade receivables	**279.5**	274.9
Trade receivables impaired	**(16.3)**	(27.5)
Net trade receivables	**263.2**	247.4
Prepayments	**27.2**	32.5
Interest receivable	**0.1**	0.4
Other tax and social security receivable	**7.2**	15.3
Other receivables	**0.9**	1.8
Trade and other receivables	**298.6**	297.4

The borrowings of the Group are secured against all the assets of the Group including trade and other receivables. The Group has benefited from a £100m securitisation programme to allow it to borrow against trade receivable balances from a group of four of the Group's primary banks.

19. Trade and other payables

	2012 £m	2011 £m
Trade payables	**(316.4)**	(327.0)
Other tax and social security payable	**(13.1)**	(14.6)
Other payables and accruals	**(77.3)**	(93.2)
Trade and other payables	**(406.8)**	(434.8)

20. Bank and other borrowings

	2012 £m	2011 £m
Due within one year:		
Secured Senior Credit Facility — Revolving (note a)	**(15.0)**	–
Debt issuance costs	**0.3**	–
	(14.7)	–
Secured Senior Credit Facility — Term (note a)	**(77.4)**	(67.3)
Debt issuance costs	**1.5**	0.8
	(75.9)	(66.5)
Bank overdrafts	**(43.5)**	(23.7)
Total bank borrowings due within one year	**(134.1)**	(90.2)
Finance lease obligations (note 21)	**(0.1)**	(0.2)
Other unsecured loans (note b)	**(95.6)**	(23.2)
Total borrowings due within one year	**(229.8)**	(113.6)
Due after more than one year:		
Secured Senior Credit Facility — Revolving (note a)	**(116.7)**	(276.1)
Debt issuance costs	**7.7**	6.5
	(109.0)	(269.6)
Secured Senior Credit Facility – Term (note a)	**(677.8)**	(665.8)
Debt issuance costs	**13.1**	8.7
	(664.7)	(657.1)
Finance lease obligations (note 21)	**(0.3)**	(0.5)
Other unsecured loans (note b)	**(0.1)**	(0.1)
Total other	**(0.4)**	(0.6)
Total borrowings due after one year	**(774.1)**	(927.3)
Total bank and other borrowings	**(1,003.9)**	(1,040.9)

20. Bank and other borrowings continued

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

Cash and bank deposits and short-term borrowings have been offset to the extent possible in accordance with the Group's banking agreements.

(a) Senior Term Credit Facility and Revolving Credit Facility Arrangement — 2012

In March 2012 the Group signed a re-financing package with its banking syndicate, swap counterparties and pension schemes. This amended certain terms of its Senior Term Credit Facility and Revolving Credit Facility Arrangement of 16 March 2007.

The existing term loan and revolving credit facility, previously due to mature on 31 December 2013, have been extended to a new maturity date of 30 June 2016. The current applicable bank margin of 2.25% will increase to 3.25% with effect from 1 January 2014.

Additionally, the current amortisation payment schedule has been amended, with amortisations to occur semi-annually from 30 June 2014. Banking covenants of net debt/EBITDA and EBITDA/interest remain in place; they will continue to be tested biannually and have been re-set to reflect the Group's strategic plan.

The total interest rate swap portfolio, including previously restructured swaps, was restructured into additional term loan totalling £188m. Of this additional term loan, £106m of the previously restructured swaps will be interest bearing with immediate effect. The remaining £82m of previously restructured swaps will attract interest from 1 January 2014. These new tranches of additional term loan will attract the same interest margin as the main term loan. The previously arranged agreed swap settlements of £35m in 2012 and £82m in 2013 are no longer applicable. A new floating to fixed amortising swap commencing in July 2012, with an initial nominal value of £745m is in place, attracting a swap rate of 1.59%.

All term loan and securitised debt attract interest charges based on LIBOR.

A sliding scale of new deferred fees at market rates will be applicable from 2014 through to 2016, which are payable on a subsequent re-financing. Planned disposal proceeds are shared between the banks in the banking syndicate (including those swap counterparties whose swaps have been restructured into additional term loans as described above).

(b) Other loans

Other loans falling due within one year includes amounts drawn under the debtors securitisation facility, which in 2012 is secured against the Group's trade receivables.

21. Financial instruments

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

The Group also enters into contracts with suppliers for its principal raw material requirements, some of which are considered commodities, and also diesel and energy. These commodity and energy contracts are part of the Group's normal purchasing activities. Some of the risk relating to diesel is mitigated with the use of derivative financial instruments. The Treasury Risk Management Committee monitors and reviews the Group's foreign currency exchange, commodity price and energy price exposures and recommends appropriate hedging strategies for each.

(a) Market risk

i) Foreign exchange risk

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

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

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

Principal rate of exchange EUR/£	**Year ended 31 Dec 2012**	Year ended 31 Dec 2011
Year end	**1.2257**	1.1917
Average	**1.2317**	1.1508

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

Notes to the financial statements

21. Financial instruments continued

The table below shows the Group's currency exposures as at 31 December 2012 and 2011 that gave rise to net currency gains and losses recognised in the consolidated income statement as a result of monetary assets and liabilities that are not denominated in the functional currency of the subsidiaries involved.

	Functional currency of subsidiaries		
	Sterling £m	**Euro £m**	**Total £m**
At 31 December 2012			
Net foreign currency monetary assets			
Euro	**0.5**	**–**	**0.5**
US dollar	**0.8**	**–**	**0.8**
Total	**1.3**	**–**	**1.3**
At 31 December 2011			
Net foreign currency monetary assets			
Sterling	–	0.5	0.5
Euro	(5.5)	–	(5.5)
US dollar	(0.4)	–	(0.4)
Other currencies	6.0	–	6.0
Total	0.1	0.5	0.6

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

	2012 (Payable)/ receivable £m	2011 (Payable)/ receivable £m
Euro	**(48.6)**	(54.3)
US dollar	**(15.2)**	(7.8)
Total	**(63.8)**	(62.1)

Sensitivities are disclosed below using the following reasonably possible scenarios.

If the US dollar were to weaken against sterling by 20 US dollar cents, with all other variables held constant, post-tax profit would decrease by £1.3m (2011: £0.7m decrease).

If the US dollar were to strengthen against sterling by 20 US dollar cents, with all other variables held constant, post-tax profit would increase by £1.6m (2011: £0.9m increase).

If the Euro were to weaken against sterling by 10 Euro cents, with all other variables held constant, post-tax profit would decrease by £2.9m (2011: £2.7m decrease).

If the Euro were to strengthen against sterling by 10 Euro cents, with all other variables held constant, post-tax profit would increase by £3.4m (2011: £3.2m increase).

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

(ii) Commodity price risk

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

21. Financial instruments continued

(iii) Interest rate risk

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

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

The gross cash flows on the interest rate derivatives are sensitive to changes in interest rates as they are driven by three month LIBOR which is re-set on a quarterly basis. As at 31 December 2012 the re-set rate was 0.515% (2011: 1.08006%).

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

	Weighted average interest rate (%)
Currency: Sterling	
At 31 December 2012	**1.6**
At 31 December 2011	5.7

The following table reflects the likely contractual maturity date of the interest rate derivative contracts taking into account zero cost call features, where market rates at the balance sheet date indicate they will be triggered by the banks. As part of the revised re-financing package the maturity profile and structure of interest rate derivative contracts has been revised.

	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
2012							
Derivative financial liabilities:							
Fixed rate	**80.0**	**25.0**	**85.0**	**510.0**	**—**	**—**	**700.0**
	80.0	**25.0**	**85.0**	**510.0**	**—**	**—**	**700.0**
2011							
Derivative financial liabilities:							
Fixed rate	—	50.0	—	—	—	—	50.0
Cap and Floor Structure	350.0	—	—	—	—	—	350.0
Other financial liabilities at fair value through profit or loss:							
Fixed rate	—	675.0	—	—	—	—	675.0
Other callable swaps	150.0	—	—	—	—	—	150.0
	500.0	725.0	—	—	—	—	1,225.0

2012

Fixed rate derivative financial liabilities constitute one swap with a nominal value of £700m which is an amortising floating to fixed interest rate swap maturing in 2016.

2011

Fixed rate derivative financial liabilities constitute one swap with a nominal value of £50m which is a conventional interest rate swap maturing in 2013. It has a callable option whereby the counterparty bank can cancel the swap at nil cost at certain specified dates from June 2011 onwards.

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

In 2011 the fixed rate 'other financial liabilities through profit or loss' comprised six fixed rate swaps with a nominal value totalling £675m, all due to mature in 2013 and other callable swaps comprising a single swap with an optional break at August 2012 and a mandatory break at June 2013. These were restructured into additional term loan as part of the March 2012 re-financing.

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

Notes to the financial statements

21. Financial instruments continued

The Group's provisions of £73.9m as at 31 December 2012 (2011: £46.9m) include £18.7m relating to onerous leases (2011: £11.7m) which are considered to be floating rate financial liabilities. These cash flows are discounted where the effect is material.

At 31 December 2012, for every 50 basis points reduction in rates below the last floating re-set rate of 0.515% (based on three month LIBOR), with all other variables held constant, annualised net interest expense would decrease by £1.1m (2011: £0.4m increase).

At 31 December 2012, if interest rates were 200 basis points higher than the last floating re-set rate of 0.515% (based on three month LIBOR), with all other variables held constant, annualised net interest expense would increase by £4.5m (2011: £1.6m decrease).

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

(b) Credit risk

The Group's principal financial assets are cash and cash deposits 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 and trade receivables are due principally from major grocery retailers (though it is the Group's policy to insure trade debt).

At 31 December 2012, trade and other receivables of £77.9m (2011: £85.8m) were past due but not impaired. These relate to customers with whom there is no history of default.

The ageing of trade and other receivables was as follows:

		Past due					
	Fully performing £m	1–30 days £m	31–60 days £m	61–90 days £m	91–120 days £m	120+ days £m	Total £m
Trade and other receivables							
2012	**186.3**	**34.8**	**7.8**	**6.0**	**5.3**	**24.0**	**264.2**
2011	163.8	42.6	1.1	2.3	7.7	32.1	249.6

At 31 December 2012, trade and other receivables of £16.3m (2011: £27.5m) were determined to be specifically impaired and provided for. The total includes receivables from customers which are considered to be experiencing difficult economic situations.

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

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

	2012 £m	2011 £m
At 1 January	**27.5**	9.1
Receivables written-off during the year as uncollectable	**(25.9)**	(5.0)
Provision for receivables released	**–**	(3.0)
Provision for receivables impairment raised	**14.7**	26.4
At 31 December	**16.3**	27.5

The Group has benefited from a £100m securitisation programme to allow it to borrow against trade receivable balances from a group of four of the Group's primary banks.

21. Financial instruments continued

(c) Liquidity risk

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

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

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

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

	Within 1 year £m	1 and 2 years £m	2 and 3 years £m	3 and 4 years £m	4 and 5 years £m	Over 5 years £m	Total £m
At 31 December 2012							
Trade and other payables	**(393.7)**	**—**	**—**	**—**	**—**	**—**	**(393.7)**
Bank overdraft	**(43.5)**	**—**	**—**	**—**	**—**	**—**	**(43.5)**
Bank Term Loan	**(77.4)**	**(50.0)**	**(60.0)**	**(567.8)**	**—**	**—**	**(755.2)**
Bank Revolver Facility (Drawn down)	**(15.0)**	**—**	**—**	**(116.7)**	**—**	**—**	**(131.7)**
Finance leases	**(0.1)**	**(0.3)**	**(0.1)**	**—**	**—**	**—**	**(0.5)**
Other loans	**—**	**(95.7)**	**—**	**—**	**—**	**—**	**(95.7)**
At 31 December 2011							
Trade and other payables	(420.2)	—	—	—	—	—	(420.2)
Bank overdraft	(23.7)	—	—	—	—	—	(23.7)
Bank Term Loan	(67.3)	(665.8)	—	—	—	—	(733.1)
Bank Revolver Facility (Drawn down)	—	(276.1)	—	—	—	—	(276.1)
Finance leases	(0.2)	(0.6)	—	—	—	—	(0.8)
Other loans	(23.2)	(0.1)	—	—	—	—	(23.3)

The Bank Term Loan and Bank Revolver Facility are repriced quarterly to LIBOR, and other liabilities are not repriced before the maturity date.

The Group has £195.6m (2011: £178.3m) of facilities available and not drawn as at 31 December 2012 expiring between 3 and 4 years.

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

The following table analyses the contractual undiscounted cash flows of interest on the floating rate debt to maturity (based on the last fixed rate refix of 0.515% (2011: 1.08006%) plus applicable margin).

	Within 1 year £m	1 and 2 years £m	2 and 3 years £m	3 and 4 years £m	4 and 5 years £m	Over 5 years £m	Total £m
Interest							
2012	**25.7**	**32.7**	**30.3**	**14.0**	**–**	**–**	**102.7**
2011	38.0	36.3	–	–	–	–	74.3

Notes to the financial statements

21. Financial instruments continued

The following table analyses the Group's derivative financial instruments (including "Other financial liabilities at fair value through profit or loss") into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed are the undiscounted cash flows, except in the case of one of the 2011 swaps within "Other financial liabilities at fair value through profit or loss" with a nominal value of £150m where the outflows include the expected mark to market value at the call date.

	Within 1 year £m	1 and 2 years £m	2 and 3 years £m	3 and 4 years £m	4 and 5 years £m	Over 5 years £m	Total £m
At 31 December 2012							
Forward foreign exchange contracts:							
Outflow	**(63.8)**	**–**	**–**	**–**	**–**	**–**	**(63.8)**
Inflow	**64.4**	**–**	**–**	**–**	**–**	**–**	**64.4**
Commodities:							
Outflow	**(6.4)**	**–**	**–**	**–**	**–**	**–**	**(6.4)**
Interest rate swaps:							
Outflow	**(10.6)**	**(10.1)**	**(8.8)**	**(3.9)**	**–**	**–**	**(33.4)**
Inflow	**3.4**	**3.3**	**2.9**	**1.3**	**–**	**–**	**10.9**
	(13.0)	**(6.8)**	**(5.9)**	**(2.6)**	**–**	**–**	**(28.3)**
At 31 December 2011							
Forward foreign exchange contracts:							
Outflow	(62.1)	—	—	—	—	—	(62.1)
Inflow	60.8	—	—	—	—	—	60.8
Commodities:							
Outflow	(6.3)	—	—	—	—	—	(6.3)
Interest rate swaps:							
Outflow	(12.4)	(1.0)	—	—	—	—	(13.4)
Inflow	2.4	0.2	—	—	—	—	2.6
Other financial liabilities at fair value through profit or loss:							
Outflow	(79.4)	(124.0)	—	—	—	—	(203.4)
Inflow	7.3	6.8	—	—	—	—	14.1
	(89.7)	(118.0)	—	—	—	—	(207.7)

The above table incorporates the contractual cash flows of the interest rate derivatives with floating rates of interest calculated based on LIBOR of 0.515% (2011: 1.08006%) at the balance sheet date.

21. Financial instruments continued

(d) Fair value

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

	2012 Book & Market Value £m	2011 Book & Market Value £m
Loans and receivables:		
Cash and bank deposits	**53.2**	45.8
Trade and other receivables	**264.2**	249.6
Financial assets at fair value through profit or loss:		
Derivative financial instruments		
— Forward foreign currency exchange contracts/currency options	**0.7**	0.3
— Commodity and energy derivatives	**0.3**	0.2
Financial liabilities at fair value through profit or loss:		
Derivative financial instruments		
— Forward foreign currency exchange contracts/currency options	**(0.3)**	(1.9)
— Commodity and energy derivatives	**(0.1)**	(0.1)
— Interest rate swaps	**(19.2)**	(10.6)
Other financial liabilities at fair value through profit or loss:		
— Interest rate swaps	**–**	(187.0)
Financial liabilities at amortised cost:		
Trade and other payables	**(393.7)**	(420.2)
Bank Term Loan	**(755.2)**	(733.1)
Bank Revolver Facility (Drawn down)	**(131.7)**	(276.1)
Bank overdraft	**(43.5)**	(23.7)
Finance leases	**(0.4)**	(0.7)
Other	**(95.7)**	(23.3)
Interest payable	**(5.6)**	(0.9)

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2012 using the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December.

	2012 Level 2	2011 Level 2
Financial assets at fair value through profit or loss:		
Derivative financial instruments		
— Forward foreign currency exchange contracts/currency options	**0.7**	0.3
— Commodity and energy derivatives	**0.3**	0.2
Financial liabilities at fair value through profit or loss:		
Derivative financial instruments		
— Forward foreign currency exchange contracts/currency options	**(0.3)**	(1.9)
— Commodity derivatives	**(0.1)**	(0.1)
— Interest rate swaps	**(19.2)**	(10.6)
Other financial liabilities at fair value through profit or loss:		
— Interest rate swaps	**–**	(187.0)

Notes to the financial statements

21. Financial instruments continued

Fair value estimation

Derivatives

Forward exchange contracts are marked to market using prevailing market prices. Hedge accounting has not been applied to forward contracts and as a result the movement in the fair value of £1.9m has been credited to the income statement in the year (2011: £0.9m charge).

Commodity derivatives are marked to market using prevailing prices and are also not designated for hedge accounting. As a result the fair value movement of £0.2m (2011: £0.8m charge) has been credited to the income statement.

Interest rate swaps are marked to market using prevailing market prices. Interest rate swaps are also not designated for hedge accounting. As a result the movement in the fair value of £14.8m has been charged to the income statement in the year (2011: £17.6m credit).

Interest rate swaps classed as "Other financial liabilities at fair value through profit or loss" are also marked to market using prevailing market prices. These are also not designated for hedge accounting. As a result the movement in the fair value of £5.1m has been credited to the income statement in the year (2011: £19.3m credit).

Short and long-term borrowings, loan notes and interest payable

Fair value is calculated based on discounted expected future principal and interest rate cash flows. The fair value of the floating rate debt approximates the carrying value above.

Finance lease liabilities

The fair value of finance lease liabilities approximates book value.

Trade and other receivables/payables

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

(e) Obligations under finance leases

	Minimum lease payments		*Present value of minimum lease payments*	
	2012 £m	2011 £m	**2012 £m**	2011 £m
Not later than one year	**0.1**	0.2	**0.1**	0.2
Later than one year but not later than five years	**0.3**	0.6	**0.2**	0.5
Later than five years	**0.1**	–	**0.1**	–
	0.5	0.8	**0.4**	0.7
Less: Future finance charges	**(0.1)**	(0.1)	**n/a**	n/a
Present value of lease obligations	**0.4**	0.7	**0.4**	0.7
Less: Amounts due for settlement within 12 months			**(0.1)**	(0.2)
Amounts due for settlement after 12 months			**0.3**	0.5

It is the Group's policy to lease certain items of plant and equipment under finance leases. The average lease term is 3 years, the longest being 6 years.

For the year ended 31 December 2012, the average effective borrowing rate was 3.8% (2011: 3.9%).

Interest rates are fixed at the contract date, and thus expose the Group to fair value interest rate risk. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

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

(f) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may return capital to shareholders, issue new shares, or sell assets to reduce debt. In order to bring gearing down the Group is in the process of an asset reduction programme aimed at reducing debt. During the year the Group has used disposal proceeds of £312.2m to repay borrowings.

As part of the renegotiated banking facilities the Group was required to repay £330m of disposal proceeds by 30 June 2014 to the banking syndicate. As at the date of this report this has been exceeded and completed ahead of schedule. (Proceeds of £92.5m from the sale of the Sweet Pickles and Table Sauces business was received on 4 February 2013).

The directors do not recommend the payment of a dividend for the year then ended 31 December 2012 (2011: nil).

21. Financial instruments continued

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as equity plus net debt.

The gearing ratios at 31 December 2012 and 31 December 2011 were as follows:

	2012 £m	2011 £m
Total borrowings	**(1,003.9)**	(1,040.9)
Less cash and bank deposits	**53.2**	45.8
Net borrowings	**(950.7)**	(995.1)
Total equity	**(404.9)**	(572.7)
Total capital	**(1,355.6)**	(1,567.8)
Gearing ratio	**70%**	63%

Under the Group's financing arrangement, the Group is required to meet two covenant tests which are calculated and tested on a 12 month rolling basis at the half year and full year, each year. The Group has complied with these tests at June and December 2012.

(g) Financial compliance risk
Risk
The Group continues to operate with a high level of debt (£0.9bn) and is subject to operating within banking covenants set out in its re-financing agreement agreed with its bank syndicate in March 2012. This includes net debt/EBITDA and EBITDA/interest covenant tests and a requirement to realise disposal proceeds of £330m by 30 June 2014. In the event these covenants are not met then the Group would be in breach of its financing agreement and, as would be the case in any covenant breach, the banking syndicate could withdraw their funding to the Group.

In addition to covenant compliance the Group must ensure that it manages its liquidity such that it has sufficient funds to meet its obligations as they fall due.

It also supports three defined benefit pension schemes in the UK, all three schemes have significant technical funding deficits which could have an adverse impact on the financial condition of the Group. The Company does not pay dividends and is restricted from paying dividends under the terms of its financing arrangements. The Group is also restricted from raising additional forms of debt finance (other than a basket of *c.*£20m) and is not able to use free cash flow for acquisitions.

Mitigation
The Group successfully finalised financing arrangements in March 2012 which will provide funding until June 2016. Following the completion of the disposal of the Sweet Pickles and Table Sauces business on 2 February 2013 the Group has successfully met, and indeed exceeded, the disposal proceeds target. In addition the Group achieved its trading expectations for 2012, and successfully implemented a debtor securitisation programme to provide additional funding and liquidity. The Group reviews its performance on an ongoing basis and formally tests and reports on covenant compliance to the Group's banking syndicate every six months as well as providing forecast covenant compliance tests twice a year. In the event of a forecast covenant breach the Group would seek a covenant waiver or amendment from its banking syndicate that it could obtain with a two-thirds majority vote.

The Group manages liquidity risk through both the treasury and finance functions. Cash flow forecasts are prepared and reviewed on a weekly basis, normally covering a period of three months. In addition, cash flow forecasts are prepared as part of the Group's overall budgeting and forecasting processes and performance is monitored against this each month.

Funding agreements have been reached with the trustees of the pension schemes which coupled with the changes to the schemes in the prior year mitigate our exposure in 2013. The Group continues to monitor the pension risks closely working with the trustees to ensure a collaborative approach.

Notes to the financial statements

22. Provisions for liabilities and charges

	Restructuring £m	Other £m	Total £m
At 1 January 2011	(21.6)	(17.3)	(38.9)
Utilised during the year	6.3	3.5	9.8
Additional charge in the year	(8.7)	(9.9)	(18.6)
Unwind of provision	(1.2)	(1.2)	(2.4)
Released during the year	2.6	0.6	3.2
Reclassifications	(0.3)	0.3	–
At 31 December 2011	**(22.9)**	**(24.0)**	**(46.9)**
Utilised during the year	**14.0**	**4.2**	**18.2**
Additional charge in the year	**(37.2)**	**(11.4)**	**(48.6)**
Unwind of provision	**(0.3)**	**(0.5)**	**(0.8)**
Released during the year	**3.4**	**0.8**	**4.2**
Reclassifications	**(1.1)**	**1.1**	**–**
At 31 December 2012	**(44.1)**	**(29.8)**	**(73.9)**

Analysis of total provisions:			**2012 £m**
Current	**(25.0)**	**(0.6)**	**(25.6)**
Non-current	**(19.1)**	**(29.2)**	**(48.3)**
	(44.1)	**(29.8)**	**(73.9)**

Analysis of total provisions:			2011 £m
Current	(8.1)	(0.2)	(8.3)
Non-current	(14.8)	(23.8)	(38.6)
	(22.9)	(24.0)	(46.9)

Restructuring provisions at 31 December 2012 primarily represent provisions in respect of the restructuring of the Bread business and programmes aimed at reducing the Group's overhead cost base including the closure of the Irish office.

At 31 December 2011, restructuring and redundancy provisions have been raised mainly in respect of various programmes aimed at reducing the Group's cost base in line with the Group's strategy. The charge in the year relates to the closure of the Group's Windsor office and reduction of headcount in overhead functions. It is expected that the majority of these provisions will be utilised in 2012. The remaining provisions largely relate to onerous leases that have arisen due to exiting certain of the Group's premises, which range from 2 to 21 years.

Other provisions at 31 December 2012 and 2011, primarily relate to insurance claims and dilapidations against leasehold properties. The costs relating to dilapidation provisions will be incurred over a number of years in accordance with the length of the leases. These provisions have been discounted at rates between 0.54% and 2.82%. The unwinding of the discount is charged to the income statement under interest payable.

23. Retirement benefit schemes

Defined benefit schemes

The Group operates a number of defined benefit schemes under which employees are entitled to retirement benefits which are based on career average salary on retirement. These are as follows:

(a) Premier schemes

The Premier Foods Pension Scheme ("PFPS") was the principal funded defined benefit scheme within the old Premier Group which also operated a smaller funded defined benefit scheme, the Premier Ambient Products Pension Scheme ("PAPPS") for employees acquired with the Ambrosia business in 2001. As a result of the acquisition of Campbell's in 2006, the Group inherited the Premier Grocery Products Pension Scheme ("PGPPS") covering the employees of Campbell's UK business, and the Premier Grocery Products Ireland Pension Scheme ("PGPIPS") covering the employees of Campbell's Ireland. The Group also acquired two further schemes with the acquisition of Chivers Ireland in January 2007, the Chivers 1987 Pension Scheme and the Chivers 1987 Supplementary Pension Scheme. These schemes are presented together below as the Premier schemes.

(b) RHM schemes

As a result of the acquisition of RHM plc, the Group also acquired the RHM Pension Scheme, the Premier Foods Ireland Pension Scheme (1994), the Premier Foods Ireland Van Sales Scheme and the French Termination Indemnity Arrangements. These schemes are presented together below as the RHM schemes, with the exception of the French Termination Indemnity Arrangements which were disposed of with the speciality bakery businesses in 2009, and the Premier Foods Ireland Van Sales Scheme which was wound up in 2010.

The most recent full actuarial valuation of both the PFPS and RHM pension schemes was carried out on 5 April 2010.

The exchange rates used to translate the overseas Euro based schemes are £1.00 = 1.2317 Euros for the average rate during the year, and £1.00 = 1.2257 Euros for the closing position at 31 December 2012.

Until 30 June 2011, the employees of the above schemes accrued retirement benefits which varied as a percentage of final salary on retirement. On 30 June 2011 the link to final salary was closed to future accrual for UK schemes and members' retirement benefits will now be linked to their salary on that date, index linked at Retail Price Index (subject to a 5% cap) until retirement date. From 1 July 2011 employees accrued career average benefits or chose to transfer to the new defined contribution scheme. Those contributing members of the PAPPS and PGPPS choosing career average benefits joined the PFPS on 1 July 2011 and transferred their past service entitlements to the scheme. Membership of the Group's defined benefit pension schemes is now closed to new employees, who are entitled to join the Group's main defined contribution scheme, the Group Personal Pension Plan. The closure of the final salary schemes resulted in a past service credit of £12.1m in 2011.

In July 2010, the UK government announced changes to the inflation index used for statutory pension increases (both for pensions in payment and pensions in deferment) to apply to private sector pension schemes. This resulted in a credit to past service costs of £46.4m in respect of the RHM Pension scheme during the year. In 2011 a credit of £29.9m in respect of the Premier pension schemes was recognised.

In March 2012, as part of the Group's re-financing package, trustees of the Group's UK pension schemes agreed to defer deficit contribution payments until 1 January 2014.

The assets of all defined benefit schemes are held by the trustees of the respective schemes and are independent of the Group's finances.

The schemes invest through investment managers appointed by the trustees in UK and European equities and in investment products made up of a broader range of assets. The plan assets do not include any of the Group's own financial instruments, nor any property occupied by, or other assets used by, the Group. The pension schemes hold a charge over the assets of the Group.

At the balance sheet date, the combined principal actuarial assumptions used for all the schemes were as follows:

	Premier schemes 2012	**RHM schemes 2012**
Discount rate	**4.45%**	**4.45%**
Inflation — RPI	**2.95%**	**2.95%**
Inflation — CPI	**2.15%**	**2.15%**
Expected salary increases	**3.95%**	**3.95%**
Future pension increases	**2.05%**	**2.05%**

	2011	2011
Discount rate	4.80%	4.80%
Inflation — RPI	3.15%	3.15%
Inflation — CPI	1.95%	n/a
Expected salary increases	4.15%	4.15%
Future pension increases	2.10%	2.10%

For the smaller overseas schemes the discount rate used was 3.40% (2011: 5.45%), expected salary increases of 3.00% (2011: 3.00%), and future pension increases of 1.75% (2011: 1.75%).

Notes to the financial statements

23. Retirement benefit schemes continued

The mortality assumptions are based on standard mortality tables which allow for future mortality improvements. The assumptions are as follows:

2012 Life expectancy	Premier schemes	RHM schemes	Total
Male pensioner, currently aged 65	**88.1**	**86.1**	**86.6**
Female pensioner, currently aged 65	**90.2**	**88.5**	**88.9**
Male non-pensioner, currently aged 45	**89.4**	**87.4**	**87.9**
Female non-pensioner, currently aged 45	**91.8**	**90.0**	**90.5**

2011 Life expectancy	Premier schemes	RHM schemes	Total
Male pensioner, currently aged 65	87.9	86.0	86.5
Female pensioner, currently aged 65	90.1	88.4	88.8
Male non-pensioner, currently aged 45	89.3	87.3	87.8
Female non-pensioner, currently aged 45	91.7	90.0	90.4

The fair values of plan assets split by type of asset are as follows:

Pension scheme assets	Premier schemes £m	% of total	Expected return on assets %	RHM schemes £m	% of total	Expected return on assets %	Total £m	% of total
Assets at 31 December 2012								
Equities	**16.7**	**3.1**	**7.7**	**394.6**	**14.8**	**7.7**	**411.3**	**12.8**
Corporate and government bonds	**102.0**	**19.0**	**4.2**	**1,095.7**	**40.9**	**4.2**	**1,197.7**	**37.3**
Property	**1.0**	**0.2**	**7.3**	**104.3**	**3.9**	**7.3**	**105.3**	**3.3**
Absolute/target return products	**271.7**	**50.7**	**5.6**	**440.4**	**16.5**	**5.9**	**712.1**	**22.2**
Interest rate and inflation swaps	**25.6**	**4.8**	**4.7**	**(194.6)**	**(7.3)**	**3.1**	**(169.0)**	**(5.3)**
Cash	**2.6**	**0.5**	**2.8**	**491.8**	**18.4**	**2.8**	**494.4**	**15.4**
Other	**116.3**	**21.7**	**9.0**	**341.2**	**12.8**	**7.7**	**457.5**	**14.3**
Fair value of scheme assets	**535.9**	**100**	**6.1**	**2,673.4**	**100**	**5.5**	**3,209.3**	**100**
Assets at 31 December 2011								
Equities	27.4	5.3	6.8	397.7	15.1	7.8	425.1	13.5
Corporate and government bonds	110.3	21.4	4.7	967.1	36.6	4.7	1,077.4	34.2
Property	1.0	0.2	7.3	91.1	3.4	7.3	92.1	3.0
Absolute/target return products	338.8	65.9	7.6	452.1	17.1	5.8	790.9	25.0
Interest rate and inflation swaps	25.5	5.0	5.2	206.1	7.8	3.1	231.6	7.3
Cash	1.9	0.4	2.8	237.2	9.0	2.8	239.1	7.6
Other	9.3	1.8	6.1	290.5	11.0	7.8	299.8	9.4
Fair value of scheme assets	514.2	100	6.6	2,641.8	100	5.8	3,156.0	100

The schemes invest in interest rate and inflation swaps to protect from fluctuations in interest and inflation.

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.

23. Retirement benefit schemes continued

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

	Premier schemes £m	RHM schemes £m	Total £m
2012			
Present value of funded obligations	**(871.1)**	**(2,805.0)**	**(3,676.1)**
Fair value of plan assets	**535.9**	**2,673.4**	**3,209.3**
Deficit in scheme	**(335.2)**	**(131.6)**	**(466.8)**
2011			
Present value of funded obligations	(781.9)	(2,656.5)	(3,438.4)
Fair value of plan assets	514.2	2,641.8	3,156.0
Deficit in scheme	(267.7)	(14.7)	(282.4)
2010			
Present value of funded obligations	(748.0)	(2,372.3)	(3,120.3)
Fair value of plan assets	512.8	2,286.6	2,799.4
Deficit in scheme	(235.2)	(85.7)	(320.9)
2009			
Present value of funded obligations	(685.5)	(2,273.0)	(2,958.5)
Fair value of plan assets	477.1	2,052.9	2,530.0
Deficit in scheme	(208.4)	(220.1)	(428.5)
2008			
Present value of funded obligations	(587.7)	(1,952.1)	(2,539.8)
Fair value of plan assets	415.4	2,112.9	2,528.3
(Deficit)/surplus in scheme	(172.3)	160.8	(11.5)

The aggregate deficit has increased by £184.4m during the year primarily due to a fall in discount rate assumption used, which is based on the AA bond yield, from 4.80% to 4.45%, partly offset by the reduction in RPI inflation assumption from 3.15% to 2.95%.

Experience gains/(losses) on the two schemes are as follows:

	Premier schemes £m		RHM schemes £m		Total £m	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
2012	**7.8**	**(9.0)**	**(21.1)**	**(24.6)**	**(13.3)**	**(33.6)**
2011	(35.5)	3.3	261.9	0.2	226.4	3.5
2010	2.8	1.0	153.2	35.8	156.0	36.8
2009	42.5	6.4	(135.0)	2.4	(92.5)	8.8
2008	(131.6)	(6.4)	(50.3)	(2.2)	(181.9)	(8.6)

Notes to the financial statements

23. Retirement benefit schemes continued

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

	Premier schemes £m	RHM schemes £m	Total £m
2012			
Opening defined benefit obligation	**(781.9)**	**(2,656.5)**	**(3,438.4)**
Current service cost	**(6.1)**	**(11.2)**	**(17.3)**
Past service (cost)/credit	**(19.4)**	**33.4**	**14.0**
Interest cost	**(37.5)**	**(124.3)**	**(161.8)**
Actuarial loss	**(58.1)**	**(160.2)**	**(218.3)**
Exchange differences	**1.0**	**0.4**	**1.4**
Curtailments/settlements	**0.8**	**(1.8)**	**(1.0)**
Contributions by plan participants	**(3.8)**	**(6.8)**	**(10.6)**
Benefits paid	**33.9**	**122.0**	**155.9**
Closing defined benefit obligation	**(871.1)**	**(2,805.0)**	**(3,676.1)**
2011			
Opening defined benefit obligation	(748.0)	(2,372.3)	(3,120.3)
Current service cost	(8.8)	(9.6)	(18.4)
Past service credit/(cost)	46.8	(4.8)	42.0
Interest cost	(40.1)	(126.9)	(167.0)
Actuarial loss	(58.8)	(246.9)	(305.7)
Exchange differences	0.9	0.5	1.4
Curtailments/settlements	0.3	(1.7)	(1.4)
Contributions by plan participants	(5.2)	(13.2)	(18.4)
Benefits paid	31.0	118.4	149.4
Closing defined benefit obligation	(781.9)	(2,656.5)	(3,438.4)

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

	Premier schemes £m	RHM schemes £m	Total £m
2012			
Opening fair value of plan assets	**514.2**	**2,641.8**	**3,156.0**
Expected return	**32.2**	**150.1**	**182.3**
Administrative and life insurance costs	**(3.3)**	**(4.7)**	**(8.0)**
Actuarial gain/(loss)	**7.8**	**(21.1)**	**(13.3)**
Contributions by employer	**16.1**	**23.0**	**39.1**
Contributions by plan participants	**3.8**	**6.8**	**10.6**
Exchange differences	**(1.0)**	**(0.5)**	**(1.5)**
Benefits paid	**(33.9)**	**(122.0)**	**(155.9)**
Closing fair value of plan assets	**535.9**	**2,673.4**	**3,209.3**
2011			
Opening fair value of plan assets	512.8	2,286.6	2,799.4
Expected return	39.5	151.6	191.1
Administrative and life insurance costs	(3.6)	(3.5)	(7.1)
Actuarial (loss)/gain	(35.5)	261.9	226.4
Contributions by employer	27.5	50.8	78.3
Contributions by plan participants	5.2	13.2	18.4
Exchange differences	(0.7)	(0.4)	(1.1)
Benefits paid	(31.0)	(118.4)	(149.4)
Closing fair value of plan assets	514.2	2,641.8	3,156.0

23. Retirement benefit schemes continued

Actuarial gains and losses are as follows:

	Premier schemes £m	RHM schemes £m	Total £m
2012			
Actuarial loss on plan liabilities	**(58.1)**	**(160.2)**	**(218.3)**
Actuarial gain/(loss) on plan assets	**7.8**	**(21.1)**	**(13.3)**
Net actuarial loss for the year	**(50.3)**	**(181.3)**	**(231.6)**
Cumulative actuarial loss	**(409.6)**	**(198.0)**	**(607.6)**
2011			
Actuarial loss on plan liabilities	(58.8)	(246.9)	(305.7)
Actuarial (loss)/gain on plan assets	(35.5)	261.9	226.4
Net actuarial (loss)/gain for the year	(94.3)	15.0	(79.3)
Cumulative actuarial loss	(359.3)	(16.7)	(376.0)

The actual return on plan assets was a £169.0m loss (2011: £417.5m gain), which is £13.3m less (2011: £226.4m more) than the expected return on plan assets of £182.3m (2011: £191.1m) at the start of the relevant periods.

The actuarial loss on liabilities of £218.3m (2011: £305.7m loss) comprises a loss on member experience of £33.6m (2011: £3.5m gain) and an actuarial loss due to changes in assumptions of £184.7m (2011: £309.2m loss).

The net actuarial loss taken to the statement of comprehensive income was £231.6m (2011: £79.3m loss). These were £192.5m (2011: £83.4m) net of taxation (with tax at 24.0% for UK schemes, and 12.5% for Irish schemes).

The Group expects to contribute approximately £25.6m (2012: £31.9m) to its defined benefit plans in 2013, £23.6m (2012: £26.4m) of regular contributions and expenses and £2.0m (2012: £5.5m) of additional contributions to fund the scheme deficits. The decrease in future deficit funding is a result of the revised re-financing package whereby the Trustees of the Group's UK pension schemes have agreed to the suspension of deficit contribution payments until 1 January 2014.

The total amounts recognised in the Group's income statement are as follows:

	Premier schemes £m	RHM schemes £m	Total £m
2012			
Operating profit			
Current service cost	**(6.1)**	**(11.2)**	**(17.3)**
Past service (cost)/credit	**(19.4)**	**33.4**	**14.0**
Gain/(loss) on curtailment	**0.8**	**(1.8)**	**(1.0)**
Interest cost	**(37.5)**	**(124.3)**	**(161.8)**
Expected return on plan assets	**32.2**	**150.1**	**182.3**
Administrative and life insurance costs	**(3.3)**	**(4.7)**	**(8.0)**
Total	**(33.3)**	**41.5**	**8.2**
2011			
Operating profit			
Current service cost	(8.8)	(9.6)	(18.4)
Past service credit/(cost)	46.8	(4.8)	42.0
Gain/(loss) on curtailment	0.3	(1.7)	(1.4)
Interest cost	(40.1)	(126.9)	(167.0)
Expected return on plan assets	39.5	151.6	191.1
Administrative and life insurance costs	(3.6)	(3.5)	(7.1)
Total	34.1	5.1	39.2

Defined contribution schemes

A number of companies in the Group operate defined contribution schemes, predominantly stakeholder arrangements. In addition a number of schemes providing life assurance benefits only are operated. The total expense recognised in the income statement of £0.8m (2011: £0.3m) 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.

Notes to the financial statements

24. Reserves and share capital

Share premium reserve

The share premium reserve comprises the premium paid over the nominal value of shares for shares issued.

Merger reserve

The merger reserve comprises the non-statutory premium arising on shares issued as consideration for acquisition of subsidiaries where merger relief under section 612 of the Companies Act 2006 applies less subsequent realised losses relating to those acquisitions.

Other reserves

Other reserves comprise the hedging reserve which represents the effective portion of the gains or losses on derivative financial instruments that have been designated as hedges.

Profit and loss reserve

The profit and loss reserve represents the cumulative surplus or deficit and the own shares reserve which represents the cost of shares in Premier Foods plc, purchased in the market and held by the Company on behalf of the Employee Benefit Trust in order to satisfy options and awards under the Company's incentive schemes.

Non-controlling interest reserve

The non-controlling interest reserve represents the reserves attributable to non-controlling interests.

Share capital

	2012 £m	2011 £m
Authorised		
350,000,000 (2011: 350,000,000) ordinary shares of 10 pence each[1]	**35.0**	35.0
Issued and fully paid		
239,806,206 (2011: 239,805,802) ordinary shares of 10 pence each[1]	**24.0**	24.0

[1] 2011 comparatives have been restated following the 10:1 share consolidation effected during 2012.

During 2012, 404 ordinary shares of 10p each were issued to certain employees at a price of 95.5p per ordinary share pursuant to exercise of share options.

Share option schemes

The Company has share option schemes for certain senior executives and key individuals. The employees involved in the schemes hold options to subscribe for up to 11.6m ordinary shares of 10 pence each between 2010 and 2015, granted at prices ranging between 10 pence per ordinary share and 1,860 pence per ordinary share. The number of shares subject to options, the periods in which they were granted and the periods in which they may be exercised are given below. For 2012, a summary of the Company's schemes is as follows:

1. The Company adopted an Executive Share Option Scheme ("ESOS") at the time of admission for executive directors. A portion of the options granted under the ESOS have now vested and are exercisable between three and ten years after grant as certain performance criteria have been met. These options are equity-settled and the number of shares subject to options, the periods in which they were granted and the periods in which they may be exercised are given below. No further awards are anticipated under this scheme.

2. A Savings Related Share Option Scheme for employees. The employees involved in the scheme have the right to subscribe for up to 6.0m ordinary shares. The number of shares subject to options, the periods in which they were granted and the periods in which they may be exercised are given below. These options are equity-settled, have a maximum term of 3.5 years and generally vest only if employees remain in employment to the vesting date.

3. A Long-Term Incentive Plan ("LTIP") for senior managers. The individuals involved in the scheme have the right to subscribe for up to 0.2m ordinary shares at 10 pence per ordinary share. The number of shares subject to awards, the periods in which they were granted and the periods in which they may be awarded are given below. These awards are equity-settled and have a maximum term of three years. No further awards are anticipated under this plan.

   The performance and vesting conditions of the scheme have been aligned with those of the Co-Investment Plan below. Since the Company was positioned below the median TSR performance target, the required performance conditions were not met and the 2009 award lapsed in full.

4. A Co-Investment Plan ("CIP") for directors and senior managers. The scheme is structured as a share matching plan and the individuals involved in the scheme are required to commit and retain a significant amount of capital in the form of Premier Foods' shares. The number of shares subject to awards, the periods in which they were granted and the periods in which they may be awarded are given below. These awards are equity-settled and have a maximum term of three years. No further awards are anticipated under this plan.

   The vesting of matching awards is conditional on achievement against a combination of EPS and TSR performance targets. During the year performance conditions were not met and so the 2009 CIP award lapsed in full.

24. Reserves and share capital continued

5. A Long-Term Incentive Plan (Performance share award) for directors and senior managers. The individuals in this scheme have the right to subscribe to ordinary shares at nil cost. The number of shares subject to awards, the periods in which they were granted and the periods in which they may be awarded are given below. These awards are equity-settled and have a maximum term of three years.

   The vesting of the 2011 award is conditional on achievement of an EPS performance target.

6 A Long-Term Incentive Plan (Matching share award) for directors and senior managers. The scheme is structured as a share matching plan and the individuals involved in the scheme are required to commit and retain a significant amount of capital in the form of Premier Foods' shares. The number of shares subject to awards, the periods in which they were granted and the periods in which they may be awarded are given below. These awards are equity-settled and have a maximum term of three years.

   The vesting of the 2011 award is conditional on achievement of an absolute share price target.

7. Deferred share bonus plan for directors. This will operate alongside the cash annual bonus. Growth of branded market share must be achieved for the bonus to become payable and the Group trading profit target must be met.

   In 2012 two new schemes were introduced:

8. A Long-Term Incentive Plan for directors and senior managers. There are two performance conditions applying to the Award. Two thirds of the Award is subject to a performance condition based on absolute adjusted earnings per share targets. The remaining third of the Award is subject to a performance condition based on the achievement of an average share price target. The number of shares subject to awards, the periods in which they were granted and the periods in which they may be awarded are given below. These awards are equity-settled and have a maximum term of three years.

9. An executive scheme share option plan. Members of the executive scheme are awarded share options subject to varying performance conditions including continued employment over a certain time period.

Details of the share options of the Premier Foods ESOS are as follows:

Premier Foods plc Executive Share Option Scheme

		2012		2011 (Restated)[1]	
	Year of expiry	**Options**	**Weighted average exercise price (p)**	Options	Weighted average exercise price (p)
Outstanding at beginning of year		**131,885**	**1,620**	156,012	1,620
Forfeited during the year		**–**	**–**	(24,127)	1,620
Outstanding at the end of the year	**2014**	**131,885**	**1,620**	131,885	1,620
Exercisable at the end of the year		**131,885**	**1,620**	131,885	1,620

[1] 2011 comparatives have been restated following the 10:1 share consolidation effected during 2012.

The options outstanding at 31 December 2012 had a weighted average exercise price of 1,620 pence (2011: 1,620 pence), and a weighted average remaining contractual life of 1.6 years (2011: 2.6 years).

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

Premier Foods plc Savings Related Share Option Scheme

	2012		2011 (Restated)[1]	
	Options	**Weighted average exercise price (p)**	Options	Weighted average exercise price (p)
Outstanding at beginning of year	**6,191,072**	**170**	6,346,592	240
Exercised during the year	**(592)**	**96**	(3,644)	150
Granted during the year	**2,367,721**	**51**	2,398,161	100
Forfeited during the year	**(2,598,868)**	**228**	(2,550,037)	270
Outstanding at the end of the year	**5,959,333**	**114**	6,191,072	170
Exercisable at the end of the year	**462,306**	**360**	205,220	680

[1] 2011 comparatives have been restated following the 10:1 share consolidation effected during 2012.

Notes to the financial statements

24. Reserves and share capital continued

During the year 2.4m (2011: 2.4m) options were granted under the Savings Related Share Option Schemes, with a weighted average exercise price at the date of exercise of 51 pence per ordinary share.

The options outstanding at 31 December 2012 had a weighted average exercise price of 114 pence (2011: 170 pence), and a weighted average remaining contractual life of 1.9 years (2011: 2.1 years).

Details of the share awards of the Premier Foods LTIP are as follows:

Premier Foods plc Long-Term Incentive Plan

	2012		2011 (Restated)[1]	
	Awards	**Weighted average exercise price (p)**	Awards	Weighted average exercise price (p)
Outstanding at beginning of year	**509,167**	**10**	850,342	10
Forfeited during the year	**(312,837)**	**10**	(341,175)	10
Outstanding at the end of the year	**196,330**	**10**	509,167	10
Exercisable at the end of the year	**–**	**–**	–	–

[1] 2011 comparatives have been restated following the 10:1 share consolidation effected during 2012.

During the year, no awards were granted under the LTIP (2011: nil). The weighted average share price at the date of exercise was 10 pence. The awards outstanding at 31 December 2012 had a weighted average remaining contractual life of 0.4 year (2011: 1.0 year).

Details of the share awards of the Premier Foods CIP are as follows:

Premier Foods plc Co-Investment Plan

	2012		2011 (Restated)[1]	
	Awards	**Weighted average exercise price (p)**	Awards	Weighted average exercise price (p)
Outstanding at beginning of year	**833,428**	**10**	1,089,824	10
Forfeited during the year	**(525,014)**	**10**	(256,396)	10
Outstanding at the end of the year	**308,414**	**10**	833,428	10
Exercisable at the end of the year	**–**	**–**	–	–

[1] 2011 comparatives have been restated following the 10:1 share consolidation effected during 2012.

The awards outstanding at 31 December 2012 had a weighted average remaining contractual life of 0.9 years (2011: 1.4 years).

Details of the share awards of the Premier Foods Long-Term Incentive Plan — EPS Target are as follows:

Premier Foods plc Long-Term Incentive Plan — Performance share award

	2012		2011 (Restated)[1]	
	Awards	**Weighted average exercise price (p)**	Awards	Weighted average exercise price (p)
Outstanding at beginning of year	**564,653**	**10**	–	–
Granted during the year	**–**	**–**	874,125	10
Forfeited during the year	**(29,288)**	**10**	(309,472)	10
Outstanding at the end of the year	**535,365**	**10**	564,653	10
Exercisable at the end of the year	**–**	**–**	–	–

[1] 2011 comparatives have been restated following the 10:1 share consolidation effected during 2012.

The awards outstanding at 31 December 2012 had a weighted average remaining contractual life of 1.4 years. The weighted average fair value of awards granted during the year was nil pence per award.

24. Reserves and share capital continued

Details of the share awards of the Premier Foods Long-Term Incentive Plan — average share price target are as follows:

Premier Foods plc Long-Term Incentive Plan — Matching share award

	2012		2011 (Restated)[1]	
	Awards	**Weighted average exercise price (p)**	Awards	Weighted average exercise price (p)
Outstanding at beginning of year	**267,376**	**10**	–	–
Granted during the year	**–**	**–**	534,404	10
Forfeited during the year	**–**	**–**	(267,028)	10
Outstanding at the end of the year	**267,376**	**10**	267,376	10
Exercisable at the end of the year	**–**	**–**	–	–

1 2011 comparatives have been restated following the 10:1 share consolidation effected during 2012.

The awards outstanding at 31 December 2012 had a weighted average remaining contractual life of 1.4 years (2011: 2.4 years). The weighted average fair value of awards granted during the year was nil pence per award.

Details of the share awards of the Premier Foods Long-Term Incentive Plan — 2012 award are as follows:

2012 Long-term incentive plan

	2012	
	Awards	**Weighted average exercise price (p)**
Outstanding at beginning of year	**–**	**–**
Granted during the year	**3,608,689**	**10**
Forfeited during the year	**(260,689)**	**10**
Outstanding at the end of the year	**3,348,000**	**10**

The awards outstanding at 31 December 2012 had a weighted average remaining contractual life of 2.4 years. The weighted average fair value of awards granted during the year was nil pence per award.

Details of the share awards of the Executive scheme share option plan are as follows:

Executive scheme Share option plan

	2012	
	Awards	**Weighted average exercise price (p)**
Outstanding at beginning of year	**–**	**–**
Granted during the year	**875,000**	**10**
Forfeited during the year	**–**	**–**
Outstanding at the end of the year	**875,000**	**10**
Exercisable at the end of the year	**–**	**–**

The awards outstanding at 31 December 2012 had a weighted average remaining contractual life of 0.6 years. The weighted average fair value of awards granted during the year was nil pence per award.

In 2012, the Group's continuing operations recognised an expense of £4.7m (2011: £3.9m), related to all equity-settled share-based payment transactions. In 2011 a further £0.9m was recognised in relation to discontinued operations.

Notes to the financial statements

24. Reserves and share capital continued

A summary of the range of exercise price and weighted average remaining contractual life is shown below:

Weighted average remaining life and exercise prices

	31 Dec 2012			31 Dec 2011		
	Number outstanding at end of the year	**Weighted average remaining contractual life (years)**	**Weighted average exercise price (p)**	Number outstanding at end of the year	Weighted average remaining contractual life (years)	Weighted average exercise price (p)
At 10 pence	**5,530,485**	**1.8**	**10**	2,174,624	1.7	10
£0.10 to £9.90	**5,959,333**	**1.9**	**114**	6,191,072	2.1	170
£10.00 to £20.00	**131,885**	**1.6**	**1,620**	131,885	2.6	1,620
Total	**11,621,703**	**1.9**	**81**	8,497,581	2.0	150

25. Notes to the cash flow statement

Reconciliation of profit before tax to cash flows from operating activities

	Year ended 31 Dec 2012 £m	Year ended 31 Dec 2011 £m
Continuing operations		
Profit/(loss) before taxation	**4.4**	(259.1)
Net finance cost	**91.9**	82.8
Operating profit/(loss)	**96.3**	(176.3)
Depreciation of property, plant and equipment	**39.6**	41.8
Amortisation of intangible assets	**53.3**	72.0
(Profit)/loss on the sale of businesses	**(63.7)**	11.2
Loss/(gain) on disposal of property, plant and equipment	**7.1**	(0.9)
Impairment of property, plant and equipment	**12.5**	–
Loss on disposal of intangible assets	**0.4**	–
Impairment of intangible assets	**23.7**	282.0
Revaluation (gains)/losses on financial instruments	**(2.1)**	1.7
Share-based payments	**4.7**	3.9
Net cash inflow from operating activities before interest and tax and movements in working capital	**171.8**	235.4
Increase in inventories	**(11.3)**	(26.3)
(Increase)/decrease in trade and other receivables	**(11.5)**	53.8
Decrease in trade and other payables and provisions	**(30.2)**	(10.9)
Movement in retirement benefit obligations	**(64.0)**	(117.4)
Cash generated from continuing operations	**54.8**	134.6
Discontinued operations	**1.6**	(47.9)
Cash generated from operating activities	**56.4**	86.7

Reconciliation of cash and cash equivalents to net borrowings

	Year ended 31 Dec 2012 £m	Year ended 31 Dec 2011 £m
Net (outflow)/inflow of cash and cash equivalents	**(12.3)**	51.1
Decrease in finance leases	**0.3**	18.4
Decrease in borrowings	**262.0**	221.3
Other non-cash movements	**(205.6)**	(5.9)
Decrease in borrowings net of cash	**44.4**	284.9
Total net borrowings at beginning of year	**(995.1)**	(1,280.0)
Total net borrowings at end of year	**(950.7)**	(995.1)

25. Notes to the cash flow statement continued

Analysis of movement in borrowings

	As at 1 Jan 2012 £m	Cash flow £m	Other non-cash movements £m	**As at 31 Dec 2012 £m**
Bank overdrafts	(23.7)	(19.8)	–	**(43.5)**
Cash and bank deposits	45.8	7.5	(0.1)	**53.2**
Net cash and cash equivalents	22.1	(12.3)	(0.1)	**9.7**
Borrowings — term facilities[2]	(733.1)	166.0	(188.1)	**(755.2)**
Borrowings — revolving credit facilities	(276.1)	144.4	–	**(131.7)**
Finance leases	(0.7)	0.3	–	**(0.4)**
Other	(23.3)	(72.4)	–	**(95.7)**
Gross borrowings net of cash[1]	(1,011.1)	226.0	(188.2)	**(973.3)**
Debt issuance costs	16.0	24.0	(17.4)	**22.6**
Total net borrowings[1]	(995.1)	250.0	(205.6)	**(950.7)**

1 Borrowings excludes derivative financial instruments and other financial liabilities fair valued through profit or loss.

2 Other non-cash movement relates to the restructuring of existing swaps into additional term loan on re-financing in March 2012

26. Operating lease commitments

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

	2012		2011	
	Property £m	**Plant and Equipment £m**	Property £m	Plant and Equipment £m
Within one year	**12.0**	**5.5**	11.3	8.0
Between two and five years	**44.0**	**4.4**	38.7	11.0
After five years	**66.8**	**0.1**	66.2	0.2
Total operating lease commitments	**122.8**	**10.0**	116.2	19.2

Leases primarily relate to the Group's properties, which principally comprise offices and factories. Lease payments are typically subject to market review every five years to reflect market rentals, but because of the uncertainty over the amount of any future changes, such changes have not been reflected in the table above. Within our leasing arrangements there are no significant contingent rentals, renewal, purchase or escalation clauses.

The Group sub-lets various properties under non-cancellable lease arrangements. Sub-lease receipts of £1.2m (2011: £1.4m) were recognised in the income statement during the year. The total future minimum sub-lease payments at the year end is £3.4m (2011: £4.5m).

27. Capital commitments

	2012 £m	2011 £m
Contracts placed for future capital expenditure not provided in the financial statements:		
Intangible assets	**0.4**	2.0
Tangible assets	**8.5**	16.0
Total	**8.9**	18.0

28. Contingencies

There were no material contingent liabilities at 31 December 2012. Other contingencies and guarantees in respect of the Parent Company are described in note 9 of the Parent Company financial statements.

Notes to the financial statements

29. Related party transactions

Key management personnel of the Group are considered to be the executive and non-executive directors and the Group Executive.

Details of their remuneration are set out below in aggregate for each of the categories specified in IAS 24 "Related Party Disclosures". Further information about the remuneration of individual directors is provided in the audited part of the directors' remuneration report on pages 56 to 65.

	Year ended 31 Dec 2012 £m	Year ended 31 Dec 2011 £m
Salaries and other short-term employee benefits	**5.6**	7.3
Post employment benefits	**0.2**	0.3
Termination benefits	**0.2**	2.0
Share-based payments	**1.3**	1.2
Total	**7.3**	10.8

WP X Investments Limited ("Warburg Pincus") is considered to be a related part of the Group by virtue of its 17.3% (2011: 15.8%) equity shareholding in Premier Foods plc and of its power to appoint a member to the Board of directors, which has been exercised. There have been no transactions during the year.

Apart from the information above there were no other related party transactions.

30. Subsequent events

Disposal of the Sweet Pickles and Tables Sauces business

The disposal of the Sweet Pickles and Table Sauces business completed on 2 February 2013 for proceeds of £92.5m.

Premier Foods plc — Company financial statements

The following statements reflect the financial position of the Company, Premier Foods plc as at 31 December 2012 and 2011. 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 408 of the Companies Act 2006 and not presented a Company profit and loss account.

Balance sheet

	Note	**As at 31 Dec 2012 £m**	As at 31 Dec 2011 £m
ASSETS:			
Fixed assets			
Shares in Group undertakings	3	**479.1**	729.7
Current assets			
Debtors	4	**660.4**	647.7
Deferred tax assets	6	**0.9**	0.8
Cash at bank and in hand		**0.3**	0.3
Total assets		**1,140.7**	1,378.5
LIABILITIES:			
Current liabilities			
Creditors: amounts falling due within one year	5	**(59.7)**	(55.4)
Total liabilities		**(59.7)**	(55.4)
Total assets less total liabilities		**1,081.0**	1,323.1
EQUITY:			
Capital and reserves			
Share capital	7	**24.0**	24.0
Share premium	7	**1,124.7**	1,124.7
Merger reserve	7	**29.7**	228.0
Profit and loss reserve	7	**(97.4)**	(53.6)
Total shareholders' funds		**1,081.0**	1,323.1

The notes on pages 122 to 124 form an integral part of the financial statements.

The financial statements on pages 121 to 124 were approved by the Board of directors on 1 March 2013 and signed on its behalf by:

Gavin Darby
Chief Executive Officer

Mark Moran
Chief Financial Officer

Notes to the Company financial statements

1. Accounting policies

Basis of preparation

The financial statements have been prepared on the going concern basis and in accordance with the Companies Act 2006 and applicable accounting standards in the United Kingdom ("UK GAAP"), under the historical cost convention. The loss for the year of £246.4m (2011: £1,017.5m) is recorded in the accounts of Premier Foods plc. The directors have taken advantage of the exemption available under section 408 of the Companies Act 2006 and not presented a profit and loss account for the Company.

The directors consider that the accounting policies set out below are the most appropriate and have been consistently applied.

The Company has taken advantage of the exemption from preparing a cash flow statement under the terms of FRS (revised 1996) on the grounds that the Group includes the Company in its consolidated financial statements that are publically available.

The Company is exempt under the terms of Financial Reporting Standard 8 "Related Party Transactions" ("FRS 8") from disclosing related party transactions with entities that are wholly owned subsidiaries of the Premier Foods plc Group or investees of the Premier Foods plc Group.

Fixed asset investments

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

Taxation

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

Deferred tax assets are only 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.

Cash and liquid resources

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

Share-based payments

The fair value of employee share option plans is calculated using an option-pricing model. In accordance with Financial Reporting Standard 20, Share-Based Payment ("FRS 20"), the resulting cost is charged to the profit and loss account over the vesting period of the options for employees employed by the Parent Company, or treated as an investment in subsidiaries in respect of employees employed by the subsidiaries where the cost is recharged. The value of the charge is adjusted to reflect expected and actual levels of options vesting.

Dividends

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

Operating lease agreements

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

2. Operating profit

Audit fees in respect of the Company are £nil (2011: £nil). Note 5b of the Group consolidated financial statements provides details of the remuneration of the Company's auditors on a Group basis.

At 31 December 2012, the Company had three employees (2011: two), and their remuneration totalled £2.3m (2011: £2.3m). This excludes the Company's eight (2011: six) non executive directors whose remuneration totalled £0.7m (2011: £0.7m). Directors' emolument disclosures are provided in the Directors' remuneration report on pages 56 to 65 of this annual report.

3. Investments

	2012 £m	2011 £m
Shares in subsidiary undertakings		
Cost		
At 1 January	**1,753.9**	1,749.7
Additions	**3.4**	4.2
At 31 December	**1,757.3**	1,753.9
Impairment		
At 1 January	**(1,024.2)**	–
Impairment	**(254.0)**	(1,024.2)
At 31 December	**(1,278.2)**	(1,024.2)
NBV at 31 December	**479.1**	729.7

The directors believe that the carrying value of the investments is supported by their underlying net assets.

Impairment
An impairment charge of £254.0m (2011: £1,024.2m) was recognised in the year against the value of the Company's investment in subsidiaries.

During 2012, a capital contribution of £3.4m (2011: £4.2m) was given in the form of share incentive awards to employees of subsidiary companies which were reflected as an increase in investments. See note 16 in the Group financial statements for a list of the principal subsidiary undertakings. The companies listed in note 16 in the Group financial statements are those that principally affect the results and assets of the Company. The directors consider that to give full particulars of subsidiary undertakings would lead to a statement of excessive length. A full list of subsidiary undertakings is available from the Company Secretary.

4. Debtors

	2012 £m	2011 £m
Amounts falling due within one year:		
Amounts owed by Group undertakings	**660.4**	647.7

The above balances are unsecured and are not subject to interest rate risk as they are interest free with the exception of £319.7m (2011: £307.0m) which attracted interest at a rate of LIBOR plus 3.0% (2011: LIBOR plus 3.0%). Carrying value approximates fair value.

5. Creditors: amounts falling due within one year

	2012 £m	2011 £m
Amounts falling due within one year:		
Amounts owed to Group undertakings	**45.2**	43.5
Current tax	**14.5**	11.9
Total creditors falling due within one year	**59.7**	55.4

The above balances are unsecured and are not subject to interest rate risk as they are interest free with the exception of £38.7m (2011: £37.2m) which attracted interest at a rate of LIBOR plus 3.0% (2011: LIBOR plus 3.0%). Carrying value approximates fair value.

6. Deferred Tax

	2012 £m	2011 £m
At 1 January	**0.8**	0.6
Charged to the profit and loss account	**0.1**	0.2
At 31 December	**0.9**	0.8

The deferred tax asset relates to share-based payments.

Notes to the Company financial statements

7. Share capital and other reserves

	Share capital £m	Share premium £m	Merger reserve £m	Profit and loss reserve £m	Total £m
At 1 January 2011	24.0	1,124.7	1,027.5	159.2	2,335.4
Loss for the year	–	–	–	(1,017.5)	(1,017.5)
Realisation of merger reserve (b)	–	–	(799.5)	799.5	–
Share-based payments (a)	–	–	–	5.2	5.2
At 31 December 2011	**24.0**	**1,124.7**	**228.0**	**(53.6)**	**1,323.1**
Loss for the year	**–**	**–**	**–**	**(246.4)**	**(246.4)**
Realisation of merger reserve (b)	**–**	**–**	**(198.3)**	**198.3**	**–**
Share-based payments (a)	**–**	**–**	**–**	**4.3**	**4.3**
At 31 December 2012	**24.0**	**1,124.7**	**29.7**	**(97.4)**	**1,081.0**

Share capital

	2012 £m	2011 £m
Authorised		
350,000,000 (2011: 350,000,000) ordinary shares of 10 pence each[1]	**35.0**	35.0
Issued and fully paid		
239,806,206 (2011: 239,805,802) ordinary shares of 10 pence each[1]	**24.0**	24.0

[1] Comparatives have been restated following the 10:1 share consolidation effected during 2012.

a) Share-based payments
2012 and 2011

The costs reflect the Company's share option schemes in operation. Further details are available in note 24 of the Group's consolidated financial statements.

The charge relating to employees of the Company amounted to £1.0m (2011: £1.0m). Further details of these schemes can be found in the directors' remuneration report on page 65.

b) Realisation of merger reserve

The Company transferred to the profit and loss reserve an amount that became realised on the disposal and write down of the related investment.

8. Operating lease commitments

At 31 December 2012, the Company had annual commitments under non-cancellable operating leases in respect of land and buildings as follows:

	2012 £m	2011 £m
After five years	**0.3**	0.3

The lease expense has been borne by a subsidiary company.

9. Contingencies and guarantees

Premier Foods plc has provided guarantees to third parties in respect of borrowings of certain subsidiary undertakings. The maximum amount guaranteed at 31 December 2012 is £1.2bn (2011: £1.2bn).

10. Subsequent events

There were no subsequent events.

Shareholder information

Share capital information & Frequently Asked Questions ("FAQ's")

The Company's issued share capital at 31 December 2012 comprised 239,806,206 ordinary 10p shares. During the period, 404 ordinary shares were issued; details of the movements can be found in note 24. All of the ordinary shares rank equally with respect to voting rights, the rights to receive dividends and distributions on a winding up.

An ordinary resolution was passed at the 2012 AGM to consolidate every 10 existing ordinary shares of 1 penny for 1 new ordinary share of 10 pence.

Analysis of share register

As at 31 December 2012, there were 7,787 registered holders of the 239,806,206 ordinary 10p shares in issue. The Company's shareholdings are analysed below:

Number of shares	Number of holdings	% of total shareholders	Number of ordinary shares	% of ordinary shares
1–500	4,815	61.83	921,427	0.38
501–1,000	1,044	13.41	806,768	0.34
1,001–2,000	670	8.60	1,008,491	0.42
2,001–5,000	636	8.17	2,115,390	0.88
5,001–10,000	218	2.80	1,659,149	0.69
10,001–100,000	268	3.44	8,230,162	3.43
100,001–highest	136	1.75	225,064,819	93.85
TOTAL	7,787	100	239,806,206	100

Holders	Number of holdings	% of total shareholders	Number of ordinary shares	% of ordinary shares
Private	6,023	77.35	6,920,390	2.89
Institutional and corporate	1,764	22.65	232,885,816	97.11
TOTAL	7,787	100	239,806,206	100

Substantial shareholdings

Information provided to the Company pursuant to the Financial Services Authority's ("FSA") Disclosure and Transparency Rules ("DTRs") is published on a Regulatory Information Service and on the Group's website. As at 1 March 2013, the Company is aware of the following interests of 3% or more in the Company:

Shareholder	Ordinary shares	% of capital	Nature of holding
Warburg Pincus LLC	41,573,972	17.34	Direct
Paulson & Co. Inc.	26,407,742	11.01	Direct
Franklin Resources, Inc.	16,751,198	6.99	Direct
Standard Life Investments Ltd.	14,548,569	6.01	Direct
Cazenove Capital Management Limited	11,150,022	4.65	Direct
TD Waterhouse (Europe) Ltd	7,723,180	3.22	Indirect
Legal & General Group Plc	7,343,496	3.06	Direct
Barclays, Plc.	7,247,386	3.02	Indirect

Restrictions on transfer of securities

In accordance with the Articles there are no restrictions on share transfers, limitations on the holding of any class of shares or any requirement for prior approval of any transfer other than as disclosed in significant agreements on page 66.

Shareholder information

SHAREHOLDER FAQ's

Many of the information requests received by our shareholder helpline can be found in the investor section of our website. Shareholders can also sign up for regulatory news alerts to receive an email when news on the Group is released. These include additional financial news releases throughout the year, which are not mailed to shareholders.

www.premierfoods.co.uk/investors/

Managing your shares

The Company's Register of Members is maintained by our registrar, Equiniti. Shareholders with queries relating to their shareholding should contact Equiniti directly using the details given in key contacts below.

Duplicate documents

Many shareholders still receive duplicate documentation from having more than one account on the share register. If you think you fall into this category and would like to combine your accounts, please contact Equiniti.

Notifying the Company of a change of address

Shareholders should notify Equiniti in writing of any change. If shares are held in joint names, the notification must be signed by the first named shareholder.

Notifying the Company of a change of name

To notify the Company of a change of name please inform Equiniti in writing. A copy of any marriage certificate or change of name deed should be provided as evidence of the name change.

Transferring Premier Foods plc shares

Transferring shares to someone else requires the completion of a stock transfer form. These forms are available by calling Equiniti.

Lost Premier Foods plc share certificate(s)

Shareholders who have lost their share certificate(s) or have had their certificate(s) stolen should inform Equiniti immediately by phone.

Found an old share certificate for Premier Foods plc

Shareholders who find they have an old share certificate and wish to find out its value should contact Equiniti directly using the details below.

ShareGift

Shareholders with a small number of shares, the value of which makes it uneconomic to sell them, may wish to consider donating them to charity through ShareGift, a registered charity administered by The Orr Mackintosh Foundation. Find out more at ***www.sharegift.org*** or call +44 (0)20 7930 3737.

Viewing the Articles of the Company

The Articles and other documents referred to in this annual report are available for inspection at the registered office. The Articles are available on the Group's website:

www.premierfoods.co.uk/about-us/corporate-governance/articles-of-association.cfm

Shareholder security

Shareholders are reminded to remain vigilant against the threat of share scams and fraud. In particular be wary of any unsolicited mail or phone calls offering to buy or sell shares or offers of free reports about the Company. For further information and guidance please refer to the FSA's website: ***www.fsa.gov.uk/scams.***

ANNUAL GENERAL MEETING (AGM)

The AGM usually takes place in London and is an opportunity for all shareholders to ask questions and vote on the resolutions put forward by the Board. At least 20 working days before the AGM the Notice of AGM, a copy of this annual report (if they request a copy in writing) and a Form of Proxy are issued to shareholders. All documents relating to the AGM are available on the Group's website.

The Notice of AGM sets out the proposed resolutions and a brief synopsis of each of them. Shareholders are invited to either attend the AGM in person or appoint a proxy to vote on their behalf. Voting at the AGM is by poll as this gives a more democratic outcome given that the proxy votes are added to the votes cast in person. Details of the proxy votes for, against and withheld are made available on the Group's website after the AGM.

The Chairmen of the Audit, Nomination and Remuneration committees are normally available at the AGM to take any relevant questions and all other directors are expected to attend. All directors attended the 2012 AGM.

2013 AGM — Thursday 25 April 2013 at 10.00 am

The 2013 AGM will be held at the Holiday Inn — Bloomsbury, Coram Street, London, WC1N 1HT.

KEY CONTACTS

Registered office and head office

Premier Foods plc, Premier House, Centrium Business Park, Griffiths Way, St Albans, Hertfordshire, AL1 2RE.
Registered in England and Wales (5160050).
Tel: +44 (0)1727 815850.

General Counsel & Company Secretary

Andrew McDonald
email: company.secretary@premierfoods.co.uk
Tel: +44 (0)1727 815850.

Investor Relations

Richard Godden
email: investor.relations@premierfoods.co.uk
Tel: +44 (0)1727 815850.

Registrar

Equiniti, Aspect House, Spencer Road, Lancing, West Sussex, BN99 6DA.

Tel: 0871 384 2030 or +44 (0)121 415 7047.
Textel/Minicom: 0871 384 2255 or +44 (0)121 415 7028.
(Calls to 0871 numbers cost 8p per minute plus network extras. Lines are open 8.30am to 5.30pm, Monday to Friday)

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Glossary

Adjusted earnings per share
Adjusted earnings per share is defined as Adjusted Profit before tax less a notional tax rate for the Group divided by the weighted average number of shares in issue during the period

Adjusted Profit before tax
Trading profit less net regular interest payable

Amortisation
An annual charge made in a company's profit and loss account to reduce the value of an intangible asset to its residual value over its useful economic life

Articles
Articles of Association — the constitution of the Company

BIS
UK government department for Business, Innovation and Skills.

Called-up share capital
Ordinary shares, issued and fully paid

Capex
Capital Expenditure

CEO
Chief Executive Officer

CFO
Chief Financial Officer

CGU
Cash-generating unit — the smallest identifiable group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets

Code
The UK Corporate Governance Code 2010.

Companies Act
The Companies Act 2006

Company (the)
Premier Foods plc

CSR
Corporate Social Responsibility

DSB
Deferred Share Bonus plan

Divisional Contribution
Trading profit before all S,G&A costs

EBITDA
Earnings before interest, tax, depreciation and amortisation.

EPS
Earnings Per Share — calculated as total earnings divided by the weighted average number of shares in issue during the period

Fair value
The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction

Finance lease
A lease that transfers substantially all the risks and rewards incidental to ownership of an asset

FMCG
Fast Moving Consumer Goods

FRC
Financial Reporting Council

Free Cash Flow
The amount of money that a business has at its disposal at any given time after paying out operating costs, interest payments on bank loans and bonds, salaries, research and development and other fixed costs.

FSA
Depending on the context either the Food Standards Agency or the Financial Services Authority

FTSE 250/350 (index)
Index comprising the 250 / 350 largest companies listed on the London Stock Exchange in terms of their market capitalisation

FY
Full year / Financial Year

GDAs
Guidance Daily Amounts

Group (the)
The Company and its subsidiaries

Group Executive
The Group Executive support the CEO in carrying out the duties delegated to him by the Board

HMRC
Her Majesty's Revenue and Customs

IAS
International Accounting Standards

IFRIC
International Financial Reporting Interpretations Committee

IFRS
International Financial Reporting Standards

IMS
Interim Management Statement

Intangible assets
An identifiable non-monetary asset without physical substance e.g. patents, goodwill, trademarks and copyrights

Interest rate hedging
Entering into a financial derivative to protect against unfavourable changes in interest rates

Interest rate swaps
An agreement between two parties that allows either party to modify the interest cost without changing the characteristics of the underlying debt

KPI
Key Performance Indicator

LIBOR
The London inter-bank offered rate

Mark to market
The recording of a financial asset or liability to reflect its fair value rather than its book value

NED
Non-executive director

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

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

Operating lease
A lease that is not a Finance lease

Operating Profit
A company's profit after deducting its operating costs from gross profit

Ordinary Share
An ordinary share of 10 pence in the share capital of the Company

Pro forma
Pro forma comparisons are calculated as follows: current year actual results (which include acquisitions and/or disposals from the relevant date of completion) are compared with prior year actual results, adjusted to include the results of acquisitions and/or disposals for the commensurate period in the prior year.

RIDDOR
Reporting of Injuries, Diseases and Dangerous Occurrences Regulations

RPI
Retail Price Index

SAYE
Save As You Earn Scheme

S,G&A
Selling, general and administrative costs

Glossary

SID

Senior Independent Director

Trading Profit

Operating profit before re-financing costs, restructuring costs, profits and losses associated with divestment activity, amortisation and impairment of intangible assets, the revaluation of foreign exchange and other derivative contracts under IAS39 and pension credits or charges in relation to the difference between the expected return on pension assets, administration costs and interest costs on pension liabilities

TSR

Total Shareholder Return — the growth in value of a shareholding over a specified period assuming that dividends are reinvested to purchase additional shares

WACC

Weighted average cost of capital

YoY

Year on year

YTD

Year to date

Cautionary Statement

The purpose of this annual report is to provide information to shareholders of Premier Foods plc ("the Company"). The Company, its directors, employees and advisers do not accept or assume responsibility to any other person to whom this document is shown or into whose hands it may come and any such responsibility or liability is expressly disclaimed. It contains certain forward-looking statements with respect to the financial condition, results, operations and businesses of the Company. These statements and forecasts involve risk and uncertainty because they relate to events and depend upon circumstances that will occur in the future. There are a number of factors that could cause actual results or developments to differ materially from those expressed or implied by these forward-looking statements and forecasts. Nothing in this annual report should be construed as a profit forecast.

Trademarks

The Group's trademarks are shown in italics. The Group has an exclusive worldwide licence to use the *Lloyd Grossman* name on certain products. *Cadbury* is a trademark of Mondelēz International group used under licence.

In this annual report we make references to various data on market size, share and growth, retail sales and household penetration which are sourced from independent market research and consumer data providers such as Kantar and IRI.

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MIX
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