PREMIER
FOODS

Premier Foods plc
Annual report and accounts for the year ended 31 December 2013

Stock code: PFD

CONSUMERS

Driving Category Growth

BRANDS

CUSTOMERS

COSTS

PEOPLE

"We create the next generation of food our nation loves, for modern family life."

Premier foods makes a wide choice of great quality, tasty, affordable, everyday and inspiring food for families juggling the demands of modern life, who care about what they eat. We aim to bring fresh new food ideas to our consumers that make it easy for modern families to create and enjoy the meals and treats they love.

As one of Britain's biggest food producers, we supply a range of retail, wholesale, foodservice and other customers with some of the nation's best loved brands, including *Ambrosia*, *Batchelors*, *Bisto*, *Hovis*, *Loyd Grossman*, *Mr Kipling*, *Oxo* and *Sharwood's*. We employ around 8,000 people operating from over 35 sites right across the country.

Visit us online to find further information:
www.premierfoods.co.uk

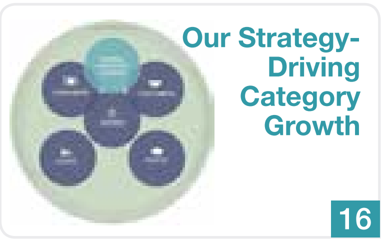
Website:
Keep up to date with all the latest information about Premier Foods online, including: share price data; press releases; and results.

Mobile:
You can now keep up to date with Premier Foods wherever you are with our new mobile friendly website.

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 2013 Sustainability Report available on our website.

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

Quick Find



Look out for these icons in this
Annual Report

For more information on the **Business Overview** see pages **04-13**

For more information on the **Strategic Review** see pages **16-33**

For more information on the **Performance Review** see pages **36-43**

For more information on **Governance** see pages **46-77**

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Supplementary Information

DID YOU KNOW?

OVER THE YEAR OUR EMPLOYEES RAISED £195,000, HELPING TO FUND OVER 7,500 NURSING HOURS FOR OUR CORPORATE CHARITY PARTNER MACMILLAN CANCER SUPPORT.

New *Oxo* Shake & Flavour

In 2013 we launched *Oxo* Shake & Flavour supported by a new TV campaign. This builds on the success of the '*Oxo* Magic Cube' ad and shows inanimate objects transforming into a delicious meal through the addition of *Oxo*. This creative style highlights the flavour transformation properties of the product.

Oxo Shake & Flavour is a versatile and convenient seasoning and available in three exciting flavours. It can be used before, during, or after the cooking process to add flavour to ordinary everyday meals and is aimed at bringing new consumers to the category, helping drive overall brand and category penetration.

For more information on **Consumers and Brands** see pages **18-19**

Business Overview

CONTENTS

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

Highlights for 2013

A transformational 12 months for the Group

New Management team in place

- Gavin Darby appointed as CEO in February and Alastair Murray appointed as CFO in September 2013.
- Strong, experienced team in place to complete the transformation of the Group.

Delivered against market expectation for 2013

- Good results for 2013 in a difficult market.
- Grocery Power Brands sales up 2.0%.
- Underlying Trading profit up 17.7%.

For more information on the **Business Performance** see pages 36-39

Delivery of cost savings

- £16.1m of SG&A savings delivered in 2013.
- Further savings opportunities through reduction in complexity.
- Significant consolidation of supplier base.

For more information on **Cost Savings** see pages 24-25

Conditional agreement with The Gores Group to create a stand-alone Hovis joint venture announced in January 2014

- Unlocks significant investment programme in both infrastructure and the Hovis brand.
- Premier Foods retains 49% stake ensuring participation in future value generation.
- Allows for focus on a high quality branded ambient Grocery business.

For more information on the **Hovis JV** see pages 37

Capital Refinancing Plan announced on 4 March 2014 to strengthen capital structure. This consists of three elements:

- The raising of approximately £350m by way of a Placing and Rights Issue;
- The raising of approximately £475m in senior secured loan notes; and
- A new £300m Revolving Credit Facility.
- In addition, the Group has also reached a new framework agreement with the Group's Pension Scheme trustees.

For more information on the **Capital Refinancing Plan** see pages 40-41

New category focused strategy

- Robust strategy to drive growth in a highly competitive market.
- Focused Grocery business with strong competitive positions in growing categories.
- Focus on marketing and innovation to grow branded revenue.

For more information on **Our Strategy** see pages 16-17

see further information online at
www.premierfoods.co.uk

Financial Headlines 2013

Grocery Power Brand Sales

£543.5m △2.0%

(2012: £533.1m)

Trading Profit (underlying business)

£145.2m △17.7%

(2012: £123.4m)

Adjusted EPS

27.7p △63.7%

(2012: 17.0p)

Net Debt

£830.8m ▽12.6%

(2012: £950.7m)

Non Financial KPIs 2013

Sales from new products

12.9%

(As a percentage of our branded sales, within Power Brand categories)

Products testing superior or at par with competitors

96%

(Blind testing with consumers)

Reduction in CO_2 equivalent emissions

▽2.0%

(224,110 tonnes of CO_2(e))

Reduction in Lost Time Accidents (LTA rate per 100,000 hours worked)

▽20.0%

(0.16 per 100,000 hours)

For more information on **Key Performance Indicators** see pages 32-33

	Underlying Basis 2013	Less: Bread Business	Add: Disposals	Add: Milling Sales	Statutory Basis (Continuing Operations) 2013
Sales	£1,282.5m	£(654.6)m	£6.4m	£221.9m	£856.2m
Trading profit	£145.2m	£(6.3)m	£0.6m	—	£139.5m
EBITDA	£178.1m	£(21.9)m	£0.6m	—	£156.8m
Operating profit					£52.6m
Profit before taxation from continuing operations					£4.4m

Notes

On pages 04 to 77 of this report the Group's results for the year ended 31 December 2013 are presented on an 'Underlying business' basis, unless otherwise stated. This includes the performance of the Bread division which was held as 'assets for sale' at the year end and excludes the impact of disposals and milling sales as this basis better reflects the performance of the core business of the Group and aids comparison with last year's results. A reconciliation to the statutory numbers can be found on page 43.

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

Premier Foods is one of the largest ambient food suppliers in the UK manufacturing, distributing and selling a wide range of branded and non-branded foods.

In 2013, Premier Foods generated revenues of £1.3bn employing around 8,000 people, operating from over 35 sites across the UK.

Our sites are dedicated to manufacturing high quality, great tasting, everyday food products which consumers know and love. We have a broad stable of leading British brands, many of which are household favourites. These include our eight Power Brands of *Ambrosia, Batchelors, Bisto, Hovis, Loyd Grossman, Mr. Kipling, Oxo* and *Sharwood's* as well as many other iconic British food brands.

The business is organised into two divisions: Grocery and Bread.

The Bread division includes our Baking and Flour Milling operations and is managed by a dedicated team. During the course of 2013 the business was restructured to remove excess capacity and improve efficiency and effectiveness. In January 2014 we announced a conditional agreement to establish a joint venture with The Gores Group. This will help secure significant new investment for the *Hovis* business, whilst allowing Premier Foods to share in the expected future benefits of this investment through retaining a 49% stake in the business. Approval of the *Hovis* joint venture is subject to shareholder approval and is expected to be completed by the end of April 2014.

A summary of the Grocery and Bread divisions is shown on the opposite page. The entire Bread division will transfer to the Hovis joint venture with the exception of the Andover Mill and the Charnwood Foods Business which will remain with the Group.

Within the Business Overview, Strategic Review and Performance Review sections we are reporting results on an underlying basis including the results of the Bread business to enable comparison with the results of 2012. Within the Financial Statements we report results on the basis of continuing operations and this excludes the Bread business as it was held as 'assets held for sale' as at the year end.

Group Revenue (underlying)
£1,282.5m
(2012: £1,297.4m)

Grocery	**£837.4m**	(65.3%)
Bread	**£445.1m**	(34.7%)

Group Divisional Contribution
£228.1m
(2012: £222.4m)

Grocery	**£196.7m**	(86.2%)
Bread	**£31.4m**	(13.8%)

Group Employees[1]
8,379
(2012: 9,787)

Grocery	**4,283**	(51.1%)
Bread	**4,096**	(48.9%)

1. Average monthly number of people employed

Photograph
A broad range of food products that consumers know and love.

Grocery (underlying)

Branded Revenue	£739.7m	(88.3%)
Non-branded Revenue	£97.7m	(11.7%)

Revenue
£837.4m
(2012: £854.1m)

Divisional Contribution
£196.7m
(2012: £195.5m)

The Grocery division produces a wide variety of branded and non-branded products in the ambient grocery sector, including cakes, soups, stocks, gravies, ambient desserts, home baking, cooking sauces and Asian meal solutions. Power Brands in the Grocery division include *Ambrosia* custard and rice pudding, *Batchelors* soups, pasta, rice and noodles, *Bisto* gravies and stocks, *Loyd Grossman* cooking sauces, *Mr. Kipling* cakes, *Oxo* stocks and *Sharwood's* cooking sauces and Asian foods.

Power Brands
Ambrosia, Batchelors, Bisto, Loyd Grossman, Mr. Kipling, Oxo and *Sharwood's*

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

Highlights for 2013

- Launch of *Ambrosia* Devon Dream
- Launch of *Oxo* Shake & Flavour
- Grocery Power Brand sales up 2.0%

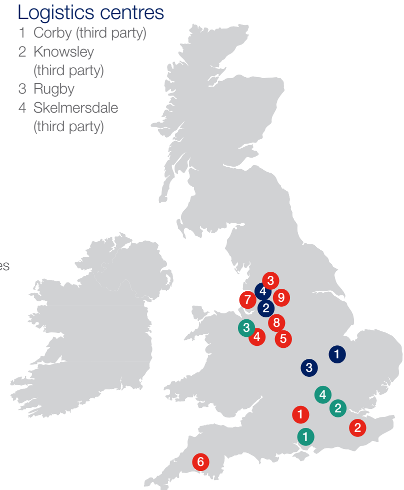
In 2013 we produced around . . .
390,000 tonnes of finished products.
420 million *Mr. Kipling* slices.
240 million servings of *Paxo* stuffing.
210 million sachets of *Batchelor's Cup a Soup.*
14 million *Oxo* cubes per week.

Locations (retained business)

Manufacturing sites
1 Andover (Mill)
2 Ashford
3 Carlton
4 Knighton
5 Leicester — Charnwood Foods
6 Lifton
7 Moreton
8 Stoke
9 Worksop

Distribution/Logistics centres
1 Corby (third party)
2 Knowsley (third party)
3 Rugby
4 Skelmersdale (third party)

Central functions and Business services
1 Eastleigh — Information Services
2 High Wycombe — Premier Analytical Services
3 Manchester — Premier Business Services
4 St Albans — Head Office



Bread (underlying)

Branded Revenue	£346.6m	(77.9%)
Non-branded Revenue	98.5m	(22.1%)

Revenue
£445.1m[1]
(2012: £443.3m)

Divisional Contribution
£31.4m
(2012: £26.9m)

1. Excludes Milling sales of £221.9m (2012: £191.4m).

The Bread division operates principally in the wrapped bread market and in addition manufactures non-branded bread and morning goods. The Bread division also incorporates the Group's Milling business, Rank Hovis, which is one of the UK's leading millers and produces a wide range of bulk flours and branded and non-branded bagged flours. Milling comprises a vertically integrated milling operation which supports the Baking and Grocery businesses and a separate stand alone free trade (business to business) milling operation.

Power Brand
Hovis

Support brands
Granary, Mother's Pride and *Ormo*

Highlights for 2013

- Major restructuring of the Bread and Milling businesses implemented to drive sustainable growth.
- *Best of Both* relaunch.
- Licensing agreement for *Hovis* Breakfast Bakes.

In 2013 we produced around . . .
11 million loaves and 1.8 million packs other bakery products each week. 25,000 orders received each week with daily distribution to around 4,000 stores and depots.
800,000 tonnes of flour.

Locations (proposed Hovis joint venture)

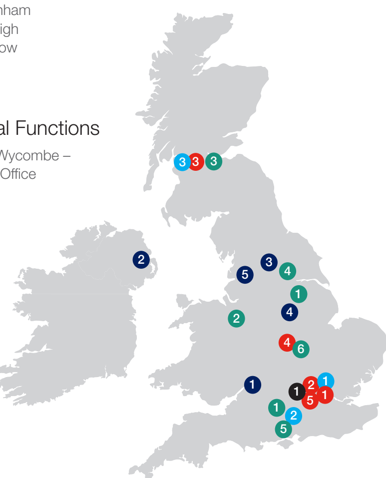
Bakeries
1 Erith
2 Forest Gate
3 Glasgow
4 Leicester
5 Mitcham — Sebon

Depots/RDC
1 Dagenham
2 Eastleigh
3 Glasgow

Mills
1 Gainsborough (wheat maltings)
2 Manchester
3 Newbridge-Fleming Howden
4 Selby
5 Southampton
6 Wellingborough

Central Functions
1 High Wycombe – Head Office

Integrated Bakery Sites & Logistics
1 Avonmouth
2 Belfast
3 Bradford
4 Nottingham
5 Wigan



Overview of the year

2013 was a year of significant success for the Group. Set out below are some of the key achievements covering our brands, sustainability and corporate activity.

January

New TV campaign launch for *Bisto Stock Melts* – a range of individual concentrated stock pots. *Stock Melts* offer consumers a high quality easy-to-use product, responding to the growing popularity of wet stocks.

Macmillan Cancer Support selected as our new corporate charity partners and we have made a commitment to raise 10,000 nursing hours over a 2 year period.

February

New *Sharwood's* TV campaign launched to celebrate Chinese New Year, combined with strong customer promotional activity both in-store and online.

Completion of £92.5m sale of sweet pickles and table sauces to the Mizkan Group.

March

Significant media focus behind key Power Brands with *Ambrosia* on air with "this is pudding" campaign and also new TV campaigns for *Bisto* and *Loyd Grossman.*

April

Launch of a new range of tasty and filling lunchtime snacks with the expansion of *Batchelors* 'Cup a' range to include individual noodle, pasta and rice sachets, ideal for today's busy and health conscious consumers, as the new products are all ready in less than 5 minutes and contain less than 2% fat.

May

Launch of new *Oxo Shake & Flavour* – a versatile and convenient product, available in three exciting flavours. It can be used before, during, or after the cooking process to add flavour to ordinary everyday meals. *Ambrosia* TV campaign launched to support launch of new *Devon Dream.*

Premier Foods receives the prestigious Astor Trophy in recognition of our achievements in the management of occupational health at the RoSPA Awards. In addition RoSPA Gold and Silver Health and Safety awards were awarded to 25 of our sites.

June

Premier Foods announces it will become an early adopter of the Government's newly launched front of pack nutrition labelling scheme, designed to give consumers more consistent information to help manage their diets.

Restructuring of our Milling business announced to split the business into two distinct parts to strengthen focus and increase profitability.

Key

- Brands
- Sustainability
- Corporate

July

Hovis launch a new packaging range with a transparent design to showcase quality and freshness.

Bisto launch a new premium range called *Chef's Specials*, targeting the dine-in-for-two sector.

Premier Foods, presented with the 'Efficiency Initiative of the Year' award at the prestigious UK National Recycling Awards.

Further £10m costs savings announced as part of de-complexity programme involving a review of lower margin products and halving the number of suppliers by the end of 2014.

September

Premier Foods to support 'Feeding Britain's Future' an initiative to provide free skills training for young unemployed people across the UK. We are hosting events at over 20 of our sites nationwide, providing around 300 training opportunities.

November

Batchelors to add three new flavours to its *Deli Box* line-up: *Sweet & Sour Noodles*, *Bolognese Pasta* and *Tomato & Chilli Pasta*.

Premier Foods wins two coveted awards – Food Manufacturing Company of the Year at the Food Manufacturing Excellence Awards and Grocery Business Partner of the Year (Retail) at the Landmark Wholesale Awards

August

Cadbury Mini Rolls launch new campaign to promote our new Ice Cream flavours range.

In addition *Sharwood's* launch a pack redesign across the entire range.

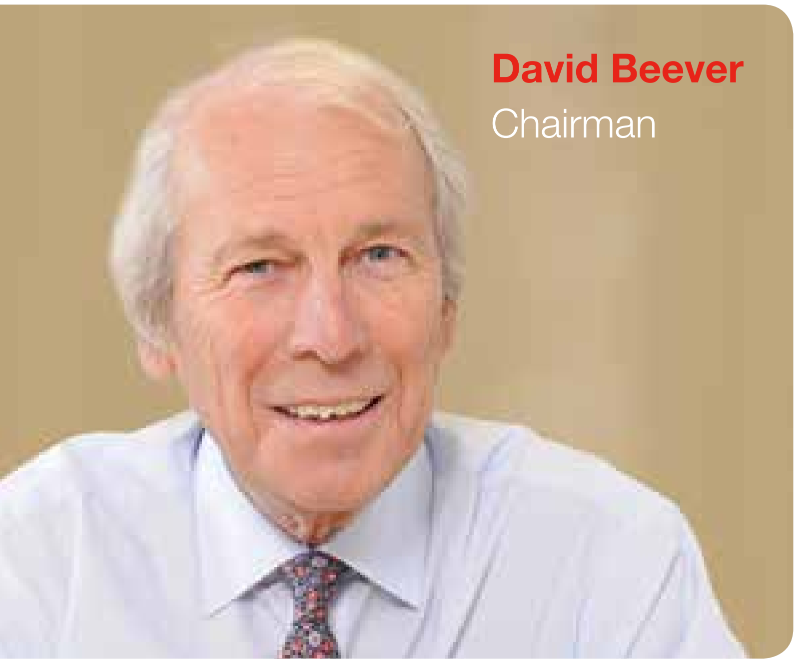
Ten year partnership agreement signed with Swire Foods, to distribute *Ambrosia* rice pudding pots in China as part of our strategy to expand the customer base beyond our existing channels.

October

Premier Foods named "Supplier of the Year" by 3663, a leading foodservice wholesale distributor and one of our key supply chain partners.

BUSINESS OVERVIEW

Chairman's Statement
A transformational year for Premier Foods



Underlying Trading Profit
£145.2m △**17.7%**
(2012: £123.4m)

Net Debt
£830.8m ▽**12.6%**
(2012: £950.7m)

"The announcements to create a new joint venture for *Hovis* and a new Capital structure are significant milestones in the Group's turnaround strategy and will result in the creation of a strong and focused Grocery business going forward."

At the time we report our results for the year ending 31 December 2013, we are also announcing a major Capital Restructuring.

This includes proposals for a new Revolving Credit Facility with a streamlined bank syndicate, a revised schedule of deficit contributions with our pension schemes and a proposal to raise approximately £350m in new equity and approximately £475m in high yield bonds. Once completed, this Capital Restructuring, will significantly transform the capital base of the Group, reducing our leverage.

Hovis Joint Venture

In addition over the course of 2013 management successfully implemented a major restructuring of the Bread division to reduce excess capacity and improve the efficiency of the business. This involved the closure of three bakery sites, two flour mills and a major reconfiguration of the logistics network. In November, we confirmed that we were looking at options to secure new investment in the business and I am delighted to report that in January 2014 we announced a conditional agreement to establish a joint venture with The Gores Group. This is great news for the *Hovis* business as it will unlock a significant, five-year investment programme to improve its operational infrastructure and reinvigorate the *Hovis* brand. Premier Foods will also retain a 49% stake in the business allowing the Group to share in the expected future gains of this investment. Further details of the joint venture can be found in the Operating review.

I believe that both these announcements are significant milestones in the Group's turnaround strategy and will result in the creation of a strong and focused Grocery business going forward. Your Board are fully supportive of these proposals and have committed to participate fully in the proposed rights issue in respect of their personal shareholdings.

Shareholders should be aware that both the Capital Restructuring and Hovis joint venture are dependent on shareholder approval at a General Meeting to be held on 20 March 2014 and therefore subject to risk and uncertainty. Details of the risks and uncertainties are set out in detail on page 29.

Performance for the year

I am pleased to report that Gavin and the management team have also clearly demonstrated their commitment and ability to deliver trading results for 2013 in line with market expectations. This is particularly impressive given the challenging customer and consumer environment facing our industry. Grocery Power Brands sales grew 2.0% in the year benefiting from sustained investment in marketing and we also regained some momentum on Support brands in the final quarter. In line with our strategy to focus on branded sales we also exited a number of non-profitable own label contracts which meant that overall underlying sales were marginally down by 1.1% year on year. In addition, we made further progress in reducing the Group's overhead cost base and in reducing complexity through streamlining our supplier base and eliminating low margin products. Together, this performance helped support a 17.7% increase in underlying Trading profit for the year to £145.2m with adjusted earnings per share up 63.7% to 27.7p.

This demonstrates the Group's category-focused growth strategy is starting to bear fruit. Further information on our strategy is set out in the Chief Executive's Review on pages 12 and 13.

Leadership

In September 2013 we announced the appointment of Alastair Murray as CFO in place of Mark Moran. Alastair has extensive strategic, commercial, financial, pensions and consumer brand experience built up over many years with a number of leading food and consumer goods companies. This is a key appointment and I'm sure Alastair will make a major contribution as we complete the transformation of the business. In May, we welcomed Pam Powell as a non-executive director. Pam has more than 20 years marketing experience developing some of the world's leading consumer brands, and her appointment will be a tremendous benefit as we look to continue the growth of our Power Brands.

Ian McHoul, who was reaching the end of his third term in office this year, retired as a director at the AGM on 25 April 2013. On behalf of the Board I would like to thank both Mark and Ian for their significant contribution to the Group over a number of years. Full details of all the Board changes in 2013 are set out in my introduction to the Governance section on pages 46 and 47. This also includes a detailed update on our governance process, Board evaluation exercise and dialogue with shareholders over the course of the year.

Employees

I would like to thank all staff at Premier Foods for their continued hard work and commitment in delivering the 2013 results. During the year we undertook a number of change programmes as we continued to adapt the organisation's structure to a more focused portfolio and completed the planned restructuring of the Bread business. Regrettably many of our colleagues left the business as a result. Management moved quickly to communicate changes and provide clarity for those affected, however, I fully recognise this has been a challenging time for all concerned.

In September 2013 we experienced industrial action at our Wigan bread bakery. This was a local dispute related to the use of agency workers and I am pleased that an agreement was swiftly reached allowing us to move forward and rebuild strong relations at the site.

As part of our ongoing commitment to support the Group's category-focused growth strategy we have strengthened capabilities in a number of areas during 2013, doubling the number of apprenticeships at our sites, restarting our graduate recruitment programme and building resource within our innovation teams.

Our employees up and down the country worked extremely hard to raise funds to support our chosen charity, Macmillan Cancer Support. Together with the generosity of our suppliers, we raised nearly £200k for the charity helping support the invaluable work of Macmillan nurses.

Sustainability

A key part of our overall strategy is to drive sustainability in everything we do whether that applies to financial results or in the way we use natural resources.

In 2013, we continued to make good progress in reducing our environmental footprint. For example, all of our manufacturing sites are now officially accredited as 'zero waste to landfill' sites.

In product terms, we continued to deliver nutritional improvements through reducing salt and calories and, as part of a pioneering group of retailers and manufacturers, committed to introduce colour-coded front of pack nutritional labelling across all our branded products to help consumers make more informed choices. We also joined forces with others in industry to address a projected future shortage of food engineers by encouraging apprenticeships and becoming a founding supporter of the National Centre of Excellence in Food Engineering to be established at Sheffield Hallam University.

I am delighted that our achievements in this area received external recognition with the Group winning several different awards including 'Manufacturing Company of the Year' at the 2013 UK Food Manufacturing Excellence Awards and 'Efficiency Initiative of the Year' at the 2013 UK National Recycling Awards. Further information about our approach to Sustainability is set out on page 26.

Looking forward

Whilst there are signs that the economic conditions in the UK are now starting to improve, consumer spending remains subdued and competition on the high street continues to be intense. The Group has a clear strategy to deliver growth in a tough market. I believe the successful completion of the proposed *Hovis* joint venture and Capital Restructuring will transform Premier Foods into a focused, high-margin Grocery business with a stable capital structure which will further enable management to focus its full attention on delivering against our strategy to drive profitable category growth. I very much look forward to making further progress in 2014.

David Beever
Chairman

Chief Executive's Review
A new focused Grocery business

"Our strategy to drive category growth is the best way to grow our brands. Simply put, it's about encouraging more people to use more of our brands, in more ways, more often."

As part of our recently announced Capital Restructuring, we set out a seven-point investment proposition that highlights the strengths and opportunities of the new Premier Foods (see panel on page 16). I believe there are strong reasons to invest in the future of the Company.

Premier Foods is a high-quality, branded Grocery business with strong EBITDA margins, operating cash flows and growth prospects. Together with a new capital structure and pension deficit contribution arrangements, we have a positive foundation to drive future growth.

How have you found your first year at Premier Foods?

It's been an eventful, yet hugely exciting year. When I joined the Company I had four key goals in mind. Firstly, I wanted to maintain our trading momentum and deliver our results for 2013 in line with market expectations. I'm delighted we've been able to do that despite a challenging consumer environment. Looking further ahead, I was keen we find a sustainable solution for the *Hovis* business and additionally address our capital structure and pension deficit in a way that would create greater certainty and confidence in the future of our business for all stakeholders. Finally, I believed it was important to map out a clear strategy to continue to grow the Premier Foods business in the coming years. I'm proud that we've been able to deliver on all of these goals.

Are you satisfied with how the business performed in 2013?

Broadly, yes. Last year was difficult for the food industry generally as consumer disposable incomes remained under pressure, driving a more intense promotional environment with little overall volume growth in the market. The very hot summer also affected some of our categories with a consequent impact on our brands. This meant we lost some of the momentum of the first half of the year, although we did continue to grow market share in several of our categories. Grocery Power Brand sales grew 2.0 % in the year and sales of our Support brands grew 1.1% in the final quarter, reversing previous declines. We also made significant progress in reducing our overhead costs and kick-started a new initiative to reduce complexity throughout the business. The progress we made in 2013 gives us a good base on which to build in 2014 and the coming years.

What difference will the *Hovis* joint venture make?

After all the painful restructuring in 2013 to reduce excess capacity and improve the efficiency of both the Baking and Flour Milling businesses, it was essential we find a way to secure the investment necessary to implement our longer-term plan to grow the business. The joint venture with The Gores Group does just that. The agreement helps unlock a major investment plan to improve the operational infrastructure and re-invigorate the *Hovis* brand, and enables Premier Foods to share in the expected upside of this investment through a 49% stake in the venture. With the *Hovis* business as part of a joint venture, we can now focus our full attention on growing our core Grocery business.

Will the new capital structure be more sustainable than previous restructurings?

The new capital structure significantly reduces our leverage, diversifies our sources of funding and provides a longer-term arrangement that helps provide stability and certainty. The planned raising of approximately £350m in new equity will reduce our adjusted Net debt to 3.3x our 2013 Grocery EBITDA and significantly reduce our interest payments. The constructive agreement we reached with our pension trustees on deficit contributions will also be a great help in allowing the Company to continue its recovery, as we'll effectively reduce our contributions by £156m over the first three years of the agreement. This is transformational for the Group, and important to all our stakeholders as it provides the means and focus to continue investing in growing our brands.

How do you plan to grow the business in the current trading environment?

At our Half Year results in 2013, I outlined our strategy to drive category growth as the best way to achieve growth of our brands. This remains our focus. Growing the size of the market sectors we operate in, as well as our share of those sectors, is a more sustainable way to drive growth in partnership with our customers. Simply put, it's about encouraging more people to use more of our products, in more ways, more often. Innovation and marketing are critical to this approach and we'll be further investing in both in support of our brands and funded by a tight control over costs. More information on our category growth strategy is set out on page 16.

How important is innovation for Premier Foods?

Innovation and marketing are central to our category growth strategy. In addition to developing new products, we look for new ways to improve our existing products, encourage new uses and create innovative ways to communicate about our brands. The launch of *Ambrosia Devon Dream* last year is a good example of how we've stretched the *Ambrosia* brand into the summer months with a lighter dessert topping. *Oxo Shake & Flavour* is another innovation that helps take the *Oxo* brand from traditional stock cubes to a versatile range of seasonings. Over the past two years, we've stepped up our marketing to support our innovation and remind consumers how great our products taste. For example, *Ambrosia* custard was back on TV for the first time in a decade in 2013 and *Batchelors* was advertised on TV for the first time in five years. We've also been investing in other ways to advertise and promote our brands through digital channels and creative partnerships.

How are you addressing changing shopping patterns?

The strength and breadth of our brand portfolio, together with our manufacturing and supply chain capabilities, gives us a big advantage in serving today's multi-format retail environment. Most of our sales remain with the major supermarkets and we work hard to strengthen our partnership with these customers by developing joint business plans. But we also have opportunities and plans to grow with other channels which, although a smaller part of the market, are becoming increasingly popular. These include convenience outlets, foodservice, branded discounters and online. Our flexibility to produce different pack and case sizes, and offer product formats under the banner of our Support brands, gives us a broad scope to meet the different requirements of these customers.

Given the competitive environment, what scope do you have to reduce costs as a way to build profitability?

It's important to continue improving our efficiency and effectiveness to fund the investment needed in our innovation and marketing activities. Over the past few years we've been very good at reducing our overhead costs and maintaining a tight rein over manufacturing and logistics costs, and we'll continue with this level of control. In 2013 we initiated a further focus on reducing complexity throughout the business as a way to step-change our thinking. As a result, we committed to cutting our supplier base in half by the end of 2014 through developing fewer, longer-term strategic partnerships. We also looked at the profitability and strategic fit of every one of our products resulting in the elimination of more than 400 low-margin products from the portfolio so far. There are many other opportunities to go after.

What are you doing to motivate employees and build a winning team culture?

It's been a tough time for our people over the last few years given the degree of change. Many of our colleagues have left as part of businesses we've sold and our *Hovis* colleagues will soon be part of the new joint venture. We have also had to make some difficult decisions to slim down our overhead structures and improve our operational efficiency, particularly in the Bread business. I believe we are substantially through that period now and we're preparing for the future. We're taking a fresh look at our purpose, vision, values and behaviours, and we have started to invest more in our people, for example through re-initiating our Graduate Recruitment programme, doubling the number of apprentices and strengthening our commercial skills. Whilst this remains a journey, I'm encouraged by the determination of the Premier Foods team to deliver a bright future for our business.

Gavin Darby
Chief Executive Officer

DID YOU KNOW?
SINCE 2011 WE HAVE REDUCED SALT LEVELS IN OUR PRODUCTS BY MORE THAN 286 TONNES.

Sharwood's packaging re-design

In 2013 we launched a packaging re-design across the entire *Sharwood's* range aimed at helping us to stand out from other brands and make it easier to shop for *Sharwood's*. The new design reflects the positioning for the brand which is all about 'making meal times come alive'.

The new packaging, as pictured here, is easier to read and more recognisable with a consistent logo across the whole range. The improved pack hierarchy includes colour signposting to identify individual flavours as well as signage of heat levels on both the label and the shelf ready packaging. Accompaniments, such as Naan breads, have also been colour coded to match the ranges they complement.

For more information on **Consumers and Brands** see pages **18-19**

Strategic Review

CONTENTS

The Strategic Review sets out the key elements of our strategy, our approach to sustainability, risk management and how we have performed against our KPI's.

Strategy and Business Model
Focused on driving category growth

DRIVING CATEGORY GROWTH

No.1 position in each of our five Categories.

Investment Proposition

Focus on Growth Categories
We operate in two large and growing segments, Savoury Meal Making and Sweet Foods where we have a leading position in all our categories – Flavourings & Seasonings, Cooking Sauces & Accompaniments, Easy Eating, Ambient Desserts and Ambient Cake.

Broad stable of leading brands driving category growth through marketing and innovation
We are using our leading Power brands and Support brands to drive category growth by invigorating the core offering, driving new uses, developing new products and finding innovative ways to communicate and market our brands.

Diverse manufacturing processes provide wide scope to innovate
We have large-scale manufacturing scale in the UK with multiple technologies and capability to produce a wide variety of packaging formats.

Strong capabilities to serve today's multi-format retail environment
We have invested in building strong partnerships and put in place joint business plans with our major customers.

Continued cost reduction to support brand investment
We are focused on delivering cost savings through management of controllable costs and a sustained reduction in complexity which is reinvested in consumer marketing.

Strong operational cash flows
The underlying business is resilient and cash generative creating cash flow to reinvest in the category growth strategy.

Committed and experienced management team
We have a new dynamic management team with significant experience from across the food and consumer goods industry.

The Group's strategy is to drive category growth

In 2013 the Group's strategy evolved from a focus on growing its Power Brands to include a broader approach to growing the categories in which they operate. This shift to driving category growth reflected three factors. Firstly, our growth will be more sustainable if we compete not just for market share but for a greater share of a growing market. Secondly, our retail customers are more interested in partnering with businesses that are aligned with their own interest in growing the broader category. And finally, our leading position in our five core categories and broad stable of Power Brands and Support brands gives us a distinct advantage and opportunity to drive growth in the overall category.

We saw some early benefits from this strategy last year. All five of our categories grew by varying degrees with particularly strong growth in the Ambient Desserts and Flavourings & Seasonings categories in which Premier Foods' value share growth outperformed the category.

Business Model
We implement our strategy through our business model. This is based around 5 elements:

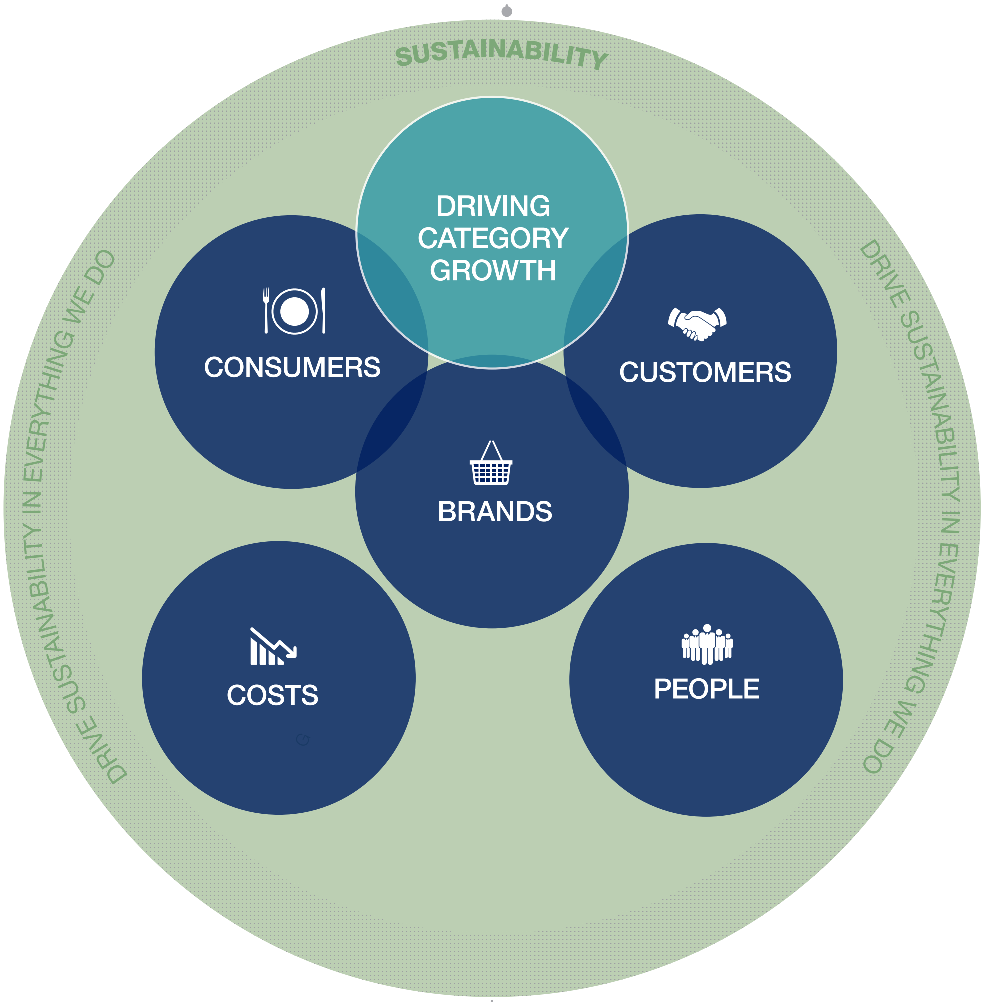
- Consumers: capitalising on our UK specific category insights to identify growth opportunities;
- Brands: driving category building innovation with pace;
- Customers: maximising mutual value from our customer partnerships;
- People: building structures, capabilities and culture to support our category focus.
- Costs: aggressively seeking out ways to improve efficiency and effectiveness to fund growth investment; and

Further information on each of these elements is set out in this section of the annual report.

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

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 guides how we address consumer concerns about health issues in respect of certain nutrients and ingredients, as well as labelling and portion size.

DRIVING CATEGORY GROWTH



Our Categories

Segment	Category	Total market size and market growth[1]		Our market position[2]	Our brands
Savoury Meal Making	Cooking Sauces & Accompaniments	£1,115m	+1.6%	No.1	Sharwood's, Loyd Grossman, Homepride
	Flavourings & Seasonings	£407m	+4.6%	No.1	Bisto, Oxo, Paxo
	Easy Eating	£363m	+5.6%	No.1	Batchelors, Smash
Sweet Foods	Ambient Cakes	£954m	+0.9%	No.1	Kipling, Cadbury, Lyons
	Ambient Desserts	£318m	+3.1%	No.1	Ambrosia, Angel Delight, Birds

[1] Source: Symphony IRI, value share, 2 year growth rates, 52 weeks ending 28 December 2013 and 52 weeks ending 29 December 2012.
[2] Category positions refer to branded share.

Capitalising on our UK specific insights to identify growth opportunities and drive category building innovation

Our brands continue to be firm family favourites and around 95% of UK households have at least one of our brands in their kitchens. This gives us both a responsibility and an opportunity. Our consumers expect us to deliver great tasting, high quality products every time. They also expect us to take the time to understand their busy lives and bring them new products, formats and ideas to make things easier in the kitchen and delight their families. Our strategy is to use our deep insights and understanding of UK consumers to continue improving our brands, making them even more relevant and identify opportunities to innovate that will help us grow.

Consumer insights

We have a lot of expertise and experience when it comes to understanding our consumers. Analysing research data is important. But seeing and hearing first hand the challenges facing our consumers adds that extra dimension. We spend time visiting consumer homes, conducting focus groups and also asking our employees what they care about when it comes to food and how they shop. Building this broader understanding of consumer behaviour gives us an insight into what we can do to make our existing products better and develop new products that fulfil a need.

In today's environment, consumers are under pressure with many demands on the family budget. Households are having to spend more to feed their families which is driving a change in shopping behaviour. In an attempt to seek out the best value, consumers are prepared to shop more frequently at different outlets. Whilst the main shop is still with the supermarkets and increasingly through online channels, more people are topping up with trips to discounters and convenience outlets. This has an impact on our pack, price and promotional strategy as well as how we serve different retail channels.

One further consequence of this environment is that more consumers are choosing to eat more meals at home and prepare lunchboxes for school or work. Given our focus on Savoury Meal Making and Sweet Foods, this gives us a great opportunity. Roast dinner, curry, spaghetti bolognese and pasta and sauce remain amongst the top ten favourite meals in the UK which plays to our strengths. Indulgence is also an important trend as people find time for a pudding or a sweet treat to make life a little more bearable. Using our trusted brands to provide options, solutions and ideas for family mealtimes that taste great and won't let the cook of the house down therefore becomes an important driver of our brand strategy. Longer-term consumer trends in favour of health and nutrition and convenience also need to be reflected in our thinking.

Innovation

Innovation is a key part of our strategy. But this doesn't always mean breakthrough ideas and products that have never been seen before. Often it's about stretching our brands to provide just the right amount of adventure and inspiration that our consumers are looking for to make mealtimes enjoyable. We also take care to ensure that any innovation we bring to the market is sustainable and, wherever possible, incremental, so helping to expand the overall category as well as our share of the category.

Sustainability in everything we do...

New front-of-pack nutritional labelling

Premier Foods is doing its bit to help our customers take control of their diets by rolling out new front-of-pack, colour coded nutrition labelling across all of our brands in 2014.

Along with the major retailers and a number of other manufacturers, we made a public commitment last year to adopt the Government's newly recommended labelling scheme. The new labels will list the calorie content and the level of fat, saturated fat, sugars and salt per portion of the product in relation to the Reference Intake of the respective nutrient (previously known as the Guideline Daily Amount or GDA). The labelling icons will be colour-coded with red, amber or green to indicate whether the product is high, medium or low in a particular nutrient helping consumers make more informed choices. The labelling will be rolled-out to all of our brands during the course of the year and complements other pledges we've made within the context of the Department of Health sponsored 'Public Health Responsibility Deal'. These include commitments to eliminate trans fats from our products, lower salt levels and reduce calories.

For more information on **Sustainability** see page 26

We have a tried and tested innovation process that starts with our consumer insights and overall category strategy. We then explore concepts and ideas based on the input of our development kitchens and our technological and manufacturing capabilities. Finally we test new ideas with consumers and refine them based on feedback before prioritising and building the business case for launch.

Innovations in 2013 have helped re-invigorate our core products, driven new uses for our products and extended new products beyond our core range. For example, we introduced *Ambrosia Devon Dream* as a lighter dessert topping which helped extend the brand into the summer months from the traditional winter preference for custard. We've also been expanding the range of pack and pot formats to make the brand accessible as an individual dessert or snack product.

In the Flavourings & Seasonings category, we launched *Oxo Shake & Flavour* as a new way to spice up a recipe or enhance a meal, adding new sales to the brand and category. We also continued the success of *Bisto Stock Melts* encouraging new uses for the brand in the wet stock segment and developed premium flavoured gravy offerings in a sachet under the *Bisto* Chef's Specials banner.

In the Easy Eating category, we have just launched new flavours of the popular *Batchelors Deli-box* building on the success of an innovation introduced in 2012 which took the category into new territory. And in Cooking Sauces & Accompaniments, we successfully partnered with our customers to take advantage of Chinese New Year to create some in-store theatre to encourage consumers to celebrate with a range of *Sharwood's* sauces, noodles and prawn crackers.

Finally in the Ambient Cake category, we created a new summer idea for *Cadbury Mini Rolls* by producing ice cream flavours that consumers could pop in the freezer for a frozen chocolate treat. We also continued the success of the *Mr. Kipling* Snack Pack format of individually wrapped slices with some new flavours, including a festive Christmas variety. As a result of the Snack Pack success, we are investing a further £20m in a new line at our Carlton factory in Barnsley which will effectively double our capacity in the future.

Marketing

Investing in the marketing and communication of our brands is critical to our longer term growth, whether it be in reminding consumers about our existing brands or communicating new innovations. In 2013 we spent more than £30m in marketing our brands. This was considerably more than we spent in 2011 but less than 2012 partly reflecting improved efficiency of our spend.

Ambrosia custard was back on TV for the first time in ten years with a new campaign called 'This is Pudding' reminding consumers how great custard tastes. New advertising additionally helped launch *Ambrosia Devon Dream.*

Batchelors also made a welcome return to TV for the first time in five years with a campaign showcasing the 'Super' range of rice, pasta and noodles. We emphasised the importance of *Bisto* in bringing the family together with our '*Bisto* - now you're talking' advert and also supported our new *Bisto* wet stock '*Bisto* stock melts', with TV copy. New advertising supported the launch of *Oxo Shake & Flavour* and helped generate excitement for *Loyd Grossman* and *Sharwood's* sauces.

In addition to TV advertising we continued to reach our consumers through a wide range of other channels from magazines to web sites to other digital channels such as Facebook and Twitter.

Highlights and Key Performance Indicators

95%
of UK households have at least one of our brands in their kitchen[1]

88%
Grocery branded mix

12.9%
of sales from new products

96%
of products testing superior or at par with competitors

1. Source: Kantar World panel Purchase 52 w/e 8 December 2013.

Risks

Competition

We operate in a highly competitive environment and must ensure that we continue to innovate with products that meet the expectations of our consumers if we are to continue to compete successfully.

Food Quality and Safety

The safety, quality and provenance of our products is essential to ensure the reputation of our brands and maintain the trust of our consumers and customers.

For more information on **Risks** see pages 28-31

Customers

MAXIMISING MUTUAL VALUE FROM OUR CUSTOMER PARTNERSHIPS

Over 2012 and 2013 we have focused on building relationships with all of our key customers.

We have strong capabilities to serve today's multi-format retail environment and have opportunities to grow in all our customer channels. The largest retail channels within the UK Grocery market are the major multiple retailers, such as Tesco, Asda, Sainsbury's, WM Morrison and the Waitrose partnership (this also incorporates a significant proportion of online and convenience sales) and the majority of the Group's sales come from these major retailers. The Group also sells to discounters (including Iceland and Poundland), wholesalers, smaller convenience stores, catering outlets (through the Group's Foodservice business), food producers (which use the Group's products, such as flour, in their manufacturing processes) and other UK retailers. Our strategy is to develop long-term relationships with all our customers. We work with each customer and channel to understand their strategic objectives, leveraging our consumer insights and category management expertise to maximise the opportunities for category growth.

Multiple Retail

Over 2012 and 2013 we have focused on building relationships with all of our key customers. A key part of this process is the development of structured joint business plans (JBPs) with key customers which ensure that promotional plans, new product launches, instore marketing and customer service targets are aligned between the Group and its respective customer.

Over the year we have made strong progress and have JBPs in place with each of our major customers. This process involves:

- Working with our customers to understand their categories and their strategy;
- Developing ways that we can align to their strategic objectives, our focus on the entire category allows us the opportunity to take category leadership;
- Collaborating with customers to maximise the opportunities for category growth;
- Using our innovation and consumer insight;
- Focusing on multi-format in-store execution;
- Resourcing and delivering plans with excellence;
- Building collaborative initiatives to improve the efficiency and effectiveness of the supply chain.

Convenience and 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. Two key areas of importance are convenience and online.

Whilst growth in the convenience channel as a whole was flat during 2013, within the major multiple retailers it was in growth. This channel offers us the ability to flex our product offering with different case and pack sizes. UK Online grocery sales grew 18.9% in 2013 and represents another important growth opportunity.

Sustainability in everything we do...

Supporting our customers

Our focus on sustainability is another way in which we can work collaboratively with our customers. All of our major retail customers have developed their own bespoke sustainability programmes, objectives and targets.

As a supplier of both branded and non branded products, wherever possible and relevant, we have aligned our sustainability approach with that of our retail customers. Examples include joining forces on the launch of diet and health initiatives such as colour coded front-of-pack nutrition and working together on ways to reduce waste as part of the Waste Resources Action Programme (WRAP) Courtauld Commitment. In addition, we work closely with customers on ensuring the provenance and sustainability of ingredients used in our products such as Palm Oil and Cocoa. We continually share best practice on ways to reduce our environmental footprint right across the food supply chain, from farm to fork.

For more information on Sustainability see page 26

The online channel has different dynamics to the traditional shopping trip which need to be understood and addressed. Our focus is to improve the shopper experience, making sure our products receive prominence in online searches and that they are correctly described with up to date product images. In addition we aim to maximise the potential for cross selling opportunities within our portfolio and link with key seasonal events to capture peak trading opportunities.

Discounters

Whilst still a relatively small channel in terms of the overall market the discounter channel has been growing significantly over the last few years as consumers react to the challenging economic environment. This channel therefore represents a growth opportunity for the Group but has a different strategy and focus to multiple retailers.

Wholesale

Foodservice represents a diverse group of customers. Over 2012 we implemented standard pricing and promotional architecture across this channel to reduce complexity and help provide clarity in how we deal with all our wholesale customers. Over 2013 we moved our focus from the end user to developing stronger direct relationships with wholesalers. We also concentrated on fewer, bigger promotions with major brand activations around key events e.g. *Bisto* Sausage Week. The success of this change in focus has been recognised through a number of awards received for 2013 including 'Foodservice Brand of the Year' for *Bisto* and 3663 'Supplier of the Year'.

International opportunities

Our principle focus is on the UK market but we believe there are also compelling growth opportunities for our products in international markets. Our international team has focused on forging key strategic alliances with distribution partners. As we utilise existing infrastructure it means we can generate incremental sales without the need for increased capex investment. We target markets with clear opportunities for UK brands. In October 2013 we announced a ten year partnership agreement with Swire Foods to distribute *Ambrosia* rice pudding pots in China. The initial focus is on *Ambrosia* rice products but if successful may extend to other brand such as *Sharwood's* and *Mr Kipling.*

We believe there are also growth opportunities in the Irish market. We are building internal capability and plan to develop relations with key customers in the Irish market, whilst continuing to work with our appointed distributors.

Revenue growth management

Recognising the competitive economic environment we aim to maximise value from our commercial activities through disciplined management of revenue growth opportunities. This involves maximising pack-price architecture to enhance margin and using our analytical systems to identify how to maximise value from promotional activity with customers.

Diagnostic capability

We continue to invest 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 JBPs with customers; and
- Promotional evaluation and modelling – to understand the impact of promotions on category, brand and customer.

Highlights and Key Performance Indicators

+2.0%
Power Brand growth in 2013

JBPs in place with major customers

Strong customer recognition:

- Most improved supplier to UK multiple retailers (2013 Advantage Group Survey)
- 3663 'Supplier of the Year'
- Most Improved Business Partner of the Year (Retail) at the Landmark Wholesale Awards

Risks

Delivery of Commercial Strategy

Economic conditions have remained tough throughout 2013 impacting both our consumers and customers. We have a small number of large customers and have seen continued margin pressure through more aggressive trade promotions and consumer price switching and we expect market conditions to remain challenging in 2014.

For more information on **Risks** see pages 28-31

PEOPLE

BUILDING STRUCTURES CAPABILITIES & CULTURE TO SUPPORT CATEGORY FOCUS

The success of our business depends on the quality and commitment of our employees. We strive to attract and retain talented, committed employees and actively encourage development from within.

Leadership

We have a strong leadership team with experience drawn from a range of major multinational food and consumer goods companies. During 2013 we re-focused the leadership team to better support the business. This began with the creation of a single commercial team within Grocery and, within Bread, a standalone management team has been put in place to lead the restructuring of the business. In July 2013 we announced the splitting of the Milling business to focus on serving our own internal business requirements, and providing a dedicated resource to our free trade customers.

Learning and Development

Our Breakthrough Leadership Programme gives key managers training and expertise preparing them for bigger roles and enabling them to build effective cross-functional teams. The programme is designed to work with and support our business turnaround strategy and also develop effective leadership behaviours. In 2012 our programme won the John Sainsbury Award for Learning and Development, a national food industry accolade given at the Institute of Grocery Distributors (IGD) Food Industry Awards. During 2013 we re-started our graduate recruitment programme. We have also been active in a number of important programmes to develop skills in the UK, including becoming a founding supporter of the recently announced National Centre for Excellence for Food Engineering and doubling the number of apprenticeships at our sites.

We continue to encourage site based learning activity to ensure we are continually developing our employees. To complement the job specific training provided to employees by our sites as part of our annual Personal Development Review process, we also actively encourage participation in National Vocational Qualifications (NVQs) and Institute of Leadership and Management (ILM) courses so that our people can develop new skill sets and ways of working.

Employee Communication

We recognise the value of good communication in engaging employees in order to achieve common goals and also recognising good practice and individual performance. We have a number of established employee communication mechanisms in place including: quarterly meetings of the Group's top 100 managers; regular employee briefings with a further cascade of information across the Group; the Group's intranet site; digital channels such as Google+; the quarterly Group magazine; and specific consultation and involvement regarding major changes to the business. Our annual Employee Recognition Awards recognises our employees who have performed exceptionally well in areas focused on delivering our strategic priorities.

Sustainability in everything we do...

Feeding Britain's Future

In 2013, for the second year running we took part in 'Feeding Britain's Future - Skills for Work Week'. This involves a commitment from companies across the food and grocery industry to open their doors to young unemployed people to help provide skills training that will help them gain employment.

Over 20 of our sites got involved providing around 300 training opportunities. During their visit, participants spent time with the local HR teams and employees to gain insights into some of the skills they need to help them get a job and took part in a series of workshops to open their eyes to the many career opportunities within the food industry. The sessions included CV assessments and interview skills workshops. Participants also went on site tours to introduce them to how we make our products and what it's like to work in the food industry. The Feeding Britain's Future initiative forms just one part of our broader skills programme.

For more information on **Sustainability** see page 26

All employee survey

Since 2008 we have carried out annual surveys of our management population and in 2013 we undertook our first all employee survey co-ordinated with a leading external provider. There was a very high level of engagement with a response rate of 78%. This has been a valuable listening exercise and highlighted a number of areas for focus, reflecting the turnaround process the Group is currently undertaking. The results were distilled into three core areas for focus: Leadership; Customer Focus; and Operating Efficiency. This was initially presented to senior management and then cascaded to all employees on a functional/site basis. Employees were asked to feedback on the results and to participate in drawing up a detailed action plan to address the three core themes identified for action. These actions are now being implemented and we will continue to monitor progress over the course of 2014.

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 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 2013, we achieved a RIDDOR Frequency Rate of 0.07 reportable accidents per 100,000 hours representing an overall reduction of 87% since 2007, maintaining what we believe to be an industry leading performance. We also use Lost Time Accident (LTA) Frequency Rate as a key performance indicator as this emphasises a preventative focus on all accidents which cause absence from work. At the end of 2013, the Group LTA Frequency Rate was 0.16 LTA's per 100,000 hours worked, representing a 20% reduction over 2012.

Despite the progress we have made there was a major accident at one of our Grocery sites in 2013 which resulted in the death of a contractor and our thoughts and condolences are with his family. This accident is the first fatality at one of our sites since the Group's flotation in 2004. This incident remains under investigation and we are cooperating fully with the authorities in conjunction with the employer of the deceased to establish the cause and any action necessary to prevent recurrance.

Throughout 2013 we have continued to drive our health & safety strategy through our unique, inclusive approach to hazard identification and control Total Observation Process ("TOPs"). As a result during 2013 over 19,000 TOPs Hazards were identified and 84% of them were successfully closed-out. Through our 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.

In October 2012, Premier Foods became the first company within the UK Food Manufacturing Sector, to receive SEQOHS (Safe Effective Quality Occupational Health Service) accreditation from The Royal College of Physicians. In 2013 our performance was recognised by the Royal Society for the Prevention of Accidents (RoSPA) winning the Astor Trophy for the management of our occupational health and well being service for employees. In addition RoSPA Gold and Silver Achievement awards were received by 25 of our individual sites.

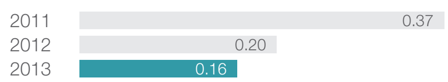
Highlights and Key Performance Indicators

8,000
Employees

78%
Response rate to all employee survey

RIDDOR Frequency Rate of 0.07 reportable accidents per 100,000 hours

Reduction in LTAs



LTA rate per 100,000 hours worked

Risks

H&S

We believe we have in place best in class processes and procedures in health & safety supported by an ongoing programme of audits and internal inspections across all sites. Despite this, as a large manufacturing business, health & safety will remain an ongoing operational risk to the business.

Employee engagement

Effective engagement of the leadership team and employees is key to the successful delivery of our strategy.

For more information on **Risks** see pages **28-31**

COSTS

AGGRESSIVE FOCUS ON EFFICIENCY & EFFECTIVENESS

We continue to focus on efficiency and effectiveness to drive cost reduction which funds investment in branded growth.

In 2013, we delivered a further £16.1m of savings from Selling, General and Administrative expenses (SG&A) reflecting our more focused portfolio. 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. Since 2011 this has enabled us to reduce SG&A Costs by 43.5% from £147m in 2011 to £83m in 2013. Total SG&A costs now represents 5.5% of sales down from 7.4% in 2011. In addition we continue to target 2–3% year-on-year savings in Manufacturing Controllable Costs (MCC). The savings generated are reinvested into targeted marketing initiatives to support branded growth.

Reducing complexity

During 2013 we also launched a major new initiative aimed at reducing complexity from all areas of the business. This recognised that significant steps were required in order to materially simplify our business and improve efficiency and effectiveness. The complexity review covers all areas of the Group including products, packaging, suppliers, legal entities, systems and processes.

SKU consolidation

We have carried out a full review of our entire Grocery portfolio which comprised over 1,700 separate stock keeping units (SKUs) – a SKU is a specific product item which is separate from any other due to brand, size, flavour, etc. Each SKU was reviewed and ranked by its divisional contribution and turnover. This was used to identify which SKUs contribute most divisional contribution to the business and which produce the least. Of the total portfolio 600 were identified with having low turnover. These were then reviewed further to understand whether there were opportunities to grow the SKU and increase its contribution or, if not, it was proposed to withdraw the product. As a result we have reduced the total number of Grocery SKUs to 1,250 in 2013 representing a 26.3% reduction. Over the course of 2014 a further 20% reduction is targeted.

Supplier consolidation

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, 80% was with UK producers and suppliers.

The procurement team had led a step change to rationalise our supply base. This generates savings through greater economies of scale, leads to process improvements that reduce complexity across the Group and also forges strategic relationships with key suppliers that supports innovation.

Sustainability in everything we do...

"Zero waste to landfill"

Over the course of the year we significantly reduced the amount of waste we send to landfill from our sites by 67% to 1,065 tonnes.

In fact, by the end of 2013 we were delighted to announce that our target to achieve 'zero waste to landfill' across all of our sites by 2015 has been achieved - two years early. This ambitious target was set to help reduce the amount of waste sent to landfill sites which are due to reach capacity by 2018 and reduce our costs in the process.

Our approach starts with trying to prevent or reduce the amount of waste generated in the first place and then ensuring that any waste that is created is recycled or sent for incineration with high energy recovery.

This significant achievement is a result of the rigorous environmental improvement and compliance programme embraced by each of the site teams. This includes our 5 star Environmental Leadership Programme, data gathering, benchmarking and also communication programmes such as 'Green Matters' which encourages employees to do what they can to save waste and resources.

For more information on **Sustainability** see page 26

As part of our efforts to simplify the business we have actively reduced our supply base and increased spend with our leading strategic and preferred suppliers. For example within fixed, mobile and network communication we have moved from seven suppliers to a single provider and within facilities management we are integrating over 200 suppliers into two long term partners. We have committed to halve the number of our suppliers by the end of 2014 and over the course of 2013 we have successfully reduced our total supply base from 3,300 to 2,460 and increased total spend with our top 250 suppliers to 84%.

Business disposals and transitional services

During 2012 we undertook a major £370m disposal programme allowing us to simplify the business and reduce our overhead costs. The disposals required careful management of complex transitional services between the Company and purchaser to provide an orderly separation of the business. This ensured that orders, production and delivery standards were maintained for our customers. These transitional services were carefully managed over the course of the year and have now been successfully completed.

Consolidation of Grocery logistics

The disposal and complexity reduction programmes also provided the opportunity to optimise the size of our logistics footprint within Grocery.

The reduction in overall volume has allowed us to move to a regional distribution centre operating model. Under this model we have two depots each stocking the entire range of our products. This will benefit customers by allowing them to make a single order per day. For the Company it increases vehicle load ensuring overhead efficiency and also allows us to move from three to two facilities.

Bread and Milling restructuring

Over the course of the year we have implemented the initial phase of a major restructuring within our Bread division to reduce our cost to serve and improve profitability. A standalone management team has been put in place to manage the Bread division. In addition the Milling business has been split into two parts one serving our internal Bakery and Grocery businesses and one focused on free trade (third party) customer base.

A restructuring of the Bakery and Milling footprint has also been undertaken to optimise the division's operating footprint following the exit of an unprofitable own label contract. As previously announced this has resulted in the closure of three bakery sites, three distribution centres and two mills. We have also undertaken a major restructuring of Bread logistics operations which has removed 130 distribution routes. At the same time we are increasing capital investment in Bakery to improve efficiency, quality and service.

In January 2014 we announced an agreement to establish a joint venture for our Bread business with The Gores Group.

Highlights and Key Performance Indicators

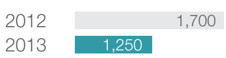
84%
of spend with top 250 suppliers

SG&A Costs (£m)

▽16.3%

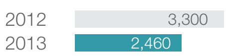
Reduction in SKU complexity

▽26.5%



Reduction in supplier complexity

▽25.5%



Risk

Project execution

We are currently undertaking a significant number of internal cost saving and restructuring projects which cover products, suppliers, operations and logistics (including the separation and transitional service arrangements in respect of the proposed Hovis joint venture) and there is a risk that these may not be executed effectively.

We have a strong track record of project delivery (see transitional services above) and have identified resource and appointed experienced project management teams.

For more information on **Risks** see pages 28-31

Sustainability
Delivering sustainability in everything we do

At Premier Foods we're serious about our approach to sustainability. We know it's important to the outside world and to our people.

Anyone with an interest in our products or our business wants to know we're doing the right things to ensure the quality of our food, to reduce our impact on the environment, to help our consumers make healthier choices, and are pulling our weight as an employer in one of the UK's biggest industries.

Quality and food safety
The source of ingredients in the food consumers buy has become ever more important to them, as an assurance of quality and of knowing it comes from sustainable suppliers. We hold our suppliers to account for the provenance and traceability of their ingredients, and continue to buy around 80% of our goods, services and ingredients from UK suppliers to give us even greater confidence. And we make every effort to buy from suppliers who do the right thing – a good example is our commitment to sustainable Palm Oil buying practices, for which we were listed as amongst the top 5 places in the World Wide Fund for Nature's global palm oil scorecard in 2013. Putting sustainability central to the way we buy helps us ensure the future security and supply of ingredients, so we can continue to make the great tasting food our consumers can trust.

Sustainable manufacturing
When it comes to manufacturing, our culture of sustainability has yet again helped us make good progress in 2013 against our key environmental targets (see table). Our achievements in using less natural resources contributed to us winning the 'Manufacturing Company of the Year' at the 2013 UK Food Manufacturing Excellence Awards and the 'Efficiency Initiative of the Year' at the 2013 UK National Recycling Awards. We also effectively achieved our target of 'Zero waste to landfill' by the end of 2015 two years early. 'Zero waste to landfill' is agreed to apply when <1% of waste goes to landfill, a figure we achieved at all but one of our manufacturing sites by July of 2013.

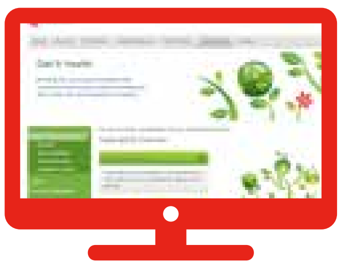
Diet and health
We work to help our consumers look after their health, and that of their families, by providing more 'better for you' product choices. We have health and nutrition action plans for all our brands, and set targets for improving nutritional value by adding 'positive' ingredients including wholegrains, fruits or vegetables, or by reducing salt, calories and trans fats. For instance, we target 50% of our new products to have a claimable nutrition or health benefit or be available in smaller portion packs. In addition, as a signatory to the Department of Health Public Health Responsibility Deal, we achieved our publicly committed target to remove 286 tonnes of salt from our products since 2011. We are also on track to achieve our further commitment to reduce calories across one-third of our portfolio by the end of 2014.

To help our consumers take control of their diets, during 2013 we were among the first to commit to adopt the Government's new front-of-pack, colour-coded nutrition labelling across all our brands. We've had front of pack labelling for years, but adopting the Government scheme will make it easier for consumers to make the right choices and compare products from different manufacturers. All of our brands will carry the labelling by the end of 2014.

People
As a large employer, we see it as part of our sustainability commitment to help our industry and country develop the skills to compete in the future. Our industry faces a future lack of food engineers and so we've committed to support the newly formed National Centre of Excellence for Food Engineering based at Sheffield Hallam University. We're helping encourage them to train their student engineers with the skills needed by industry to enable them to create the innovative food and sustainable packaging solutions of the future. In 2013 we also signed up to support the Department of Business, Innovation and Skills' 'Apprenticeship Trailblazer' initiative, through which we're helping develop new standards and assessments for Food and Drink Engineering Apprenticeships, helping ensure they develop the skills our modern industry needs. We've also been helping address the general skills shortage by doubling our support during 2013 for the Institute of Grocery Distribution's 'Feeding Britain's Future' campaign, aimed at improving the prospects of thousands of unemployed young people across the country. In supporting the campaign we've provided more than 300 training opportunities for the youngsters, including pre-employment skills training, and first-hand knowledge of the skills needed for a career in the food industry or elsewhere.

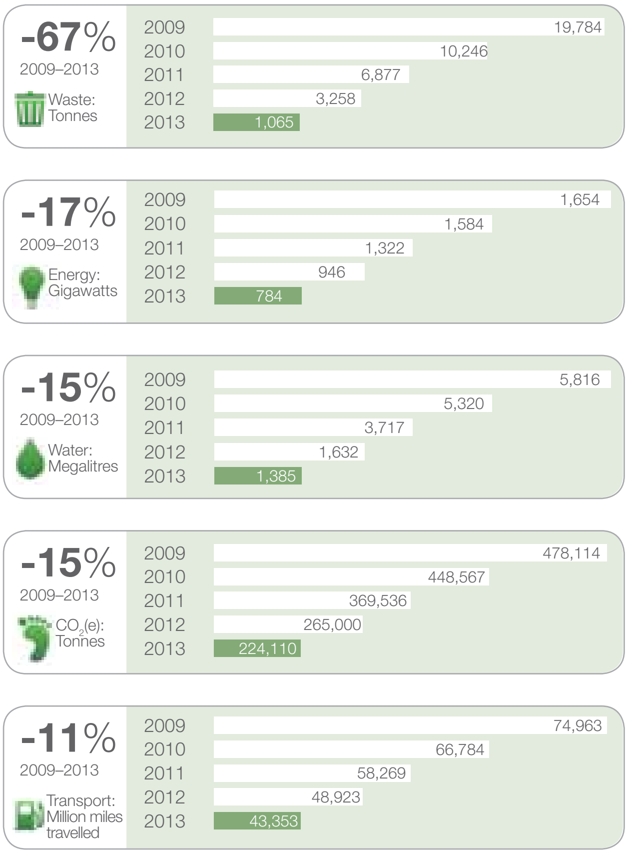
Where to find out more information
More and more, sustainability is becoming one of the ways businesses are judged. At Premier Foods we consider all aspects of what we do through the lens of sustainability, all the way from the field to tasty products on a shelf.

Find out more about our approach to sustainability on our website:
www.premierfoods.co.uk/sustainability



Our environmental performance

2013 has been another successful year for Premier Foods and we have made progress against all of our key environmental KPIs details of which are set out below. In addition for the first time we are reporting our greenhouse gas emissions under the government's new reporting requirements.



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 2013 Sustainability Report available on our website.

Environmental performance 2012 Vs 2013

Our five year trend shows environmental performance in absolute terms as a year on year comparison. In 2013 we sold or closed a number of sites and therefore to ensure transparency we are reporting our performance in both absolute and relative terms by reference to tonnes of product manufactured.

Environmental Performance	2013 Absolute	2013 Relative	2014 Target
Reduce waste sent to landfill by 10%	-67%	-67.1%	-20%
Reduce energy consumption by 2.5%	-17%	-1.2%	-2.5%
Reduce water usage by 3%	-15%	0.3%	-5%
Reduce Carbon equivalent (CO_2e) emissions by 2.5%	-15%	-2.0%	-3%
Reduce road delivery miles travelled by 3%	-11%	-11.40%	-3%

Greenhouse gas (GHG) emissions reporting

The Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013 requires quoted companies to report on greenhouse gas (GHG) emissions for which they are responsible. Companies are also required to report on environmental matters to the extent it is necessary for an understanding of the company's business within their annual report, including where appropriate the use of key performance indicators (KPIs).

In the table below we have detailed our scope 1 & 2 GHG emissions for the period 1 January to 31 December 2013 from a 2011 baseline year.

	Global tonnes of CO_2(e)		
GHG Emissions	2013	2012	2011 Base Year
Scope 1	**139,438,851**	145,635,111	158,164,706
Scope 2	**115,282,195**	113,868,548	133,046,624
Total Annual net emissions	**254,721,046**	259,503,659	291,211,330
Intensity measurement[1]	**146.4**	147.9	143.3

[1] Tonnes of CO2(e) per tonne of output.

The scope, organisational boundaries, and GHG inventory have been assessed using the widely recognised independent 'Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (Revised Edition)'. In addition, we have used the 'Defra 2013 Government GHG Conversion Factors for Company Reporting: Methodology Paper for Emission Factors' to calculate our overall emissions.

Risk Management

Board Accountability

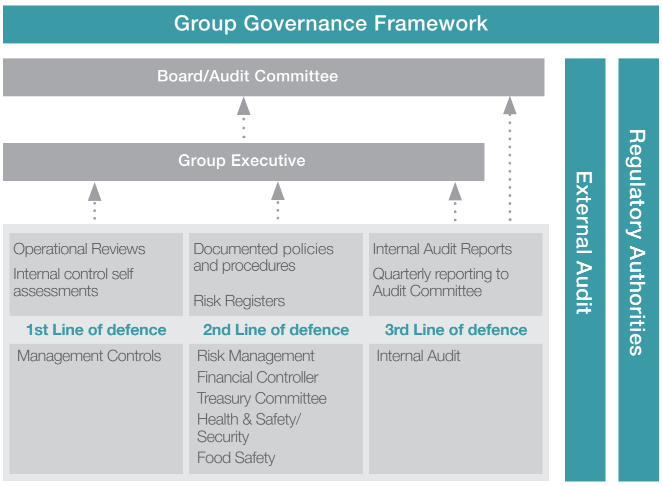
The Board has ultimate responsibility for the effective risk management of the Group's strategic objectives. The Group has a well established process which has operated throughout 2013 that identifies and monitors the key strategic and operational risks, ensures appropriate mitigating activities and reports on their effectiveness.

The Board has considered and approved the risk management policy, the risk appetite of the Group 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 risks that are relevant to our business activity, the effectiveness of our internal controls in dealing with these risks and any required remedial actions along with an update on their implementation.

The Audit Committee reports to the Board on the effectiveness of the risk management process. 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 management report to the Board and this along with the corporate governance framework further underpins the ongoing management of risk.

Our risk control framework operates as follows:



1st Line of Defence — Management Controls

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

2nd Line of Defence — Corporate Oversight

Risk Management – 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. Collective top down executive reviews are conducted, as a minimum twice per annum, and detailed functional risk registers are maintained for each business area.

Financial Control – The Group maintains a strong system of accounting and financial management controls. Our accounting controls ensure data in the Group's financial statements on pages 80 to 135 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.

Treasury and Risk Committee – This committee focuses on the purchases of Group commodities reviewing our policies and operational delivery with respect to forward trading and foreign exchange exposures.

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

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

3rd Line of Defence — Internal Audit

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.

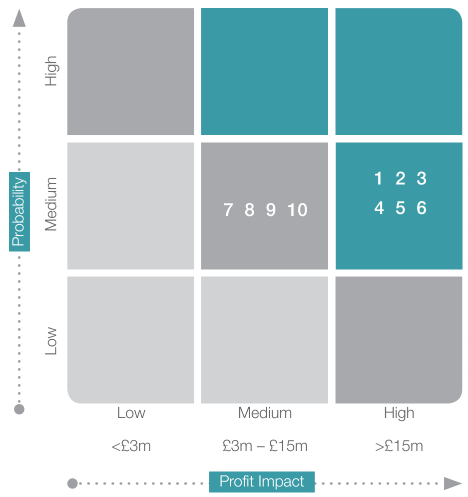
The results of internal audits are reported to the Group Executive and senior management and where required corrective actions are agreed. The results of all audits are summarised for the Audit Committee meetings along with progress against agreed actions.

Our principal risks and uncertainties

The business monitors and manages the principal (high Gross) risks facing the business. Risks are categorised as strategic, those that could have a significant impact given our current strategic objectives and operational, those that are inherent in our business activity but could have a material impact.

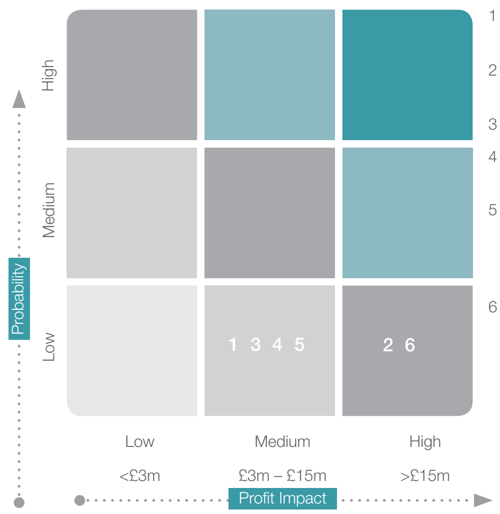
Summary of Major Strategic and Operational Risks

Major Strategic Risks



1 Achieving the Capital Refinancing Plan
2 Implementing the *Hovis* joint venture
3 Delivering the commercial grocery strategy
4 Concentrated retail customer base
5 Products sold under licence
6 Removal of complexity
7 Employee engagement
8 External Communication
9 Retention of key management
10 Business disposals

Major Operational Risks



1 Systems failure
2 Operational disruption
3 Health & Safety
4 Food safety and regulation
5 Security of supply materials and services
6 Cash management

Capital Refinancing Plan and *Hovis* joint venture

We have announced two significant milestones as part of the Group's turnaround strategy, which we believe will strengthen the Group's capital structure and result in the creation of a focused Grocery business going forward whilst at the same time providing the *Hovis* business with the best possible opportunity for success. However, both the Capital Refinancing Plan and the *Hovis* joint venture are dependent upon shareholder approval at our General Meeting to be held on 20 March 2014. Both transactions are therefore subject to risk and uncertainty.

Capital Refinancing Plan

Although the Group's current financing arrangements do not expire within the next twelve months, the Group expects that it would be unable to comply with certain of its financial covenants on or after 31 December 2014. In this scenario, the Group would need to obtain certain consents or waivers from its lenders. If the Group were unable to maintain compliance with such covenants or obtain such waivers, this would lead to a default under the Group's existing financing arrangements. The Capital Refinancing Plan, if approved, will remove the risk around expiry or breach of our current financing agreements and will also reach a new solution with the Group's pension trustees. The Capital Restructuring includes proposals for a new Revolving Credit Facility with a streamlined bank syndicate, a revised schedule of contributions with our pension schemes and a proposal to raise approximately £350m in new equity and approximately £475m in senior secured notes. This will accelerate the deleveraging of the business and further strengthen the Group's balance sheet and extend the maturity profile of the Group's debt. After the Capital Refinancing Plan, the Group will be in a stronger position with greater flexibility to invest in, and focus on, its core Grocery business and implement its category based growth strategy.

Hovis Joint Venture

We believe that the *Hovis* joint venture will allow Management to focus on our core Grocery Power Brands. However, implementing the *Hovis* joint venture and ensuring a smooth separation of the Bread division will require a disciplined process and multifunctional expertise together with complex transitional services between the Company and the *Hovis* joint venture. To manage this effectively we have established a specific project team involving experienced personnel from the key functions of Sales, Finance, Technical, Logistics, Procurement, ISC, HR and Legal. The project team reports to a steering team, which oversees the process. This will help to ensure that both our ongoing Grocery business and the *Hovis* business will continue to operate effectively without interruption during this separation period and ensures that order, production and delivery standards to our customers are maintained.

Risk Management continued

STRATEGIC RISK

Risk Dimension	Mitigating Activities
Commercial Grocery strategy Economic conditions have remained tough throughout 2013 impacting both consumers and our customers. We have seen continued margin pressures through more aggressive trade promotions and consumer price switching.	For 2014 our key focus is on delivering continued growth in both our Power Brands and Support brands as part of our category growth strategy. We will utilise the tools we developed during 2013 which enable us to have a better understanding of our brand and customer profitability. This will help us focus our promotional and marketing spend. We will also continue the development of other lower cost channels: wholesalers; discounters; and the internet. We are also increasing our focus on innovation with additional resource allocated to this area and developing our international partnerships.
Retail customer base The Group relies on a few major UK retailers for a large part of its sales. If any of these customers comes under severe commercial pressure or the Group's relationship with any one of these customers changes there could be a significant impact on volume or margin.	We will continue to work closely with our major customers on driving growth through category plans to which we will align our brand plans which will cover both Power Brands and key Support brands. As noted above we will continue to look for opportunities to diversify our customer footprint.
Products sold under licence agreements Certain of the Group's branded products are produced under licences which have volume related sales hurdles and performance conditions and which will expire and may not be renewable on terms acceptable to the Group or at all.	We have formal licence agreements with *Loyd Grossman*, one of our Power Brands and *Cadbury*, one of our Support brands. Both have a finite life, expiring in 2026 and 2017 respectively. There are also volume related sales hurdles and conditions around performance which could trigger a termination. However, performance of these brands is monitored on an ongoing basis and our sales and marketing teams develop category, brand and activity plans and invest in innovation and new products to drive sales.
Removal of complexity The business will carry excess cost if efficiency and effectiveness in the removal of complexity is not delivered. Cost savings also release funds both to invest in the delivery of our commercial strategy and support our ongoing financing requirements.	We have established a dedicated project team to focus on reducing complexity and identifying cost reduction opportunities. Within procurement, we have delivered a significant reduction in our supply base to generate savings through greater economies of scale whilst building strategic relationships with key suppliers. We are also undertaking a review of our entire Grocery portfolio to reduce complexity and identify SKUs which are non profitable. In addition we continue to target year on year cost savings through the effective management of manufacturing and logistics controllable costs.
***Hovis* joint venture risk** The Group may not realise the anticipated benefits of the *Hovis* joint venture. Ensuring that the Group is properly structured post implementation of the *Hovis* joint venture will be key to the successful delivery of our strategy.	Through the joint venture, *Hovis* will receive renewed investment and focus. We therefore believe that the *Hovis* joint venture offers *Hovis* the best chance of success. The Group will share in any success through its shareholding in the Hovis joint venture. Depending on the performance of the Hovis joint venture, Premier may also be entitled to receive an element of deferred consideration. There is, however, a risk that neither benefit materialises. The Group is focussing on ensuring that it is properly structured, and has a robust operational framework, to deliver its strategy once the separation of the Bread division is achieved. Work is also ongoing to address dis-synergies which could arise in the business post-separation.
Employee engagement Effective engagement of the leadership team and employees is key to the successful delivery of our strategy. The Group has gone through a series of major restructuring programmes over the last few years set against a difficult economic backdrop.	Our focus has been to ensure regular communication about business performance, priorities and expectations to encourage an understanding of the necessary actions, to re-engage with the senior management (top 100) team, gain buy-in and support for key actions and to take creative steps to promote recognition and personal development (e.g. recognition award schemes, 'Breakthrough' leadership training, and non financial incentives). We have completed an all employee survey which has provided a measure of the level of employee engagement, informed areas for improvement and led to the setting of Group and local priorities and action plans. Delivery is being managed locally through detailed action plans specific to the findings in each area but co-ordinated centrally within the HR function on behalf of the Group Executive.
External Communication Effective management of our external communication is important in managing our corporate reputation and stakeholder relations. We currently have a number of major high profile projects under way.	Our focus will be to continue to utilise professional communications resource (in-house and agency) to maintain high quality and effective communications and a proactive strategy to promote the Company and its leadership. This is aligned and integrated with our investor relations activity and is designed to ensure we comply with our legal and regulatory disclosure obligations. This is supported by appropriate internal policies to control the flow of sensitive information and media response. Control of communications within major project activity is also ensured through appropriate policies and procedures.

	Risk Dimension	Mitigating Activities
STRATEGIC RISK	**Retention of key management** Loss of key senior management could impact on the delivery of the business strategy.	The Board and Nomination Committee maintain an ongoing dialogue with the Group Executive and regularly consider and review succession planning for key management. Through the Remuneration Committee the appropriateness of remuneration for senior management is regularly reviewed and appropriate risk and retention analysis is conducted to ensure that we have a highly motivated workforce.
STRATEGIC RISK	**Business disposals** The Group's business disposals, including establishing the *Hovis* joint venture, involve separation challenges and the risk of financial claims from purchasers for breach of warranties and indemnities.	We have established dedicated project teams drawn from key functions of the business to manage transitional arrangements to ensure that orders, production and delivery standards are maintained to our customers. Careful planning and steering teams are also key to achieving smooth separation. Our legal team have an excellent track record of transactional management and have undertaken thorough disclosure processes and robust negotiations, resulting in appropriate legal documentation to mitigate the risks of claims from purchasers.
OPERATIONAL RISK	**Systems failure** We have a high dependency on our core IT systems which are outsourced to a third party provider.	To mitigate potential risk of failure our service agreement has a high level of resilience built in with three distinct operating environments. We do, however, have some legacy systems supporting our Bread division which do not have the same levels of resilience. We closely monitor systems availability and have robust systems disaster recovery policies and procedures in place which are tested on a regular basis.
OPERATIONAL RISK	**Operational disruption** A major disruption at one of our operating sites could have a significant impact on service levels.	We have developed appropriate business continuity plans for all sites. In addition the move to a regional distribution model for Grocery where a full product range is held at both warehouse locations has also increased our resilience. We continue to review our arrangements as part of our regular disaster recovery planning.
OPERATIONAL RISK	**Health & safety** In addition to the obvious human cost, a serious workplace injury or fatality could inevitably carry serious financial and reputational risk as well as possible legal consequences under applicable regulation.	We believe we have in place best in class processes and procedures in health & safety supported by an ongoing programme of specialist health & safety audits, an established programme of internal inspections across all sites. We also have a culture of engagement throughout the business from the Group Executive through to the shop floor to ensure that we continue to implement best practice and do not become complacent.
OPERATIONAL RISK	**Food safety and regulation** Three key areas of risk are: food contamination with a hazardous product; food authenticity which has gained focus with the 'horsemeat' scandal; and ethical trading. The first two could lead to regulatory sanctions and penalties and all three to reputational damage.	We have robust policies and procedures in place with supplier approval and verification through an ongoing programme of supplier and factory audits. We conduct our own DNA testing for any product identified as being at risk and our surveillance programme has been extended to include licensed products including audits of licensed manufacturers. We are a member of SEDEX as part of our ethical assurance programme.
OPERATIONAL RISK	**Security of supply** Fluctuations in commodity prices, in particular wheat, present a significant risk to margin if Premier is unable to successfully recover through customer pricing.	To manage our exposure we have well established processes which are reported as part of our business review meetings. This includes, where appropriate, monthly monitoring on forecasts and equivalent market pricing. During the course of 2013 we have further rationalised our supplier base and this will help us leverage scale and strengthen our supplier relationships thus giving mutual benefits for preferred suppliers. We regularly monitorour level of dependency and risk on a supplier and category basis.
OPERATIONAL RISK	**Cash management** We have a securitised finance agreement in place supported by an operational process. Our current banking arrangements have, and any new banking arrangements entered into in connection with the Capital Refinancing Plan will have, covenants which are tested six monthly and require the production of forecasts which themselves must show compliance with targets set.	We have significantly strengthened our control processes in the core cash management areas within the last 12 to 18 months and are focused on maintaining these through close management review and the involvement of our internal audit programme. The Capital Refinancing Plan includes proposals for a new Revolving Credit Facility with a streamlined bank syndicate, a revised schedule of contributions with our pension schemes and a proposal to raise approximately £350m in new equity and approximately £475m in senior secured notes. If approved, the Capital Refinancing Plan will reduce our overall cash management risk. In addition, we have closed our Defined Benefit pension schemes to future accrual to help control pension fund liabilities.

Key Performance Indicators
Measuring the delivery of our strategy

As a business we use a large number of performance indicators to monitor operational and financial performance.

These are reviewed on a daily, weekly or monthly basis and reported to senior management as part of our monthly management accounts. These indicators are used to encourage focus and measure performance across a range of areas and to highlight areas for attention and corrective action. We have selected 10 Key Performance Indicators (KPIs) which are aligned to the strategic priorities of the Group.

The completion of the Capital Refinancing Plan and Hovis joint venture will be transformational for the Group and we will therefore review our KPIs and targets over the course of 2014 to ensure they remain relevant to the focused Grocery business and aligned with the delivery of our strategy.

Deliver £20m of additional overhead cost savings in 2013

Performance

£16.1m

We delivered over £20m of people related SG&A cost savings in the year, but this was partly offset by other charges resulting in a reduction of total SG&A costs of £16.1m for 2013.

Measurement

YoY overhead savings identified as part of our previously announced cost saving programme.

Link to Strategy

Business simplification and efficiency is one of our strategic priorities. Cost savings are re-invested behind our brands to drive further growth.

Focus for 2014

We expect our SG&A cost base to be in line with current levels over the medium term.

Recurring cash flow

Performance

2011	£(122.0)m
2012	£50.0m
2013	£86.8m

Positive cash flow, up 73.6%, was generated from strong trading profit, control on capex and reduced cash interest following the 2012 re-financing.

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.

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.

Focus for 2014

Cash flow remains a strategic priority for 2014.

Grocery Power Brand sales growth (value)

Performance

2011	£512.6m
2012	£533.1m
2013	£543.5m

We have successfully demonstrated another year of growth with Grocery Power Brands up 2.0% YoY. This is a result of increased marketing investment and closer relationships with customers.

Measurement

YoY growth in sales from Grocery Power Brands.

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.

Focus for 2014

Grocery Power Brand growth remains a strategic priority and we are targeting 2–3% growth in 2014.

Increase in trading profit (underlying)

Performance

2011	£111.6m
2012	£123.4m
2013	£145.2m

The 17.7% increase in trading profit was helped by the successful overhead cost reduction exercise undertaken in 2013 and increased Power Brand Sales.

Measurement

Underlying profit includes the results of our Bread business and excludes disposals and non-core discrete contract losses as this better illustrates the performance of the core business.

Link to Strategy

Supports focus on our overall growth agenda.

Focus for 2014

Trading profit growth remains a strategic priority for 2014.

Reduction in Net Debt

Performance

2011	£1,257.0m[1]
2012	£950.7m
2013	£830.8m

There was a 12.6% reduction in net debt over the course of the year as a result of the sweet pickles disposal proceeds, lower financing costs and pension deficit contributions.

Measurement

Reduction in net debt versus prior year.

Link to Strategy

Given the Group's relatively high gearing reduction of debt is a key focus area.

Focus for 2014

Reduction in debt remains a strategic priority over the medium term.

[1] Proforma reflecting the effects of the March 2012 refinancing.

10% of sales from new products

Performance

12.9%

We achieved 12.9% of sales from NPD in 2013 exceeding our target of 10% with strong performances from *Hovis*, *Ambrosia, Mr. Kipling* and *Batchelors*.

Measurement

Sales of new products as a % of our branded sales, within Power Brand categories.

Link to Strategy

In order to generate long term branded growth we must focus on innovation and NPD. This measure is an important indicator of whether we are responding to consumer trends.

Focus for 2014

The ability to launch new products is consistent with our strategy and essential to the sustainable growth of the business and we will continue to focus on this in 2014.

At least 50% of NPD to be "better for you" choices

Performance

56%

Over the course of 2013 56% of new products delivered 'better for you' choices.

Measurement

Sales value of NPD with a claimable health and nutritional benefit.

Link to Strategy

Aligns with consumer focus for wider product choice and 'better for you' options.

Focus for 2014

Health remains a major area of interest for consumers and over 2014 we will continue to identify opportunities to introduce NPD with 'better for you' choices.

2.5% reduction in Carbon (CO2) equivalent emissions (tonnes)

Performance

2011	369,536
2012	265,000
2013	224,110

Including the impact of site disposals and closures in 2013 we achieved a 2.0% reduction in CO_2(e) emissions relative to tonnes of product manufactured. This equated to a 15% reduction in absolute terms.

Measurement

YoY reduction in reduction in Carbon (CO_2) emissions in relative terms.

Link to Strategy

Reducing carbon emissions is a measure of our overall commitment to responsible manufacturing and reducing our impact on the environment.

Focus for 2014

As part of our ongoing commitment to sustainability across the business our target for 2014 is to reduce CO_2(e) emissions by 3.0% in relative terms.

% of products testing superior or at par with competitors

Performance

96%

Overall performance was up 2% YoY to 96%. The review covered 65% of our branded sales value as part of a two year rolling programme.

Measurement

Consumer panel blind testing of our major branded products against their main competitor whether branded or own label.

Link to Strategy

Important measure of the quality of our product portfolio. Drives recipe improvements and ensures focus on consistent production quality.

Focus for 2014

We will continue to focus on consumer quality benchmarking and reformulate any products testing below par.

Achieve a 10% reduction in LTAs

Performance

2011	0.37
2012	0.20
2013	0.16

At the end of 2013, the Group LTA frequency rate was 0.16 LTAs per 100,000 hours worked representing a 20% improvement over 2012.

Measurement

Lost Time Accident (LTA) rate per 100,000 hours worked.

Link to Strategy

The LTA frequency rate signals our determination to apply a preventative focus on all accidents which caused absence from work.

Focus for 2014

As a major employer, ensuring a safe work place for all employees remains a key area of focus. Our target for 2014 is to achieve a further 10% reduction in LTA's.

see further information online at
www.premierfoods.co.uk

DID YOU KNOW?
95% OF BRITISH HOUSEHOLDS HAVE AT LEAST ONE OF OUR PRODUCTS IN THEIR KITCHEN CUPBOARD.

New flavours for *Batchelors* Deli Box

We have added three new flavours to our *Batchelors Deli Box* line-up: Sweet & Sour Noodles, Bolognese Pasta and Tomato & Chilli Pasta. The new variants all contain less than 1% fat together with no artificial colours or preservatives.

The current range of Deli Boxes come in a modern and appealing 'New York style' cardboard takeaway box and have proved popular since launch in 2012, succeeding in attracting new customers to both the brand and the sector.

For more information on **Consumers and Brands** see pages **18-19**

Performance Review

CONTENTS

This section contains a detailed analysis of our business performance for the year as reported in our preliminary results announcement in March 2014.

Operating Review

Gavin Darby
Chief Executive Officer

"I am very pleased to report a strong 18% growth in Trading profit and significant underlying earnings progression in 2013. Through our category based strategy, we have delivered Grocery Power Brands sales growth of 2.0%, some good market share performances and progressively stronger customer partnerships."

Underlying business

Underlying business excludes all disposals announced in 2012, strategic contract withdrawals and Milling sales. The following commentary is based on Underlying business unless otherwise stated. The 2013 performance of the Bread business is included in the following review, as the proposed joint venture with The Gores Group LLC, announced on 27 January 2014 has not yet completed.

£m	2013	2012	Change
Sales			
Grocery	837.4	854.1	(2.0%)
Bread	445.1	443.3	0.4%
Total	1,282.5	1,297.4	(1.1%)
Grocery divisional contribution	196.7	195.5	0.6%
Bread divisional contribution	31.4	26.9	16.7%
SG&A	(82.9)	(99.0)	16.3%
Total Trading profit	145.2	123.4	17.7%

Introduction

Underlying business sales decreased by 1.1% to £1,282.5m in the year, a decrease of £14.9m compared to the prior year. Underlying business Trading profit increased by £21.8m, or 17.7% to £145.2m in the year.

Grocery division

£m	2013	2012	Change
Power Brands	543.5	533.1	2.0%
Support brands	196.2	206.3	(4.9%)
Total Branded	739.7	739.4	0.1%
Non-branded	97.7	114.7	(14.9%)
Sales	837.4	854.1	(2.0%)
Divisional Contribution	196.7	195.5	0.6%

Total sales in Grocery were £837.4m, down 2.0%, while Divisional Contribution increased £1.2m to £196.7m. This relatively low growth at Divisional Contribution was impacted by the hot summer of 2013 and was offset by significant reductions in SG&A at the Group level. The Group estimates that for the ongoing underlying Grocery business, Trading profit increased from £131m to £139m between 2012 and 2013. Grocery Power Brands sales increased by 2.0% in the year to £543.5m, while Branded sales were up marginally to £739.7m, reflecting slower Support brands sales in the second and third quarters. The Grocery proportion of branded sales increased by 1.8ppts to 88.3% in the year, as the Group maintained a disciplined approached to Non-branded business, which declined by 14.9%.

In the five main categories the business participates in, particularly strong performances were seen in Ambient Desserts and Flavourings & Seasonings, with the Group outperforming the market in both categories. In Ambient Desserts, *Ambrosia* benefited from a successful television advertising campaign 'This is Pudding' and also the launch of Devon Dream. *Bisto* and *Oxo* also delivered good performances in the year, with *Oxo* sales supported by the Shake & Flavour product while *Bisto* benefitted from sales of Stock Melts and continues to consolidate its strong category position.

The Group's market share of the Cake category was over 25% for the 52 weeks ended 28 December 2013, and while overall *Mr. Kipling* sales were down in the year, the snack pack slices format continues to perform well, with manufacturing utilisation very high. In recognition of this, the Group is investing approximately £20m in a new snack pack line to significantly increase current capacity. This new line is expected to deliver additional and different packaging sizes and provide the platform to extend into the wider Sweet Treats category.

In the support brand portfolio, sales declined by 4.9% during the year reflecting a strongly competitive promotional environment in the cooking sauces category which affected sales of *Homepride*, while *McDougall's* was also impacted by intense competition. In the fourth quarter of 2013, Grocery support brands grew by 1.1% supported by revenue growth of *Angel Delight*, *Bird's* and *McDougall's* and reflecting early benefits of the Group's category based strategy. Non-branded sales were impacted in the year by contract withdrawals in desserts and powdered beverages.

While consumer marketing investment was slightly lower than the prior year, the Group had some successful advertising campaigns with improved buying efficiency. Over the medium term, the Group is committed to increasing both the quantum and efficiency of its consumer marketing expenditure, to support growth of its branded portfolio.

During the year manufacturing controllable costs were lower and savings were delivered through reducing business complexity. Over the medium term, savings in manufacturing controllable costs are expected to continue, with these savings partly re-invested in growing the Group's brands.

Bread division

£m	2013	2012	Change
Branded bread sales	**346.6**	340.1	1.9%
Non branded bread sales	**98.5**	103.2	(4.6%)
Total bread sales	**445.1**	443.3	0.4%
Milling sales	**221.9**	191.4	15.9%
Total sales	**667.0**	634.7	5.1%
Divisional Contribution	**31.4**	26.9	16.7%

Sales for the Bread division excluding Milling increased 0.4% to £445.1m in the year while total sales for the division increased by 5.1% to £667.0m. Divisional contribution rose by 16.7%, or £4.5m, to £31.4m in the year.

Power Brands sales for 2013 increased by 2.1% to £326.7m, reflecting a good finish to the year through progressively stronger customer partnerships following a slower third quarter due to the hot weather. *Hovis* continues to deliver strong market share performances in most major retailers, reflecting strengthening customer partnerships, product quality and brand heritage.

The Divisional contribution increase of 16.7% was due to improved manufacturing efficiencies in the supply chain while the business also benefited from an improved second half performance, particularly reflecting stronger customer partnerships.

This year, the Bread business has focused on a major restructuring programme, involving the closure of three bakeries, two mills and a significantly reconfigured logistics network. The Greenford bakery closed in the third quarter and production at the Barry Mill finished in October. Restructuring costs associated with this programme were £29.1m in the year. Cash proceeds from the disposal of these closed sites were received earlier than expected and realised £14.8m in the fourth quarter of the year.

Milling sales of £221.9m were up 15.9% compared to the prior year, reflecting higher pricing for the first three quarters of the year.

On 27 January 2014, the Group announced a proposed stand-alone joint venture for the Bread business with The Gores Group. This arrangement, once the transaction has completed, will facilitate a significant increase in investment in the Bread business both to improve the efficiency of its infrastructure and to reinvigorate the *Hovis* brand, building on its strong heritage. Premier Foods and The Gores Group will invest up to £45.0m cash to unlock a £200m five year investment programme for *Hovis*.

The Group will retain a 49% interest in the joint venture and expects to receive £30.0m consideration, £15.0m of which is due on completion of the transaction and £15.0m is deferred and contingent on future business performance. A working capital benefit of £28.7m will be retained by the Group following the completion of the transaction and of the £45.0m combined cash investment Premier Foods will contribute an initial £15.7m. Consequently, the net short-term cash benefit to the Group is £28.0m.

Cost Savings Programme and SG&A costs

£m	2013	2012	Change
Total SG&A	**82.9**	99.0	16.3%

The major restructuring of the SG&A cost base has delivered savings of over £64m since 2011 and this new level now better reflects the size of the Group following the disposal of non-core businesses. Within the £16.1m savings delivered in 2013, people-related costs reduced by over £20m, partly offset by other non-people related charges in the SG&A cost base. These SG&A savings has been a significant contributor to the Trading profit performance in 2013, with SG&A at the end of 2013 reducing to 5.5% of underlying sales including Milling.

Cash restructuring costs associated with the reduction in the SG&A cost base in 2013 were £10.9m. Over the medium term, and subject to changes arising from the Bread business joint venture transaction, the SG&A cost base is expected to remain broadly in line with current levels, although management incentives schemes to drive improved performance are to be re-set at more realistic levels.

Operating Review continued

Net regular interest

£m	2013	2012	Change
Bank debt & securitisation interest	28.5	39.1	27.1%
Swap contract interest	7.2	17.3	58.4%
	35.7	56.4	36.7%
Amortisation and deferred fees	22.7	13.1	(73.3%)
Net regular interest	58.4	69.5	16.0%

Net regular interest charge was £58.4m in the year, an £11.1m reduction from the previous year and ahead of management guidance of £60-£65m. This lower charge versus prior year reflects both lower average Net debt in 2013 following the pay down of debt due to business disposals and the introduction of lower coupon interest rate swaps in the second quarter of 2012.

Amortisation and deferred fees of £22.7m were non-cash items in 2013 and in line with management expectations.

Cash flow

£m	2013	2012
Underlying business Trading profit	145.2	123.4
Depreciation	32.9	37.5
Other non-cash items	5.0	8.8
Interest	(35.9)	(52.5)
Taxation	—	0.3
Pension contributions	(11.4)	(17.7)
Capital expenditure	(33.9)	(56.4)
Working capital	(15.1)	6.6
Recurring cash inflow	86.8	50.0

Group recurring cash inflow before non-recurring items such as restructuring activity, financing fees and the impact of disposals was £86.8m in the year.

Underlying business Trading profit increased by £21.8m to £145.2m in 2013 for the reasons described above, while depreciation was £4.6m lower reflecting a lower fixed cost base following business disposals in 2012. Other non-cash items of £5.0m in 2013 principally include 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 due to the re-financing agreement of March 2012 and lower average Net debt following non-core business disposals. Cash interest for 2014 is expected to be in the range of £45-£50m, but is dependent upon the pricing of the senior secured notes. The Group did not pay any corporation tax in the year as a result of utilising a proportion of the brought forward losses available to it and does not expect to pay corporation tax in the medium-term.

Pension cash outflows in the year of £11.4m largely reflect payments associated with the administration of the schemes and standard government levies. Monthly pension deficit contributions resumed in January 2014 with payments being made under the schedule previously agreed until the new revised schedule is effective, as outlined above.

Capital expenditure reduced to £33.9m in the year, a little lower than management guidance of approximately 2.5% of sales. Capital expenditure for 2014 is expected to be in the range of £35-40m, approximately half of which is major investment in a new cake slices snack-pack line at the Group's cake factory in Carlton, Barnsley. Over the medium-term, ongoing capital expenditure is expected to be broadly in line with depreciation. The Group expects working capital to be a cash outflow of approximately £30m in 2014.

£m	2013	2012
Recurring cash inflow	86.8	50.0
Cash flows from disposed businesses	0.0	5.8
Restructuring activity	(40.0)	(21.6)
Operating cash flow from total Company	46.8	34.2
Disposal proceeds	105.6	312.2
Financing fees & finance leases	(27.5)	(24.0)
Free cash flow	124.9	322.4

Free cash flow, before repayment of borrowings, was £124.9m in the year, compared to £322.4m in 2012. Restructuring activity was an outflow of £40.0m, comprising £29.1m of costs relating to the major Bread restructuring programme and £10.9m from access costs associated with the SG&A savings delivered in the year.

Disposal proceeds of £105.6m in the year include £90.8m of net proceeds (£92.5m of gross proceeds) from the sale of the Sweet Pickles and Table Sauces business and £14.8m from the sale of five closed Bread sites associated with the Bread restructuring. Financing fees in 2013 were £27.5m, slightly lower than management guidance and refer to deferred fees associated with the bank facility agreement prior to March 2012.

Net debt

	£m
Reported Net debt at 31 December 2012	950.7
Movement in cash 2013	(124.9)
Other non-cash items	5.0
Reported Net debt at 31 December 2013	830.8
Equity issue	(353.0)
Underwriting, bank, bond and advisory fees	41.3
Deferred bank fees	22.0
Bread disposal proceeds	(28.0)
Adjusted Net debt at 31 December 2013	513.1

Group Net debt at 31 December 2013 was £830.8m. The Group has announced a proposed gross equity issue of £353.0m. After total fees of £63.3m including; equity fees of approximately £9m, deferred bank fees arising from the 2012 re-financing of approximately £22m and other bank, bond and advisory fees of approximately £32m and Bread disposal proceeds of £28.0m, adjusted Net debt at 31 December 2013 was £513.1m.

Pensions

At 31 December 2013 the Company's pension schemes under the IAS 19 accounting valuation showed a gross deficit of £603.3m, compared to £466.8m at 31 December 2012. The valuation at 31 December 2013 comprised a £217.8m deficit in respect of the RHM schemes and a deficit of £385.5m in relation to the Premier Foods schemes.

The deficit increase reflects an increase in the scheme liabilities of £145.6m to £3,821.7m, slightly offset by an increase in the valuation of assets of £9.1m to £3,218.4m. The adverse movement in liabilities is partly due a reduction in the discount rate from 4.45% at 31 December 2012 to 4.40% at 31 December 2013 but also reflects an increase in the inflation rate assumption from 2.95% to 3.35%. The slight increase in the valuation of the scheme assets is due to underlying asset performance offset by benefits paid in the year.

Cash paid relating to pension schemes in the year was £22.9m. The schemes were closed to future accrual on 30 September 2013. The triennial actuarial valuation of the Group's pension schemes has now concluded and as at 5 April 2013, the deficit on this basis was £1,062m. It is important to note that at the valuation date, discount rates were at a particular low point and have since increased which, other assumptions remaining constant, would have the effect of materially reducing this headline valuation.

Pensions (£m)	31 Dec 2013	31 Dec 2012
Assets		
Equities	**299.7**	411.3
Government bonds	**515.7**	588.4
Corporate bonds	**384.1**	608.8
Property	**181.7**	105.3
Absolute return products	**1,268.2**	712.1
Cash	**192.3**	503.0
Infrastructure funds	**193.5**	153.2
Swaps	**(116.6)**	(194.6)
Private equity	**190.2**	185.9
Other	**109.6**	135.9
Total Assets	**3,218.4**	3,209.3
Liabilities		
Discount rate	**4.40%**	4.45%
Inflation rate (RPI/CPI)	**3.35%/2.35%**	2.95%/2.15%
Total Liabilities	**(3,821.7)**	(3,676.1)
Gross deficit (IAS 19)	**(603.3)**	(466.8)
Deferred tax (23.25%/24.5%)	**140.3**	114.4
Net deficit (IAS 19)	**(463.0)**	(352.4)

Following the 2012 refinancing agreement, the Group and the Pension Schemes trustees agreed that pension deficit contribution payments would be suspended from March 2012 to December 2013. These deficit contribution payments resumed in January 2014. A new pension deficit contribution schedule has been agreed with the Pension Schemes trustees which provides improved affordability for the Group and certainty of cash flows for the next six years.

The Group acknowledges the significance of the pension valuation in determining a fair reflection of the Group's Enterprise value. While there are a number of different methodologies to value a pension scheme deficit, the Group notes that one approach is to discount the post tax future cash flows of the revised pension deficit contribution schedule. On this basis, the valuation of the pension schemes deficit is £405m. This is based on the assumption that the Group has a tax shield available to it in the early years of an agreed 19 year recovery period. Details of the revised pension deficit contribution schedule are outlined on page 41.

Outlook

The simplification of the Group through the *Hovis* joint venture and the capital structure represent significant steps forward for Premier Foods. Completion of these projects will allow Management to focus its full attention on the Grocery business, which the Board believes is well positioned to deal with the challenges of 2014.

The Group expects Grocery Power Brand sales to be slightly negative in the first Quarter reflecting the colder weather in the comparative period, the move of Easter from Q1 to Q2 and subdued consumer spending in the grocery market. Grocery Power Brand sales are expected to improve in Q2 and into the second half reflecting planned new product introductions, increased half-on-half consumer marketing, and assuming a return to more typical average summer temperatures. For the full year, the Board is targeting Grocery Power Brand growth in the range of 2–3%. Support brands are expected to grow modestly in 2014 as a result of targeted marketing activity while non-branded sales will decline reflecting the Group's focus on higher margin branded sales. The Group continues to manage costs tightly and remains confident in its expectations for the Full Year.

Over the medium term, the Group is targeting Grocery Power Brand revenue growth of between 2% and 3% per annum and total branded revenue growth of 1–2%. The Group continues to work on reducing complexity in the business through SKU reductions and rationalising its supplier base and this, together with mix benefits, means it is targeting gross margins to grow faster than revenues. It will continue to target manufacturing controllable cost reductions in manufacturing of between 2% and 3% per annum and to hold SG&A at broadly current levels. It expects to increase consumer marketing spend by double-digit % increments over the medium term.

Gavin Darby
Chief Executive Officer

Financial Review

"Following the announcement to simplify the Group through the Hovis joint venture, we are now focused on growing a high quality branded Grocery business, with its strong underlying cash flows. While consumer spending trends are currently subdued, we are confident in our expectations for 2014."

Capital Restructuring

The Board has now completed its review of the Group's capital structure and is proposing to diversify its sources of finance to provide a solid foundation on which it can drive future growth through its category based strategy and leverage its strengths. This transformational capital restructure includes a fully underwritten equity raise of approximately £353m (gross of fees) through a placing and rights issue, the issue of £475m senior secured loan notes and a new £300m revolving credit facility with a smaller bank syndicate. Significantly, the Group has also reached a new pensions framework agreement with the Pension Scheme trustees following the triennial actuarial valuation which provides the platform for this new capital structure to be put in place

Equity Issue

The Group has announced it is raising approximately £353m gross proceeds by way of a fully underwritten placing of approximately 77 million shares at 130 pence per share to raise £100m, and a fully underwritten 8 for 5 rights issue of approximately 507 million shares at 50 pence per share to raise approximately £253m. This issuance will reduce the indebtedness of the Group and substantially strengthens the balance sheet.

Pensions Agreement

The Group has agreed what it considers to be a comprehensive and significant agreement with the Pension Scheme trustees. The pension deficit contribution schedule will, on completion of the capital restructuring, be revised, with the impact of reducing cash payments when compared to the previous schedule by £161m over the next six years. Committed deficit contributions are fixed until December 2019 and set out in the table titled 'Capital Refinancing Terms'. Under the new arrangements, the Pension Schemes will be granted security up to £450m (in aggregate) and will have certain dividend matching rights for any dividends paid by the Group up to 2019.

Revolving Credit Facility and Securitisation Facility

The Group's existing term loan and revolving credit facilities will be repaid to the respective lenders on completion of the recapitalisation. These facilities will be replaced by Senior Secured Notes and a revolving credit facility of £300m which is due to mature in March 2019 and attracts an initial bank margin of 3.50% above LIBOR. The Group has agreed with the lenders of the new revolving credit facility that dividends are permitted to be distributed to shareholders when the Group's Net debt/EBITDA ratio falls below a ratio of 3.0x. This facility has been arranged with a significantly smaller group of lenders than was the case previously and includes an appropriate covenant package, the details of which are set out in the table titled 'Capital Refinancing Terms'.

Following completion of the joint venture transaction, the Group's ability to draw on its existing securitisation facility of £120m is expected to reduce to around £60m and attracts a margin of 2.75% above the cost of commercial paper.

Senior Secured Notes

To achieve its objective of diversifying its sources of finance, the Group has also announced its intention to raise £475m of senior secured notes. This programme will extend the maturity of this tranche of the Group's debt by up to seven years and will bring in a new and diversified investor base. The notes are likely to be issued as a combination of fixed and floating rates, although in the case of floating rate notes the Group intends to use plain vanilla interest rate swaps to eliminate the net interest rate exposure. The Group has also entered into a backstop arrangement on standard market terms under which issuance of these notes is effectively underwritten.

Capital Refinancing Terms

Key Terms and Details				
Equity	Firm placing:			£100m
	Rights issue:			Circa £253m
	Gross issue proceeds:			Circa £353m
	Net issue proceeds:			Circa £344m
Pension	Contributions fixed until 2019, revised deficit contribution schedule as follows:			
		New schedule	**Old schedule**	**Reduction/ (Increase)**
	2014	£35m	£83m	£48m
	2015	£9m	£80m	£71m
	2016	£42m	£79m	£37m
	2017	£50m	£47m	(£3m)
	2018	£44m	£47m	£3m
	2019	£42m	£47m	£5m
	Total	**£222m**	**£383m**	**£161m**
	Recovery period extended to 2032			
Lending facilities	Revolving credit facility (RCF)			£300m
	RCF maturity			March 2019
	RCF margin			3.50% + LIBOR
	Commitment fee on undrawn facilities			40% of applicable margin
	Securitisation facility & margin			£120m at 2.75%
Covenants		**Net debt / EBITDA**		**EBITDA / Interest**
	June 2014	5.50x	June 2014	2.25x
	Dec 2014	5.50x	Dec 2014	2.25x
	June 2015	5.25x	June 2015	2.45x
	Dec 2015	5.00x	Dec 2015	2.50x
	June 2016	4.90x	June 2016	2.55x
	Dec 2016	4.60x	Dec 2016	2.65x
	June 2017	4.30x	June 2017	2.70x
	Dec 2017	4.20x	Dec 2017	2.75x
	June 2018	3.85x	June 2018	2.80x
	Dec 2018	3.65x	Dec 2018	3.00x
Senior Secured Notes	Amount			£475m
	Tenor			6 year floating / 7 year fixed
	Coupon/margin			To be confirmed on pricing

Financial review

The Company presents its financial results for the year ended 31 December 2013 with comparative information for the year ended 31 December 2012. The Bread business is treated as a discontinued operation in the 2013 financial statements, reflecting its status as an asset held for sale at the balance sheet date and is therefore excluded from continuing operations. Comparatives have been restated to reflect the reclassification of the Bread business as a discontinued operation.

Company structure

In 2012, the Company completed the disposals of the following businesses: Irish brands, Vinegar and Sour Pickles, Elephant Atta Ethnic Flour and Sweet Spreads and Jellies. On 2 February 2013, the Company completed the disposal of its Sweet Pickles and Table Sauces business.

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 in 2012 and 2013. For example, the Vinegar and Sour Pickles business disposal completed on 28 July 2013; therefore the results of the continuing operations include seven months results of the Vinegar and Sour Pickles business in 2012.

Income statement

Revenue from continuing operations was £856.2m, a decrease of £214.7m compared to the prior year. The major driver of the decline is attributed to the disposals of Vinegar and Sour Pickles and Sweet Spreads and Jellies businesses, partly offset by growth of the Group's Power Brands. Gross profit was £300.1m, a reduction of £49.2m, which principally reflects the effect of the business disposals made in 2012, partly offset by Power Brands growth and manufacturing efficiencies. Gross margin % grew from 32.6% in 2012 to 35.1% in 2013 due to increased sales of higher margin Power Brands sales while sales of lower margin Non-branded products declined in the year.

Financial Review continued

Operating profit

Operating profit for continuing operations was £52.6m, a reduction of £31.1m compared to 2012. This was mainly due to the profit on disposal of the Sweet Spreads and Jellies business completed in 2012. Before impairment and profit on disposal of operations, Operating profit was £55.0m, an increase of £4.4m on the prior year.

Trading profit was £139.5m in the year, a decline of £19.6m, principally reflecting the impact of the businesses disposed during 2012, partly offset by significant savings in the SG&A overhead cost base in the underlying business. The Group considers underlying profit, as set out in the Operating review, to be a more useful measure of assessing business performance. Trading profit % of revenue increased from 14.9% in 2012 to 16.3% in 2013 largely as a result of SG&A cost savings in the year.

Restructuring costs and losses associated with disposal activity were £7.3m in the year, significantly down on the £31.3m reported in the prior year, and reflecting the completion of the disposal activity programme. The charges in the year principally relate to redundancy costs associated with the Group's cost savings programme.

Amortisation of intangible assets was £43.8m in the year, a reduction of £6.6m from the prior year. This reflects the impact of disposals made during 2012. The financial statements reflect the updated IAS19 accounting standard on pensions accounting, which includes a restatement for 2012. In Operating profit for 2013 the Group reports a charge for net interest on pensions and administrative expenses of £31.3m and £27.7m for the prior year. The net interest charge in 2013 was £19.6m, is non-cash in nature and are not reported in Trading profit.

In discontinued operations an impairment of £234.4m is recognised in the year to 31 December 2013 and reflects the write down of the Bread business to its fair value following the announcement of the Bread business joint venture on 27 January 2014

Finance expense

Net finance cost in the year to 31 December 2013 was £48.2m, compared to £91.7m in the prior year. Net regular interest reduced from £69.5m to £58.4m, partly 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 prior year. In the year, there was a positive movement in the fair valuation of interest rate derivatives of £11.6m compared to an adverse movement of £9.7m in the prior year. Additionally, there was a charge of £10.8m recognised in 2012 relating to the write-off of debt issuance costs associated with the previous financing agreement.

Profit before taxation

The Company made a profit before tax of £4.4m, compared to a prior year loss of £8.0m. Operating profit in the year was £52.6m due to the reasons outlined above and net finance expense was £48.2m. The prior year loss of £8.0m was principally due to higher interest charges, partly offset by profit on disposal of operations.

Taxation

The taxation charge for the year was £51.1m (31 December 2012: £18.0m credit). The applicable rate of corporation tax for the year was 23.25% (31 December 2012: 24.5%). At 31 December 2013, the Bread Business was treated as an asset held for sale, while the IAS 19 valuation of the pension deficit was higher than the prior year. Both these items would otherwise have increased the deferred tax assets of the Group by £52.2m. The Group has recognised a closing deferred tax asset value of £72.7m at 31 December 2013 and as a result, a non-cash charge of £51.1m was recognised in the continuing operations for the year. It is expected that the recognised deferred tax assets will be utilised against the future profits of the Group.

The corporation tax rate for 2014 is expected to be 21.5%. The deferred tax rate is expected to be 20.0% for the tax year ended 5 April 2014.

Earnings per share

Basic loss per share of 19.5 pence for the year on continuing operations is calculated by dividing the loss attributed to ordinary shareholders of £46.7m (31 December 2012: £10.0m profit) by the weighted number of shares in issue during the year. This compares to earnings per share of 4.2p for the prior year.

Adjusted earnings per share for continuing operations was 25.9 pence (31 December 2012: 28.2 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 £62.2m (31 December 2012: £67.6m) 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 23.25% (31 December 2012: 24.5%).

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.

Cash flow and borrowings

Company net borrowings as at 31 December 2013 were £830.8m, a decrease of £119.9m since 31 December 2012. The cash inflow from operating activities to 31 December 2013 was £123.4m (31 December 2012: £56.4m). This included cash inflow from continuing operations of £108.7m (31 December 2012: £44.6m) and cash inflow from discontinued operations of £14.7m (31 December 2012: £11.8m). Additionally, net cash interest paid was £35.9m (31 December 2012: £52.5m) due to lower bank margins following the re-financing agreement concluded in March 2012 and lower average Net debt levels in the year. There was no taxation paid in the year (31 December 2012: £0.3m received).

Sale of subsidiaries and property, plant and equipment in the year amounted to £105.6m (31 December 2012: £312.4m) following the completion of the Sweet Pickles and Table Sauces disposal and sale of Bread business sites disposed in the year. Net capital expenditure on tangible and intangible assets in the year was £40.4m (31 December 2011: £66.6m), of which £33.9m relates to Underlying business.

Financing fees and other costs of finance were £27.5m (31 December 2012: £24.0m) reflect deferred financing fees associated with the previous banking facilities.

Retirement benefit schemes

At 31 December 2013 the Company's pension schemes under the IAS 19 accounting valuation showed a gross deficit of £603.3m, compared to £466.8m at 31 December 2012. The valuation at 31 December 2013 comprised a £217.8m deficit in respect of the RHM schemes and a deficit of £385.5m in relation to the Premier Foods schemes. Further detail on the pension schemes is provided in the Operating review.

Financial year end date

The Group intends to change its financial year end from 31 December to 31 March and therefore expects to prepare its next annual financial statements for the 15 months ended 31 March 2015. It plans to report on the Group's trading performance by way of an Interim Management Statement for the 12 months ended 31 December 2014 in early 2015.

Alastair Murray
Chief Financial Officer

Underlying business

The Company's results for the year ended 31 December 2013 are presented on an 'Underlying business' basis, unless otherwise stated. **'Underlying business'** excludes the results of previously completed business disposals, Milling (sales only), and non-core, discrete contract losses. The tables below illustrate these items for 2013 and 2012 results.

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.

On 27 January 2013, the Group announced a joint venture of its Bread Business with The Gores Group. Given its status as an asset held for sale at 31 December 2013, it is treated as a discontinued operation in the financial statements.

'Continuing operations' includes the results of disposed businesses for the respective periods until disposal was completed. For example, the Vinegar and Sour Pickles business disposal completed on 28 July 2012; therefore the results of the continuing operations for 2012 include seven months results of the Vinegar and Sour Pickles business.

£m	Continuing operations	Add: Bread Business	Less: Disposals	Less: Milling sales	Sub-Total	Less: Contract Withdrawals	Underlying business
2013							
Sales	856.2	654.6	(6.4)	(221.9)	1,282.5	–	1,282.5
Trading profit	139.5	6.3	(0.6)	N/A	145.2	–	145.2
EBITDA	156.8	21.9	(0.6)	N/A	178.1	–	178.1
2012							
Sales	1,070.9	685.3	(211.0)	(191.4)	1,353.8	(56.4)	1,297.4
Trading profit	159.1	(4.4)	(31.3)	N/A	123.4	0.0	123.4
EBITDA	182.5	11.8	(35.7)	N/A	158.6	0.0	158.6

DID YOU KNOW?
WE HAVE REDUCED REPORTABLE ACCIDENTS BY 87% SINCE 2007.

New *Bisto* Chef's Specials

In 2013 we launched a new premium range for *Bisto* called Chef's Special, targeting the dine-in-for-two sector.

The sachets come in 4 flavours; Chicken with Sage & Onion, Lamb with Mint, Caramelised Onion Gravy and Beef with Cracked Black Pepper.

For more information on **Consumers and Brands** see pages **18-19**

Governance

CONTENTS

This section sets out our approach to governance, our Board and Group Executive and our policy on executive remuneration.

Chairman's Introduction
Transparency in Governance

"I believe it is important to ensure that sound governance principles underpin the way we operate, both at a Board level and throughout the organisation."

David Beever
Chairman

Good corporate governance is essential for building a successful and sustainable business.

This section sets out our governance framework and the work of our Committees. As a Group we believe in transparency in governance and in maintaining the highest ethical standards in all our business dealings, recognising our position as one of the largest manufacturers in the UK food industry.

Board Effectiveness

In line with the recommendations of the Code we usually conduct an external Board evaluation every three years. As explained in last year's annual report, the 2012 external evaluation was deferred to the summer of 2013 following a number of Board changes which had occurred in 2012 and the appointment of Gavin Darby as CEO in February 2013. A detailed review was undertaken by Springboard Associates Limited in June 2013 and the results confirmed that the atmosphere of Board meetings was constructive and allowed openness of debate. This was a very productive process which highlighted opportunities for improvement and a number of recommendations to further strengthen the way the Board operates and our corporate governance processes. Further detail of the Board review can be found on page 56.

In addition the Board keeps up-to-date with developments in corporate governance which is a regular item on the Board agenda. The General Counsel & Company Secretary presents updates on legal, regulatory and governance issues including relevant case law. During the year this has included updates on the government's initial drafts of the remuneration reporting regulations (the Remuneration Regulations) and enhanced disclosure required in the annual report.

Remuneration Strategy

Following on from the constructive meetings with shareholders in 2012 and early 2013 we were pleased with the high level of shareholder support for our 2012 Remuneration Report (details of the 2013 AGM vote on remuneration are set out on page 75). It has been a year of significant change in remuneration reporting following the publication of the Remuneration Regulations in the summer of 2013. There will be a binding vote on our Directors' Remuneration Policy at this year's AGM and I look forward to maintaining the same level of shareholder support. Our Directors' Remuneration Policy is set out on pages 64 to 69.

Board Changes

In addition to Gavin Darby's appointment as Chief Executive Officer in February 2013 there have been a number of changes to the Board over the course of 2013. Following the appointment of Gavin Darby a flatter executive management structure has been implemented, that enables commercial and functional management to report directly to the CEO and as a consequence Geoff Eaton, Chief Operating Officer, left the Company in February 2013.

Ian McHoul, who was reaching the end of his third three year term in office this year, retired as a non-executive director at the AGM on 25 April 2013. Following this Ian Krieger was appointed as Audit Committee Chairman and David Wild was appointed as Senior Independent Director. In May, we welcomed Pam Powell as a non-executive director. Pam has more than 20 years marketing experience developing some of the world's leading consumer brands, most recently, as Group Strategy and Innovation Director for SAB Miller. Over the past year, we have been actively strengthening the Board to reflect a broad range of commercial, financial, communications and marketing experience. Pam's appointment is part of this drive and her significant experience in marketing global consumer brands is a tremendous benefit as we look to accelerate the growth of our branded business.

Finally, in September, we announced the appointment of Alastair Murray as CFO in place of Mark Moran. Alastair has extensive strategic, commercial, financial and consumer brand experience built up over 30 years with a range of leading food and consumer goods companies. This also includes significant experience of restructuring and finding creative solutions to pension deficits. This will be invaluable as we move forward with the next phase of the Company's transition.

Following these changes I believe we have in place a strong and effective Board. There is an appropriate combination of executive and non-executive directors on the Board with at least half the Board (excluding myself) comprising independent 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 page 49. 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. As described in greater detail on page 53, following completion of the Capital Refinancing Plan, Charles Miller Smith will cease to be a representative of Warburg Pincus but will remain as a non-executive director of the Company.

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, balanced 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 and the level of fees is regularly reviewed by the Audit Committee. The level of non-audit fees for 2013 was below the audit fee and significantly below the level incurred in 2012.

The business has been going through a very significant transformation as management have implemented their turnaround strategy. This included a major disposal programme over the course of 2012, the *Hovis* joint venture announced in January 2014 and finally the Capital Refinancing Plan. With the turnaround nearing completion we are confident that going forward fees will reduce significantly. Further information is detailed in the report of the Audit Committee on pages 59 to 61.

Board Diversity

In 2011 we adopted a policy to have at least two female Board directors by 2015 and I am pleased to report that, following the recent changes in Board membership highlighted above, we have reached this target.

Compliance with the UK Corporate Governance Code 2012

During 2013 the Company complied with all of the provisions of the UK Corporate Governance Code ("the Code").

David Beever
Chairman

Board of Directors


01


02


03


04


05


06


07


08

01 David Beever
02 Gavin Darby
03 Alastair Murray
04 Ian Krieger
05 Jennifer Laing
06 Pam Powell
07 Charles Miller Smith
08 David Wild

David Beever
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 has been Chairman and a non-executive director of a variety of major companies.

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

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.

Alastair Murray
Non-executive director

Appointed to the Board: September 2013

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

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 of 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. Ian is a non-executive director at Safestore Holdings plc, a Trustee at Nuffield Trust and is also a Trustee of Anthony Nolan where he is Chairman of the Audit Committee.

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

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. 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.

Pam Powell
Non-executive director

Appointed to the Board: May 2013

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

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

Charles Miller Smith
Non-executive director

Appointed to the Board: June 2009

Skills and experience: Charles is currently 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. 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. Charles is 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 and attends the Audit and Remuneration Committees by invitation.

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 ten years in Buying and six years as Chief Executive Officer of Tesco Central Europe. David Wild is currently Interim Chief Executive Officer at Domino's Pizza Group plc and a non-executive director at The Bankers Investment Trust PLC.

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

Group Executive

01 Brian Carlton
02 Ian Deste
03 Mark Hughes
04 Richard Johnson
05 Andrew McDonald
06 Bob Spooner
07 Mark Vickery

Brian Carlton
Group HR Director

Skills and experience: Brian joined the Group in 1994 as Head of Personnel for the former 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.

Ian Deste
Commercial Director, Grocery

Skills and experience: Ian joined the Group 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.

Mark Hughes
Group Procurement Director

Skills and experience: Mark joined the Group 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 appointed 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.

Richard Johnson
Group Corporate Affairs Director

Skills and experience: Richard joined the Group 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.

Andrew McDonald
General Counsel & Company Secretary

Skills and experience: Andrew joined the Group 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.

Bob Spooner
Group Supply Chain Director and Managing Director, Bread

Skills and experience: In January 2014 the Group announced the *Hovis* joint venture for its Bread business and Bob will take up the position of CEO of the *Hovis* joint venture on completion. Bob joined the Group 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.

Mark Vickery
Group Information Systems & Change Director

Skills and experience: Mark joined the Group in early 2005 as Director of Information Systems & Change management (ISC). Following the acquisition of RHM he assumed the role of Group ISC 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

Board Meetings

The Board held ten 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 papers and discuss any issues with the Chairman in advance of the meeting. Following the meeting the Chairman, or Committee Chairman as appropriate, also briefs any director not present to update them on the key discussions and decisions taken.

Details of Board and Committee membership and attendance at scheduled Board and Committee meetings are set out in the table below.

	Board		Audit Committee		Remuneration Committee		Nomination Committee	
Board Members (During 2013)	Number of possible meetings attended	Actual Meetings attended	Number of possible meetings attended	Actual Meetings attended	Number of possible meetings attended	Actual Meetings attended	Number of possible meetings attended	Actual Meetings attended
Non-executive directors								
David Beever	10	10	–	–	3	3	2	2
Ian Krieger	10	10	4	4	3	3	2	2
Jennifer Laing	10	10	4	4	3	3	2	2
Charles Miller Smith	10	10	–	–	–	–	2	2
Pam Powell[1]	6	5	3	3	2	2	1	1
David Wild[2]	10	9	4	4	3	3	2	2
Executive directors								
Gavin Darby	9	9	–	–	–	–	–	–
Alastair Murray	3	3	–	–	–	–	–	–
Former directors								
Michael Clarke[3]	1	1	–	–	–	–	–	–
Mark Moran	7	7	–	–	–	–	–	–
Geoff Eaton[4]	1	1	–	–	–	–	–	–
Ian McHoul[5]	3	2	1	1	–	–	1	1

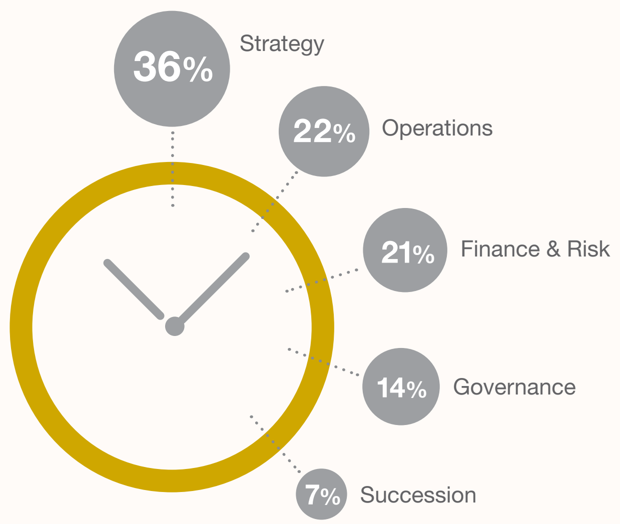
Footnotes:
1. Pam Powell was appointed as a non-executive director on the 7 May 2013 and missed the October Board meeting due to an overseas commitment agreed prior to her appointment.
2. David Wild missed a Board meeting on 10 April 2013 due to a prior business commitment.
3. Michael Clarke resigned as CEO and an executive director on 28 January 2013 and was replaced by Gavin Darby who was appointed on the 4 February 2013.
4. Geoff Eaton was appointed Chief Operating Officer and executive director on 3 October 2012 and resigned as an executive director on 4 February 2013.
5. Ian McHoul missed the January 2013 Board meeting due to a business commitment with AMEC plc and resigned as a non-executive director at the AGM on 25 April 2013 following the end of his third three year term.

Non-Executive Director Meetings

The Chairman is responsible for ensuring that non-executive directors have opportunities to meet without the presence of management. Over the course of the year the non-executive directors met independently on a regular basis both after Board meetings and also over Board dinners. Topics discussed included key strategic issues and succession planning.

Board Time Allocation

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 2013:



Appointment of Additional Directors

The Board has the power to appoint one or more additional directors. Under the Articles any such director shall hold office until the next AGM when they shall be eligible for election. An ordinary resolution with special notice of the shareholders is sufficient to appoint or remove a director.

Conflicts of Interest

The Company has procedures in place for managing conflicts of interest and directors have continuing obligations to update the Board on any changes to these conflicts. This process includes relevant disclosure at the beginning of each Board meeting and also the 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 (the Relationship Agreement), 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 nominate an individual for appointment to the Board so long as they retain a minimum interest of 23,980,215 shares in the Company.

Warburg Pincus and the Company have agreed that the terms of their existing Relationship Agreement shall cease to have effect from the date of the announcement of the Capital Refinancing Plan and shall terminate automatically upon completion of the Capital Refinancing Plan. Warburg Pincus and the Company have also agreed that the Relationship Agreement shall continue to have full force and effect if the Capital Refinancing Plan does not complete.

On termination of the Relationship Agreement, Charles Miller Smith will cease to be a nominee of Warburg Pincus. However, the Board has asked him to remain as an non-executive director, independent of Warburg Pincus, on account of his beneficial knowledge and experience.

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 their service contract.

Director Induction Programme

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 and 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 its operations.

Corporate Governance continued

Division of Governance Responsibilities:

The Board:

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.

The Chairman:

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 provisions 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 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).

The Senior Independent Director:

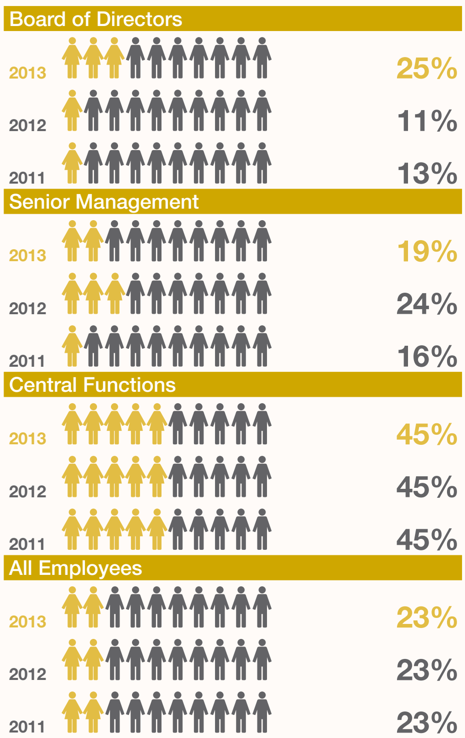
- Supporting the Chairman and leading the non-executive directors in the oversight of the Chairman and CEO.

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.

Diversity

In 2011 the Board agreed to adopt a policy to have at least two female board directors by 2015. We are pleased to report that following the appointment of Pam Powell in May 2013 this target has been achieved. Diversity will continue to be an important consideration whenever a new appointment is undertaken to ensure that the Board comprises individuals with a broad range of skills, backgrounds and experience reflecting both the type of industry and the geographical location in which we operate.

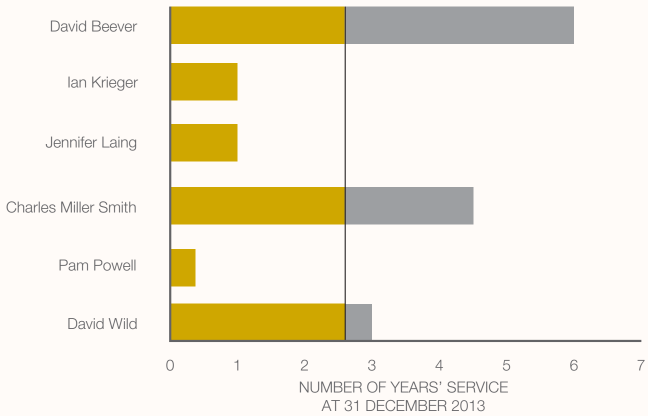
The Board believes in the importance of diversity (in its widest sense) and the benefits that it can bring to the operation of an effective business and is committed to increasing the participation of women across all levels of the organisation and particularly within senior management. We are committed to equal opportunities in all areas of our business, with people gaining promotion on merit. We recruit, train, promote and retain skilled and motivated people irrespective of gender, age, marital status, disability, sexual orientation, race, religion, ethnic or national origin. In line with this commitment we also promote a culture of openness and responsibility within our business. Details of our gender diversity across the Board of directors, senior management, central functions and across the whole Group as at 31 December 2013 are set out in the adjacent table.



Boardroom Tenure

The Board believes it is important to maintain an appropriate balance between length of service, independent judgement and an appropriate level of experience and skill. The Board, via the Nomination Committee, 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 with diversity in mind. 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 (blue line), which currently stands at 2.7 years.

Details of all directors' appointment terms are set out on page 71.



Board Support and Information

Directors are allowed to take independent professional advice in the course of their duties. In addition, all directors have access to the advice and services of the 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.

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

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

A detailed strategy review took place over a two day meeting and site visit in June and there was a comprehensive review of 2014 brand, sales and supply chain plans as part of the approval of the 2014 business plan in September and November 2013. Non-executive directors also received tailored training sessions on the key pension and remuneration related matters for the Group and were also invited to attend internal presentations on brand plans for 2014.

The Board receives 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 Group's brokers, following investor roadshows after the half year and year-end results.

Corporate Governance continued

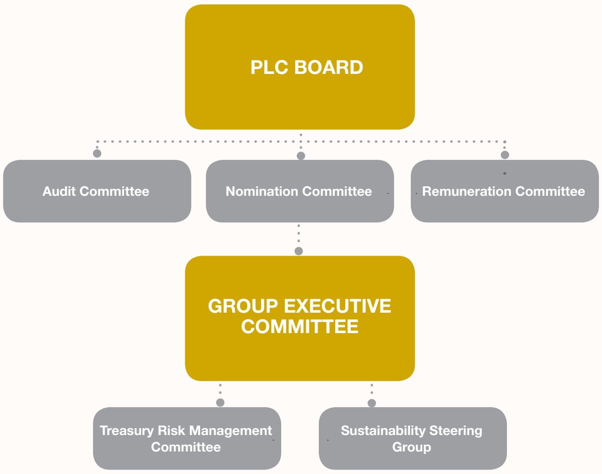
Board Evaluation

As reported last year, given the change in Board composition in 2012 and the appointment of Gavin Darby in February 2013, it was agreed to defer the external Board evaluation until 2013. Following a selection process Springboard Associates Limited (who have no other connection with the Company) were appointed to conduct the review. This involved face to face meetings with all directors and a number of senior management and attendance at the Remuneration, Audit and Board meetings that took place in June. A report was prepared and discussed with the Chairman and was subsequently presented to the Board for discussion. There was strong consensus that the atmosphere of Board meetings was constructive and allowed openness of debate and that no individuals or group of individuals dominated proceedings. Non-executive directors had sufficient access to the CEO and there was transparency and honesty. A constructive working relationship had been established between the Chairman and CEO. The quality of Board papers was good. Following recent appointments there was a robust balance of diversity, skills and experience. Following the review an action plan was prepared highlighting areas for focus and progress against this plan will be reviewed over the course of the next 12 months.

Action plan

Opportunity	Action
Vision and Strategy It was noted that the initial phase of the Group's turnaround strategy was nearing completion and that it was therefore appropriate to review the vision and values for the business.	A workstream has been established to review the Group's vision and values and this will be presented to the Board in H1 2014.
Succession The Board noted the importance for continued focus on succession plans for CEO, CFO and senior management.	It was agreed that the Chairman would prepare a proposal for CEO contingency planning. Management would prepare an update on succession planning for senior management and present this following the completion of the Capital Refinancing Plan in the first half of 2014.
Remuneration, Retention and Development It was recommended that the Board review the process for identifying high performers and managing their careers.	It was agreed that the process be presented to the Board in the first half of 2014.
Training and Development There is a tailored induction process for all non-executive directors and further training is provided on an ad hoc basis. It was agreed that this process should be formalised as an annual review for each non-executive directors to identify training and development needs.	The evaluation highlighted the need for a training session on the Group's pension schemes and remuneration arrangements. As a result training sessions were held in September and November 2013 to review pension investment strategy, liability hedging, deficit valuations and also the Group's remuneration strategy.
Director Appraisals Following the recent changes in Board composition the annual appraisal process for directors required review and formalisation.	The process for the annual appraisal of none-executive directors and the review of the Chairman led by the SID was strengthened for 2014.
Commercial More emphasis to be given to external environment and competitors.	Competitor and market updates were added as part of commercial update papers.
More time to be set aside for directors to be updated on the Group's new product development (NPD).	A comprehensive programme of product tasting, review of NPD and comparative testing against competitor products has now been introduced at Board meetings.
Agenda and Time Management It was recommended that agendas and time management be reviewed to ensure that NEDs had the opportunity to input into agendas and also to ensure that agendas were not over ambitious.	It was agreed to review agenda items for the next 12 months with non-executive directors. Where appropriate, committee meetings would be held on separate days to the Board meeting to ensure sufficient time to cover all agenda items. It was agreed that focus be given to ensure agendas were not over ambitious and timing was set to ensure all items could be fully reviewed.

Our Board Structure



Committees

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

In addition executive directors 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. This 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, Alastair Murray 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 six core themes, these being; Buying Responsibly, Sustainable Manufacturing, Diet & Health Quality, Our People and Community Involvement. It's 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.

Stakeholder Relations

Relations with Shareholders

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

The Board believes it is very important to engage with its shareholders and does this in a number of ways through presentations, conference calls, investor 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 nine 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 Chairman and Senior Independent Director also speak with major shareholders on a regular basis and brief the Board to ensure that they are aware of the views of shareholders. Following on from 2012 we continued to meet with our largest shareholders to discuss remuneration topics, further details are set out in the letter from the Remuneration Committee Chairman on page 63.

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.

Relations with Stakeholders

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 and senior management hold regular meetings with the Company's banking syndicate to update them on the Group's financial performance.

Corporate Governance continued

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. The 2013 conference was attended by around 400 delegates representing approximately 200 of our top suppliers. A keynote address was given by Gavin Darby and presentations were given by Group Executive members. A highly successful fundraising event was held after the conference and all funds raised went to our corporate charity partner, Macmillan Cancer Support.

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.

Employees and our Approach to Business Ethics

We are committed to ensuring that the people who work within our business are treated with respect, and their health, safety and basic human rights are protected and promoted.

We have a code of conduct which sets out the standards of behaviour all employees are expected to follow and provides useful guidance to help employees when it comes to making the right decision. This code is made up of 10 key elements including: acting honestly and complying with the law; competing fairly; food safety and treating people fairly. We also have a confidential whistle blowing call line to enable all employees to raise any concerns they have that cannot be dealt with through the normal channels.

We believe that we have a responsibility to act and trade ethically in our dealings throughout the supply chain. In order to identify and focus on the ethical issues that are material to our business we have established an Ethical Supply Chain Working Group. This group develops, and implements, a risk based ethical supply chain strategy which meets the needs of our business whilst ensuring that bought goods are produced under generally accepted, and internationally recognised, human rights law including the conventions of the International Labour Organisation.

We set a target that all our direct suppliers must be registered with the Supplier Ethical Data Exchange (SEDEX) by 2014 and 60% are now registered. SEDEX is a not-for-profit organisation dedicated to driving improvements in ethical and responsible business practice in global supply chains through the sharing of ethical supply chain data. In addition, we have put in place an Ethical Trading Policy and each supplier we work with must strive to comply with this and with all relevant local and national laws and regulations, particularly with regard to: minimum age of employment; health & safety; freedom of association; discrimination; working hours; and rates of pay.

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. The Group 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. In 2013 we conducted an all employee survey as discussed in greater detail on page 23.

Audit Committee Report

"The committee has considered a number of key issues in respect of the financial statements and these are summarised on page 61"

Ian Krieger
Chairman of the Audit Committee

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. The Committee met with the internal and external auditors on one occasion in the year without the presence of management. The table on page 52 sets out Committee membership and meeting attendance.

Ian Krieger was appointed as Audit Committee Chairman in April 2013 and has recent and relevant financial experience from his role as a senior partner of Deloitte until his retirement in 2012. In addition to the Committee members the following individuals are regularly invited to the Committee's meetings: the CEO, CFO, Director of Internal Audit and Risk and External Audit Lead Partner. The General Counsel & Company Secretary attends in his capacity as Secretary of the Committee.

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 to ensure the annual report and accounts taken as a whole is fair, balanced and understandable;
- Ensure the effectiveness of the Group's internal controls and risk management systems;
- Review and monitor the whistleblowing and bribery and fraud arrangements;
- Monitor and review the effectiveness of the Group's internal audit function, including the approval of any appointment or removal of the Director of Internal Audit & Risk function;
- Consider and make recommendations to the Board on the appointment, reappointment and removal of external auditors in accordance with the Company's audit tender policy to include the setting of their remuneration;
- Review the external auditors' independence and objectivity and the effectiveness of the external audit processes.
- Prepare this report to shareholders to include any significant issues in relation to the financial statements and how these were addressed.

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

Auditors

PricewaterhouseCoopers LLP (PwC) have been the Group's auditors since flotation in 2004. 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 Committee will continue to give consideration to the timing of the next formal tender in light of current regulatory requirements. There are no contractual obligations restricting the Group's choice of external auditors.

External Audit Effectiveness

Annually the Committee reviews the relationship the Group has with PwC. The review is usually 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. In 2013 the review was carried out by PwC's audit quality team by means of a questionnaire. The results of the review were presented to the Audit Committee and recommendations coming out of the review were incorporated into the 2013 audit plan. For the year ended 31 December 2013 the Committee was satisfied with the effectiveness of the external auditor. At the 2014 AGM the re-election of PwC as the Group's auditors will be proposed to shareholders.

Audit Committee Report continued

Auditor Independence and Non-audit Services

There is an established policy governing auditor independence and the engagement of the external auditor for non-audit services designed to maintain the independence and objectivity of the external auditors. The policy was reviewed and updated in 2013 and key terms of the updated policy are listed below:

- a tender of the external audit be considered every 10 years;
- the lead partner rotate every 5 years;
- the external auditors should not be engaged for non-audit work, however, in certain circumstances it may be appropriate to appoint them;
- Where fees were expected to be over £100k, the approval of the Audit Committee Chairman is required;
- If, in exceptional circumstances, the fee was expected to exceed the audit fee then the approval of the full Committee would be required; and
- the appointment of senior personnel previously employed by the external auditor within the last 5 years requires approval of the Audit Committee Chairman.

The Group has been going through a very significant transformation as management have implemented the turnaround of the business. This included a major disposal programme over the course of 2012, due diligence work in respect of the *Hovis* joint venture and working capital report in respect of the Capital Refinancing Plan in Q1 2014. Non audit fees for 2013 were £411,000 (2012: £2,400,000) representing approximately 71% (2012: 320%) of the annual audit fee.

The Committee regularly reviewed the level of non-audit fees with management throughout the year. The Committee also received an update from the external auditors lead partner on their internal controls to safeguard their independence. Additional safeguards to the independence of the auditors are given by the fact that PwC's lead audit partner was recently appointed (in 2012) and both the Audit Committee Chairman and CFO were appointed in 2013.

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 business turnaround 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 completion of the Capital Refinancing Plan and the *Hovis* joint venture the Committee does not anticipate that non-audit fees will remain at a significant level.

What We Did in 2013

During the year the Committee discussed the following:

- Considered a number of key accounting matters as discussed below;
- 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 as described below;
- Reviewed an update to the Committee's terms of reference which were subsequently approved by the Board;
- 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 and bribery and fraud arrangements;
- Reviewed the non-audit services spend and approved the engagement of PwC as an adviser in relation to the Capital Refinancing Plan and the *Hovis* joint venture as discussed above;
- Received a review from the Group's external auditors which included a review of the external auditors' independence, objectivity and the effectiveness of the audit process; and
- Considered the external auditors' report for the year ended 31 December 2013 and recommended the reappointment of the external auditors.

Internal Audit Effectiveness

In accordance with the FRC Guidance on audit committees an annual review of internal controls is conducted. The Board has delegated authority to the Audit Committee to regularly monitor internal controls and conduct the full annual review. This review covers all material controls such as financial, operational and compliance, and also the 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. In 2013 the Director of Internal Audit & Risk circulated post audit completion questionnaires to senior managers in the business, the results of these questionnaires were reported to the Audit Committee on a regular basis. As part of the annual review on the effectiveness of the Group's internal audit function the company secretarial department conducted an independent review of the feedback from these questionnaires. In addition the company secretarial department circulated a separate questionnaire to Committee members and the Group Executive to collate their views on the general effectiveness of the internal audit function.

Significant Issues in Relation to the Financial Statements

In addition the Committee has reviewed the 2013 half year and the full year results and recommended them for approval to the Board. This has involved the consideration of a number of significant issues in respect of the financial statements which are detailed in the following table.

Area of Focus	How these issues were addressed
Going concern	• Going concern was a significant area of discussion for the Committee in respect of the 2013 annual report and accounts. The directors statement on going concern is laid out on page 76.
Impairment	• A review of the impairment model for the Grocery business was conducted by factoring in the business projections as part of the Capital Refinancing Plan and this indicated that sufficient headroom to the book value of the business remained and therefore no impairment was required. This included a review of the key assumptions including discount and long term growth rates. • A review of the impairment model for the Bread business includied the impact of the offer received for the Hovis joint venture in establishing a fair value for the business. Following this review it was agreed that an impairment of £234.4m be recognised.
Deferred taxation	• A detailed analysis was performed at year end around the overall quantum of the deferred tax asset held with reference to forecast future taxable profits based on business projections.
Pension deficit increase	• The Group's pension deficit, as calculated under IAS 19 (Revised), has increased from £466.8 million to £603 million at 31 December 2013 largely as a result of an increase to the inflation assumptions.
Accounting treatment for the Bread business	• A formal tender process was conducted in 2013 with a number of parties in order to secure investment for the Bread business. As a result of the tender process, the Audit Committee considered that the assets of the Bread business should be treated as held for sale at the year end. On 27 January 2014 the Group announced an agreement to establish a stand-alone joint venture for the Bread business.
Commercial accruals	• The Committee discussed the level of commercial accruals for promotional activity as it represents a significant estimate for the Group. The Committee noted that improvements in the overall commercial accruals control environment have allowed management to improve the forecasting accuracy of accruals required.
Presentation of Results	• In line with prior year the results of business in 2013 (and 2012 comparatives) have been presented on an underlying basis. This reflects the fact the Group is undergoing a period of restructuring and stabilisation and it is felt that this better illustrates the performance of the core business. This includes the results of the Bread Business but excludes the results of disposals and certain contract withdrawals. A full reconciliation of the adjustments is set out on page 43.
Fair, Balanced and Understandable	• As part of an update to the Audit Committee's terms of reference, the Board requested that the Audit Committee confirm the annual report and accounts taken as a whole were fair, balanced and understandable. Following a review of this document which included consideration of the balance of information, the messaging, use of KPIs and the disclosure of risks, the Audit Committee recommended that the Board make this statement which is set out on page 77.

The report of those matters that the external auditors considered to be significant issues in relation to the financial statements are set out on pages 81 to 82.

Nomination Committee Report

"I am delighted that Pam Powell joined the Board as an non-executive director in May 2013 which adds further consumer brand building experience to our Board."

David Beever
Chairman

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. The table on page 52 sets out Committee membership and meeting attendance.

Role of the Nomination Committee

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, experience and 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.

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

Key Nomination Committee Discussions

Over the year the Committee has engaged Russell Reynolds Associates (executive appointments) and Saxonbury Limited (non-executive appointment) as an external search agents in respect of the below key appointments.

- The appointment of Gavin Darby in February 2013 as CEO (full details of the Committee's work in relation to Gavin Darby's appointment was disclosed in the 2012 annual report and accounts).
- At the 2013 AGM, Ian McHoul retired following the end of his third term as a non-executive director in accordance with the Code. Ian Krieger replaced Ian McHoul as Chairman of the Audit Committee and David Wild replaced Ian McHoul as Senior Independent Director. The Committee prepared a job description for the appointment of a new non-executive director following a review of the balance of skills, knowledge and experience on the Board. Members of the Committee interviewed a short-list of candidates produced by Saxonbury Limited and in early May, Pam Powell was appointed to the Board.
- The Committee recommended the appointment of Alastair Murray to the Board in September 2013 following Mark Moran's decision that he could not commit to the Group for another three years.

Neither Russell Reynolds Associates nor Saxonbury Limited have any other connection with the Group.

Additionally, the non-executive directors, led by the Senior Independent Director recommended the re-appointment of David Beever for a third three-year term as a non-executive director to continue to provide continuity of leadership as Chairman.

Remuneration Report

Committee Chairman's Letter

"The Committee's overall remuneration strategy remains broadly unchanged and recognises the business turnaround currently being undertaken."

David Wild
Remuneration Committee Chairman

Dear Shareholder,

On behalf of your Board, I am pleased to present the Group's Remuneration Report for 2013. Our Directors' Remuneration Policy will be put forward for your consideration and approval at our AGM on 29 April 2014 and will take effect from that date.

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% at maximum) 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.

What We Did in 2013

The key challenge in 2013 was to put in place remuneration arrangements for Gavin Darby following his appointment as CEO in February 2013. Given the significance of the change the Chairman and I held a number of meetings with major shareholders to explain the background to Gavin Darby's appointment and the rationale for the remuneration arrangements we put in place. Details of the arrangements were fully disclosed in last year's annual report and at the AGM in April 2013 the Remuneration Report received strong support from shareholders (98% of votes cast being in favour).

In addition, in September, we announced the appointment of Alastair Murray as CFO in place of Mark Moran. Alastair has extensive strategic, commercial, financial and consumer brand experience built up over 30 years with a range of leading FMCG companies and also significant restructuring knowledge. This will be invaluable as we move forward with the next phase of the Group's transition. Alastair's annual base salary is £400,000 and his other benefits and incentive arrangements are in line with those of the previous CFO. Following Mark Moran's decision to leave the Group it was agreed he would step down as a director on 30 September 2013 and remain employed by the company until 31 October 2013 to ensure a smooth handover. He received a payment of £201,704 representing 5 months salary, benefits and pension allowance in lieu of the remaining 11 months of his contractual notice period. He was not entitled to a bonus in respect of 2013 and his outstanding share awards lapsed on 31 October 2013.

The Committee reviewed the CEO's performance over the year and assessed the extent to which his annual bonus targets had been achieved. The Committee concluded that Gavin Darby had made a highly significant contribution to the Group since appointment and been pivotal in the delivery of a number of critical strategic objectives over the year. In addition the Group had made strong progress in 2013 delivering underlying trading profit of £145.2m up 17.7% on 2012.

Gavin Darby was a awarded a bonus of £175,000 representing 25% of his salary recognising the successful completion of his personal performance measures which were based on the creation of a cohesive and high performing leadership team and developing stakeholder relationships. However, despite the strong financial results in 2013, performance was below the stretching trading profit target set for the year and as a consequence the remaining performance conditions, which were subject to a trading profit underpin, were not met.

As Alastair Murray was appointed in September 2013 he did not participate in the Annual Bonus Plan for 2013.

The first tranche of Gavin Darby's Co-Investment Award will vest on 1 May 2014.

What We've Planned for 2014

Remuneration arrangements for 2014 are in line with the Director's Remuneration Policy. The performance conditions are linked to the Group's strategy and the targets are considered stretching. Full details are set out under the relevant headings.

Directors' Remuneration Policy

Set out below is the Directors' Remuneration Policy, if approved it will apply from the close of the AGM on 29 April 2014. Total remuneration is made up of fixed and performance-linked elements, with each element supporting different strategic objectives.

Element of Pay	Link to Strategy
Base Salary	Provides an appropriate level of fixed income. Set at levels to attract and retain talented individuals with reference to the Committee's assessment of: 1. The specific needs of the Group by reference to the size and complexity of the business, acknowledging the Group is currently in a turnaround situation; and 2. The specific experience, skills and responsibilities of the individual. **Operation:** Normally reviewed annually, effective 1 April in conjunction with those of the wider workforce.
Annual Bonus (AB)	Designed to incentivise delivery of annual financial and operational goals and directly linked to delivery of the Group strategy. **Operation:** An annual bonus is earned based on performance against a number of performance measures which are linked to the Group's strategy. Bonuses are paid entirely in cash with the exception of the CEO where 25% is paid in shares.
Deferred Share Bonus Plan (DSBP)	Operates alongside the annual bonus but with a longer term focus. Awards are satisfied in the form of shares deferred for a period of up to two years to focus on medium term share price performance. **Operation:** Based on in-year Group wide strategic performance targets with any award being made following the end of the financial year in the form of shares that are deferred for up to two years. The rules contain a dividend equivalent provision enabling dividends to be paid (in cash or shares) on shares at the time of vesting. Clawback provisions apply.
Long-Term Incentive Plan (LTIP)	The LTIP provides a clear link to our strategic goal of returning to profitable growth with sustainable share price growth over the long term. **Operation:** Annual grant of awards. The LTIP comprises two elements — performance shares and matching shares — and the aggregate maximum under both elements is 200% of base salary. Performance shares are the conditional award of shares or nil cost options which normally vest after three years subject to performance conditions. Matching shares are similar to performance shares but require participants to invest in Company shares. Any investment will receive a maximum match of up to 2:1 from the Company subject to performance. Currently it is the Remuneration Committee's policy for awards under the LTIP to be made only in the form of performance shares. Whilst the Remuneration Committee does not expect to change this policy it wishes to retain the flexibility to do so. Awards under the LTIP, including the determination of any relevant performance conditions, will be considered and determined on an annual basis at the discretion of the Committee. The rules contain a dividend equivalent provision enabling dividends to be paid (in cash or shares) on shares at the time of vesting. Clawback provisions apply.

	Maximum Opportunity	Performance Conditions
	Salaries for the relevant year are detailed in the Annual Report on Remuneration. Increases are normally expected to be in line with increases across the management grades, subject to particular circumstances such as a significant change in role, responsibilities or organisation. An explanation of differences in remuneration policy for executive directors compared with other employees is set out later in this Directors' Remuneration Policy.	None, although Group performance is taken into consideration when determining an appropriate level of base salary increase for management grades as a whole. **Performance Period:** None
	Maximum (as a percentage of salary): • CEO – 150% • CFO – 75%	Performance conditions are designed to promote the delivery of the Group's strategy and can be made up of a range of: • Financial targets (e.g. turnover, trading profit and cash flow) representing not less than 50% of the total bonus opportunity, subject to the delivery of a threshold level of trading profit; • Short to medium term strategic targets including financial and non-financial Key Performance Indicators, subject to the delivery of a threshold level of trading profit; and • Personal performance representing not more than 20% of the total bonus opportunity. There is no preset minimum bonus that can be paid out at threshold. However, no more than 20% of the bonus will vest for threshold performance with full vesting taking place for equalling or exceeding the maximum target. Specific details of the performance measures for the relevant year can be found in the Annual Report on Remuneration to the extent that they are not commercially sensitive. **Performance Period:** One year
	• CFO – 30% of the salary. • CEO – The current CEO does not participate in the DSBP.	Performance conditions are designed to promote the delivery of the annual business plan and can be made up of a range of: • Financial targets (e.g. turnover, trading profit and cash flow) representing not less than 50% of the total bonus opportunity, subject to delivery of a threshold level of trading profit; and • Short to medium term strategic targets including financial and non-financial Key Performance Indicators, subject to the delivery of a threshold level of trading profit. There is no preset minimum bonus that can be paid out at threshold. However, no more than 20% of the bonus will vest for threshold performance with full vesting taking place for equalling or exceeding the maximum target. **Performance Period:** One year, with a retention period of up to two years
	Maximum individual limit of 200% of salary. Where matching shares are used, no more than half of the award can be comprised of matching shares. Normal award levels are (as a percentage of salary): • CEO – 200% • CFO – 150%	Performance conditions are based on a range of targets focused on the delivery of increased shareholder value over the medium to long term. These include a combination of total shareholder return and earnings per share. 20% of the bonus will vest for threshold performance with full vesting taking place for equalling or exceeding the maximum target. **Performance Period:** Three years

Remuneration Report continued

Element of Pay	Link to Strategy
Pension	To offer market competitive levels of benefit and help to recruit and retain and to recognise long-term commitment to the Group. **Operation:** Executive directors receive an allowance in lieu of pension provision which is subject to periodic review or may participate in the Group's defined contribution scheme on the same basis as all other new employees. Executive directors may also salary sacrifice additional amounts into this scheme but will not receive any additional contribution from the Group. Only basic pay is pensionable.
Sharesave Plans	To offer all employees the opportunity to build a shareholding in a simple and tax-efficient manner. **Operation:** The Company's Sharesave Plan is a HMRC compliant scheme which is usually offered annually in September to all employees. The key terms of the plan will only be changed to reflect HMRC changes. At the 2014 AGM shareholders will vote on a new plan which will run until 2024.
Co-Investment Award (one-off award in 2013)	To facilitate the recruitment of Gavin Darby as CEO in 2013 and immediately align the CEO with shareholders and the delivery of share price growth. **Operation:** Award specific to Gavin Darby. On appointment Gavin Darby acquired shares worth 100% of annual base salary in the Company. The Company made a matching award of shares worth 200% of salary which vest in three equal tranches on 1 May 2014, 2015 and 2016 subject to satisfaction of a performance condition requiring payment of a bonus.
Other Benefits	Help recruit and retain and to promote the efficient use of management time. **Operation:** The Company typically provides the following benefits: • Company car or cash allowance. The CEO has use of the Group's chauffeur driven car for Group business which allows the CEO to work while commuting to appointments; • Private health insurance; • Life insurance; • Telecommunication services; • Professional memberships; • Allowance for personal tax and financial planning; and • Other ancillary benefits, including relocation expenses (as required).
Non-executive director fees	Provides an appropriate level of fixed fee to recruit and retain individuals with a broad range of experience and skill to support the Board in the delivery of its duties. Fees are reviewed annually. **Operation:** The remuneration of non-executive directors is determined by the Chairman and executive directors. The remuneration of the Chairman is determined by the Remuneration Committee. Includes a Chairman's fee and standard non executive fee. Additional fees are payable to Committee Chairs and the Senior Independent Director.

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

The Committee operates the Annual Bonus plan, DSBP, Co-Investment Award and LTIP according to their respective rules which includes flexibility in a number of areas. These include:

- The timing of awards and payments
- The size of an award, within the maximum limits
- The participants of the plan
- The performance measures, targets and weightings to be used for the annual bonus plan, DSBP and long-term incentive plans from year to year
- The assessment of whether performance conditions have been met
- The treatment to be applied for a change of control or significant restructuring of the Group
- The determination of a good/bad leaver for incentive plan purposes and the treatment of awards thereof
- The adjustments, if any, required in certain circumstances (e.g. rights issues, corporate restructuring, corporate events and special dividends).

Choice of performance measures and approach to target setting

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

Currently the LTIP uses a combination of Earnings per Share and total shareholder return based measures to reflect both an internal measure of Group performance as well as the delivery of shareholder value. Targets are set taking into account both internal and external assessments of future performance and what constitutes good and superior returns for shareholders.

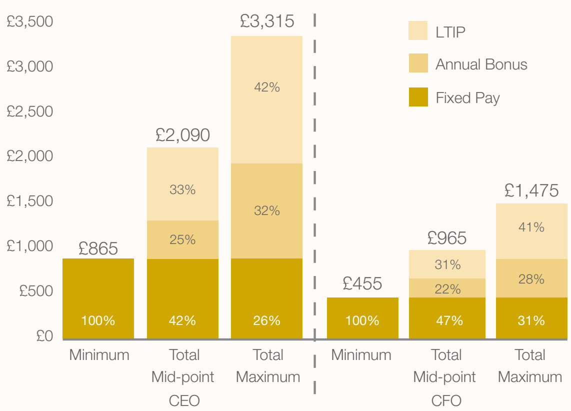
The Committee also retains the discretion within the policy to adjust the targets and/or set different measures and alter weightings for the annual bonus plan and DSBP and to adjust targets for the long-term incentive plans if events happen that cause it to determine that the conditions are unable to fulfil their original intended purpose.

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

Maximum Opportunity	Performance Conditions
Annual allowances of: • CEO — 20% of salary. • The CFO participates in the Group's pension scheme and receives a contribution of 7.5% of the Earnings Cap set annually by the Group on the basis of the calculation previously used by HMRC. Should the CFO decide not to participate in the Company's pension scheme he would receive a cash allowance of this amount. Additionally the CFO receives a cash supplement (currently £21,610) which is reviewed annually by the Group in line with the Retail Price Index (RPI).	N/A **Performance Period:** N/A
Participants may save up to the statutory limit over a 3 year period, following which they have the opportunity to buy Company shares at a price set at the beginning of the savings period.	None, other than continued employment **Performance Period:** Three years
200% of salary (one off award specific to Gavin Darby)	Subject to a bonus having been paid for the relevant financial year and continued employment. The Co-Investment Award vests in specified circumstances including a change of control. **Performance Period:** One, two and three years
The provision and level of allowances and benefits are considered appropriate and in line with market practice.	N/A **Performance Period:** N/A
Increases are normally expected to be in line with the market, taking into account increases across the Group as a whole, subject to particular circumstances such as a significant change in role, responsibilities or organisation.	None **Performance Period:** None

Remuneration Scenarios & Weighting

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



Footnotes:

1. Excludes Gavin Darby's Co-investment Award as this does not form part of his ongoing remuneration.
2. As the DSBP is based on annual performance it is included within Annual Bonus.
3. The value of share awards does not include any assumptions on share price movements.
4. The executive directors can participate in the Sharesave Plan on the same basis as other employees. For simplicity, the value that may be received from participating in the Sharesave Plan has been excluded from the scenario charts.
5. Assumptions when compiling the charts are:
   Minimum = fixed pay only (base salary, benefits and pension).
   Mid-point = fixed pay plus 50% of Annual Bonus and DSBP payable and 50% of LTIP vesting.
   Maximum = fixed pay plus 100% of Annual Bonus and DSBP payable and 100% of LTIP vesting.

GOVERNANCE

Remuneration Report continued

Service Contracts

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

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

The terms and conditions for non-executive directors are set out in their letters of appointment, which are available for inspection at the Company's registered office and will be available at the AGM, as are executive service contracts. The appointment of non-executive directors is for a fixed term of three years which may be terminated by three months notice from either party, with the exception of Charles Miller Smith, where his appointment is governed by the Relationship Agreement with Warburg Pincus LLC and a one month notice period applies. The letters of appointment entitle the non-executive directors to receive fees but do not have provisions on payment for early termination.

Policy on Payment for Loss of Office

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

- The executive directors have rolling contracts with 12 months' notice periods.
- The Company may elect to terminate employment immediately in circumstances where it considers it to be appropriate by making a payment in lieu of notice equivalent to the executive director's salary, pension and benefits for the notice period in two equal instalments (the first within 28 days of termination and the second six months following the date of termination). These payments are subject to the executive director's duty to mitigate his loss by finding alternative employment. If the executive director finds an alternative position, the payments will be reduced by the amount of remuneration received by the executive director pursuant to that alternative remunerated position.
- Salary, pensions and benefits will generally not be paid to a "bad leaver" in lieu of notice. The Company may terminate an executive director's employment without notice (or payment in lieu) in certain circumstances including where he commits an act of dishonesty, is guilty of gross misconduct or a serious breach of his service agreement.
- A time pro-rated cash bonus and DSBP (where relevant in respect of that bonus year) may be payable (and for the current CEO will be payable) for the period of active service from the start of the bonus year to the date on which the director's employment terminates for 'good leavers'. Any unpaid bonus for the preceding completed bonus year may also be payable (and for the current CEO will be payable) to a 'good leaver'. The amount of such bonus will be determined at the discretion of the Committee taking into account performance. Bonus under the DSBP could be paid in cash. There is no entitlement to any bonus (in respect of that or any previous bonus year) following notice of termination (or cessation of employment) for 'bad leavers' and they will not receive any bonus in such circumstances.
- Any share-based entitlements granted to an executive director under the Company's share plans will be determined based on the relevant plan rules or award agreement. The default treatment is that any outstanding awards lapse on cessation of employment. However, in certain prescribed circumstances, such as death, disability, injury, redundancy (not in respect of the DSBP), transfer of the employing company or business out of the Group (not in respect of the Co-Investment Award) or other circumstances at the discretion of the Committee (taking into account the individual's performance and the reasons for their departure) 'good leaver' status can be applied. The 'good leaver' treatment under the various plans is as follows:
  - DSBP awards will vest on the date of cessation of employment.
  - LTIP awards will vest on the normal vesting date (unless the Remuneration Committee decides that the LTIP awards should vest on the date of cessation) subject to performance conditions (measured over the original time period or a shorter period where the LTIP awards vest on cessation of employment) and are reduced pro-rata to reflect the proportion of the performance period actually served. The Remuneration Committee has the discretion to disapply time pro-rating if it considers it appropriate to do so. However, it is envisaged that this would only be applied in exceptional circumstances. In determining whether an executive should be treated as a 'good leaver' or not, the Committee will take into account the performance of the individual and the reasons for their departure.
  - The Remuneration Committee may, at its discretion, determine that any unvested portion of the Co-Investment Award may vest on the date of cessation taking into account the extent to which the performance condition has been satisfied and reduced pro-rata to reflect the period actually served between 1 May 2013 and the date of termination of employment. The Remuneration Committee has the discretion to allow vesting to a greater extent if it considers it appropriate to do so.
- The Company may enable the provision of outplacement services to a departing Executive Director, where appropriate.
- Where it is necessary to discharge an existing legal obligation (or by way of damages for breach of such an obligation) or by way of settlement or compromise of any claim arising in connection with the termination of a director's office or employment the Committee may make a payment to a departing executive director.
- In the event of change of control of the Company, if the Company gives notice to terminate or the executive director is constructively dismissed, his employment shall terminate immediately and he will be entitled to a payment in lieu of notice equivalent to the executive director's salary, pension and benefits for the 12 month notice period. The Co-Investment Award vests immediately and in full in the event of a change of control. Any share based entitlements will be dealt with in accordance with the rules of the relevant schemes.

Recruitment Policy

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

New Appointments as an Executive Director

Reward Element	Detailed terms
Base Salary	In line with the above Directors' Remuneration Policy table. However, includes discretion to pay lower base salary with incremental increases as new appointee becomes established in the role.
Pension and benefits	In line with the above Directors' Remuneration Policy table. New executives are eligible to participate in the Company's defined contribution scheme on a similar basis as all other new employees. Executive directors who receive a salary supplement in lieu of pension may salary sacrifice into the scheme but will not receive any additional contribution from the Company. A small number of current senior management are participants in the Company's legacy defined benefit schemes and would continue to be participants should they be appointed as directors of the Company in future.
Performance based pay	Executive directors are entitled to participate in the Company's Annual Bonus, DSBP and Long Term Incentive Plans in line with above Directors' Remuneration Policy table. The maximum variable pay for the CEO will be 350% of the base salary and 255% of base salary for the CFO. In its discretion the Committee may set different performance measures to apply to awards made in year of appointment if it considers that to be appropriate.
Buy Outs	In order to facilitate external recruitment of executive directors, it may be necessary for the Committee to consider buying out existing incentive awards which would be forfeit on the individual leaving their current employment. The Committee would seek, where possible, to provide a buy-out structure which was consistent with the forfeited awards in terms of quantum, vesting period and performance conditions. The buy out award may necessitate the use of the flexibility in the Listing Rules to make such awards outside the existing LTIP.

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

Consideration of Employees/Wider Group

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

Differences in Remuneration Policy for Executive Directors Compared to Other Employees

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

All management grades participate in the annual bonus plan to ensure alignment with the Group's strategic priorities. Senior management participate in long term incentive arrangements reflecting their contribution to Company performance and enhancing shareholder value. All employees are encouraged to own shares in the Company via the Sharesave Plan and executive directors through the share ownership guideline.

Consideration of Shareholders' Views

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

Specific engagement with major shareholders may be undertaken when a significant change in remuneration policy is proposed or if a specific item of remuneration is considered to be potentially contentious. As highlighted in the Chairman's letter on page 63 an extensive engagement exercise was undertaken following the appointment of Gavin Darby in February 2013 to explain the background to his appointment and the remuneration arrangements that had been put in place.

Remuneration Report continued

Annual Report on Remuneration

An advisory vote on this Annual Report on Remuneration will be put to shareholders at the AGM on 29 April 2014.

Single Figure Table (audited)

Base Salary + Taxable Benefits + Pension + Annual Bonus + DSBP + LTIP + Other = Total Remuneration

The below table provides a breakdown of the various elements of executive director pay:

Executive directors' emoluments	Salary (£)		Taxable Benefits[1] (£)		Pension (£)		Annual bonus (£)		DSBP (£)		LTIP (£)		Other (£)		Total (£)	
	2013	2012	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012
Gavin Darby[2]	**638,480**	–	**17,194**	–	**127,750**	–	**175,000**	–	**–**	–	**–**	–	**688,492**	–	**1,646,916**	–
Alastair Murray[3]	**101,587**	–	**4,705**	–	**8,046**	–	**–**	–	**–**	–	**–**	–	**–**	–	**114,338**	–
Payments for former executive directors																
Michael Clarke[4]	**375,000**	750,000	**13,795**	49,575	**75,000**	150,000	**–**	750,000	**–**	–	**–**	–	**659,000**	–	**1,122,795**	1,699,575
Mark Moran[5]	**358,834**	425,000	**15,217**	17,965	**28,340**	32,910	**–**	–	**–**	–	**–**	–	**201,704**	–	**604,095**	475,875
Geoff Eaton[6]	**450,000**	109,239	**22,925**	5,604	**34,056**	8,090	**–**	–	**–**	–	**–**	–	**–**	–	**506,981**	122,933

Non-executive directors' emoluments	2013 Fee (£)	2012 Fee (£)
David Beever	**265,000**	174,373
Ian Krieger[7]	**65,864**	9,500
Jennifer Laing	**57,000**	14,250
Charles Miller Smith	**57,000**	81,750
Pam Powell[8]	**37,380**	–
David Wild[9]	**70,909**	61,375
Former non-executive directors		
Ian McHoul[10]	**25,000**	72,917

Footnotes:
1. Benefits include those mentioned in the summary table in the Directors' Remuneration Policy report on pages 64–69.
2. Gavin Darby was appointed as CEO on 4 February 2013. His basic salary is £700,000 p.a. and he receives a salary supplement in lieu of pension of 20% of base salary. Gavin Darby was awarded a bonus of £175,000 representing 25% of his salary in respect of 2013. In addition the first tranche of his Co-Investment Award which comprises of 492,524 shares will vest on 1 May 2014. For the purposes of this table the award has been valued at £688,492 based on the average share price for the last quarter of 2013.
3. Alastair Murray was appointed as CFO on 30 September 2013. His basic salary is £400,000 per annum and he receives an annualised salary supplement in lieu of pension of 7.5% of the Earnings Cap (£141,000 for the 2013/14 tax year) which equates to £10,575 per annum together with an additional RPI adjusted pensions supplement of £21,610 in respect of 2013.
4. Michael Clarke resigned as CEO on 28 January 2013. Michael Clarke remained as an employee of the Company until 30 June 2013. His base salary at the time of his resignation as CEO was £750,000 and he received a salary supplement in lieu of pension of 20% of base salary. Michael Clarke's benefits include those mentioned in the summary table to the Director's Remuneration Policy which included the use of the Group's chauffeur car for business travel up until his resignation as CEO on 28 January 2013. Following the announcement of the Company's 2012 annual results the first element of Mr Clarke's recruitment award (contained in the "other" column on the above table) vested which included a cash payment of £241,500 and an award of 500,000 shares. The value of these shares was £417,500 based on the opening share price of 83.5p on the announcement of the 2012 results on the 22 March 2013.
5. Mark Moran resigned as CFO on 30 September 2013. In April 2013 Mark Moran received a salary increase of 2% in line with all other management grades. Mark Moran remained as an employee of the Company until 31 October 2013. His base salary at the time of his resignation as CFO was £433,250 and he received an annualised salary supplement in lieu of pension of 9% of the Earnings Cap (£141,000 for the 2013/14 tax year) which equates to £12,609 per annum) together with an additional RPI adjusted pensions supplement of £21,610 for 2013. Following Mr Moran's resignation in September 2013 he received a payment of £201,704 representing 5 months salary, benefits and pension allowance in lieu of the remaining 11 months of his contractual notice period.
6. Geoff Eaton resigned as an executive director on 4 February 2013. Geoff Eaton remained as an employee of the Company until 3 February 2014 in line with his contractual notice period. Geoff Eaton's salary at the time of his resignation was £450,000 and he received an annualised salary supplement in lieu of pension of 9% of the Earnings Cap (£141,000 for the 2013/14 tax year which equates to £12,609 per annum) together with an additional RPI adjusted pensions supplement of £21,610 for 2013.
7. Ian Krieger received an additional annual pro rata fee of £13,000 for acting as Chairman of the Audit Committee.
8. Pam Powell was appointed on 7 May 2013.
9. David Wild received the standard non-executive director fee of £57,000 for 2013 and in addition he received a fee of £10,500 for acting as the Chairman of the Remuneration Committee. On 25 April 2013 Mr Wild was appointed as Senior Independent Director which has an annual pro rata fee of £5,000. Non-executive director fees are listed in the table on page 71.
10. Ian McHoul retired at the AGM on 25 April 2013.

The Committee

The table on page 52 identifies the Committee members and meeting attendance. 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. The General Counsel & Company Secretary acts as secretary to the Committee. Over the course of the year the Committee held three scheduled meetings together with a number of ad hoc meetings for specific business.

Advisers

New Bridge Street (NBS) (a trading name of Aon Hewitt Limited) 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 Limited to act as Administrator of the schemes and have also appointed individuals within Aon Hewitt Limited 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. NBS received fees of £80,477 in respect of their advice to the Committee in 2013.

Role of the Remuneration Committee

The Committee has been delegated authority by the Board to:

- Design the overall Directors' Remuneration Policy for executive directors and senior management and recommend to the Board for submission to shareholders;
- Review and approve the remuneration packages for the Chairman, executive directors, General Counsel & Company Secretary and Group Executive;
- Agree the terms of employment including recruitment and termination terms of executive directors, ensuring any payments on departure are in line with the Directors' Remuneration Policy;
- 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.

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

What We Did in 2013

- Discussed and approved the recruitment and exit packages for executive directors who were appointed or departed over the course of the year;
- Performed an annual review of executive directors' and Group Executive base salaries;
- Reviewed and recommended executive directors' and senior managers' annual bonuses in respect of 2012 and set the targets for the annual bonus in respect of 2013 in accordance with the strategic objectives of the Group;
- Granted 2013 awards under the equity schemes operated by the Group;
- Discussed best practice in remuneration policy and disclosure in light of the Remuneration Regulations changes in this area and reviewed draft stages of this report;
- Reviewed retention risks for key senior management;
- Undertook a shareholder engagement exercise and reviewed the voting results for the 2012 Remuneration Report at the AGM; and
- Conducted a review of the Remuneration advisers and concluded that they continued to provide an effective service and accordingly a formal tender exercise was not required.

Salary & Fees

What We Did in 2013

Alastair Murray was appointed as CFO on 30 September 2013 with an annual salary of £400,000. Gavin Darby's salary of £700,000 remained unchanged.

What We Plan to Do in 2014

No increases are proposed to the CEO's or CFO's salary in 2014, the next salary review for both executive directors will be in April 2015.

Non-Executive Directors

The fees of our non-executive directors are laid out in the below table, and remain unchanged during 2013.

NED fees	
Chairman fee	£265,000
Basic NED fee	£57,000
Additional remuneration:	
Audit Committee Chairman	£13,000
Remuneration Committee Chairman	£10,500
Senior Independent Director	£5,000

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

Non-executive director	Date of original appointment	Expiry of current appointment/ amendment letter	Notice period
David Beever	22 January 2008	AGM 2017	3 months
Ian Krieger	1 November 2012	AGM 2015	3 months
Jennifer Laing	1 October 2012	AGM 2015	3 months
Charles Miller Smith	16 June 2009	N/A	1 month[1]
David Wild	7 March 2011	AGM 2014	3 months
Pam Powell	7 May 2013	AGM 2016	3 months

Footnote:
1. Upon completion of the Capital Refinancing Plan the notice period for Charles Miller Smith will be aligned with other non-executive directors.

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.

Remuneration Report continued

External Appointments

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. The current executive directors do not have external appointments with publicly quoted companies.

Annual Bonus

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.

What We Did in 2013

Gavin Darby

Gavin Darby was awarded a bonus of £175,000 for 2013 representing 25% of his salary (representing 16.6% of the maximum opportunity) as a result of the successful completion of his personal performance measures which were based on the creation of a cohesive and high performing leadership team and developing stakeholder relationships. This was based on the Committee's assessment of Gavin's performance over the year taking into account a range of criteria, including:

- The objectives put in place with the Group Executive;
- The establishment of a new leadership team forum which met regularly over the year;
- The recruitment of a new CFO;
- Succession plans reviewed for senior management;
- Relationship development with shareholders, customers, employees, banks and pension trustees; and
- Representation on key trade bodies such as the Institute of Grocery Distribution and Food and Drink Federation.

The Committee also assessed the financial performance and strategic targets noting the significant progress that had been made across a number of areas. However, despite the significant increase in underlying trading profit delivered in 2013 which had increased 17.7% on 2012, performance was below the stretching trading profit target set for the year. As a consequence the remaining performance conditions, which were subject to a trading profit underpin, were not met. The Committee considers the precise financial targets for 2013 to be commercially sensitive. Going forward the Committee has agreed that financial targets will, except in exceptional circumstances, be disclosed in the following year's annual report.

Alastair Murray

Alastair Murray was appointed in September 2013 and did not participate in the 2013 annual bonus plan.

Annual Bonus Targets for 2014

The Committee has determined that the financial performance target for 2014 will be based on trading profit as this is aligned to the Company's strategy of category growth and also the switch in focus from volume to value. The actual 2014 trading profit target is considered commercially sensitive but will be disclosed as part of the performance assessment in the 2014 annual report and accounts. They also contain targets based on a range of short to medium term strategic targets and an element of personal performance, as set out below:

Gavin Darby

Performance Measure	Weighting	% of salary
Financial Performance targets: • Trading Profit Subject to a minimum trading profit underpin.	50.0%	75%
Short to medium term strategic objectives: • Strengthening the balance sheet through the successful implementation of financial restructuring initiatives. • Developing and agreeing with the Board a strategic three year plan for the Group. • Establishing an effective governance structure for the new *Hovis* JV; and • Concluding the Group's de-complexity programme. Subject to a minimum trading profit underpin.	33.3%	50%
Personal performance measures, including: • Launching a new vision and values for the Group; and • Implementation of actions identified as part of the 2013 All Employee survey.	16.6%	25%
Total Annual Bonus	**100%**	**150%**

Alastair Murray

Performance Measure	Weighting	% of salary
Financial Performance targets: • Trading Profit Subject to a minimum trading profit underpin.	50.0%	37.5%
Short to medium term strategic objectives: • Strengthening the balance sheet through the successful implementation of financial restructuring initiatives. • Successful delivery of new forecasting and decision making systems and processes. • Supporting the CEO in the development of a three year plan for the Group. Subject to a minimum trading profit underpin.	33.3%	25.0%
Personal performance measures, including: • Supporting the new *Hovis* JV and reviewing the finance and ISC functions on the basis of a stand alone Grocery business.	16.6%	12.5%
Total Annual Bonus	**100%**	**75%**

DSBP

The DSBP operates alongside the annual cash bonus. Awards can be based on the achievement of a range of Group-wide financial and strategic targets which are set at the start of each financial year. If the objective is met, the bonus earned will be converted into shares following the announcement of the results for the financial year and deferred for a period of up to 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.

What We Did in 2013

Alastair Murray did not participate in the 2013 DSBP following his appointment in September 2013. The performance targets for 2013 were based on 50% on trading profit and 50% on branded turnover. Following Mark Moran's resignation no award will be made in respect of 2013.

What We Plan to Do in 2014

Alastair Murray will participate in the DSBP in 2014. The Remuneration Committee has determined that for 2014, in order to support the delivery of the Group's category growth strategy, it was important to focus on branded growth and cashflow. The 2014 targets are therefore based 50% on Power Brand turnover and 50% on a cash-based target. The actual 2014 performance targets are considered commercially sensitive, but will be disclosed retrospectively in the 2014 annual report and accounts.

LTIP

The current LTIP was approved by shareholders in 2011; awards have two elements, performance shares and matching shares.

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.

The table below details share interests which were awarded during the year and the total interests as at the year end. All awards are in the form of performance shares:

Gavin Darby (audited)

Date of Grant	22 Feb 2013
As at 1 Jan 2013	–
Granted in the year	1,477,572
Shares lapsed during the year	–
As at 31 Dec 2013	1,477,572
Price on day of award	94.75p
Basis of Award	200% of salary
Face value of Award at date of grant	£1,400,000
% of award at threshold	20%
Performance period	3 years ending 31 December 2015

As at 31 December 2013 Alastair Murray has no interests under the LTIP.

Mark Moran (audited)

Date of Grant	22 Feb 2013	20 Mar 2012
As at 1 Jan 2013	–	554,347
Granted in the year	672,823	–
Shares lapsed during the year	672,823	554,347
As at 31 Dec 2013	–	–
Price on day of award	94.75p	115p
Basis of Award	150% of salary	150% of salary
Face value of Award at date of grant	£637,500	£637,500
% of award at threshold	20%	20%
Performance period	3 years ending 31 December 2015	3 years ending 31 December 2014

What We Did in 2013

The performance conditions attached to the 2013 LTIP awards are aligned with the strategy of the Group. The Group faces a number of challenges including delivering branded sales growth, improving relations with customers and reducing debt. The performance targets were therefore based on absolute share price and adjusted EPS performance which the Committee believes are fully aligned with the interests of shareholders at this stage in the Group's turnaround. These measures were 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 was 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

Footnote:
1. Straight line vesting between these points.

What We Plan to Do in 2014

The 2014 award will be subject to a relative TSR condition (comprising 2/3rds of the award) and an adjusted EPS condition (comprising 1/3rd of the award). The Committee determined that, following the completion of the proposed Capital Restructuring (details of which are set out on pages 40 and 41), the Group's balance sheet would be significantly strengthened and therefore it would be appropriate to move from an absolute to a relative TSR condition. The condition will require at least a median ranking to be achieved for 20% of this part of the award to vest, with full vesting taking place for an upper quartile ranking against a selected comparator group of companies. The Committee determined that, given the uncertainty as to the number of shares to be issued under the proposed Placing and Rights Issue, it was necessary to delay the grant of the awards and the determination of the precise TSR and EPS targets until the Placing and Rights Issue had been completed. Full details of the performance conditions will be disclosed once the awards are made.

Co-Investment Award

The Co-Investment Award is specific to Gavin Darby following his appointment as CEO in 2013 and is designed to align the CEO with shareholders' and the delivery of share price growth. On appointment Gavin Darby acquired shares worth 100% of annual base salary in the Company. In return the Company made a matching award of shares worth 200% of salary which vest on the first of May 2014, 2015 and 2016. The award is subject to a bonus having been paid for the relevant financial year and continued employment.

Following the payment of an annual bonus to Gavin Darby in respect of 2013 the performance condition for the first tranche of his Co-Investment award (492,524) has now been satisfied and accordingly was reflected in the single figure table on page 70.

Gavin Darby (audited)

Date of Grant	22 February 2013
As at 1 Jan 2013	–
Performance Shares granted in the year[1]	1,477,572
Shares lapsed during the year	–
As at 31 Dec 2013	1,477,572
Price on day of award	94.75p
Basis of Award	200% of salary
Face value of Award	£1,400,000
% of award at threshold	N/A
Performance period	Vests in three equal tranches on 1 May 2014, 2015 and 2016.

Footnotes:
1. Full details of Gavin Darby's Co-Investment Award are detailed in the 2012 annual report and accounts.

Remuneration Report continued

Share Interest Table

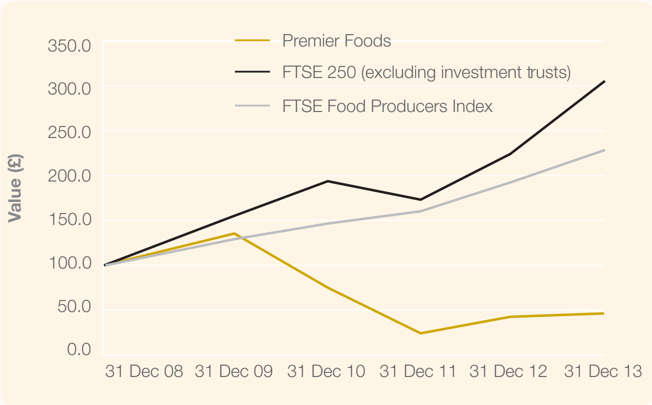
To align executive directors' interests with those of shareholders they are expected to build a holding of shares within three years of appointment at least equal to their annual salary (valued at the time of purchase). All employees are encouraged to develop a shareholding in the Company via the Sharesave Plan. Awards under all Company share plans may be satisfied using either newly issued shares or shares purchased in the market and held in the Company's Employment Benefit Trust (which currently holds 97,122 shares). The Company complies with the Association of British Insurers guidelines in respect of the dilutive effect of newly issued shares. The table below shows directors' interests in Company shares.

Director	Ordinary Shares owned as at 31 Dec 2013	Ordinary shares owned as at 31 Dec 2012	Extent to which share ownership guideline has been met[1]	Unvested share interests under the LTIP[2]	Unvested share interests under the Co-Investment Award[2]	Sharesave Plans[6]	Total
Gavin Darby	750,268	–	100%	1,477,572	1,477,572	2,106	3,707,518
Alastair Murray[3]	–	–	–	–	–	–	–
David Beever	31,900	31,900	–	–	–	–	31,900
Ian Krieger	20,000	–	–	–	–	–	20,000
Jennifer Laing	16,078	–	–	–	–	–	16,078
Pam Powell[4]	–	–	–	–	–	–	–
Charles Miller Smith[5]	325,027	268,027	–	–	–	–	325,027
David Wild	5,000	5,000	–	–	–	–	5,000
Former directors							
Michael Clarke[7]	374,078	374,078	100%	–	–	–	374,078
Mark Moran[7]	1,754,000	1,754,000	236%	1,227,170	–	–	2,981,170
Geoff Eaton[7]	–	–	–	–	–	–	–
Ian McHoul[7]	10,000	10,000	–	–	–	–	10,000

Footnotes:
1. Shares are valued at the date of purchase for the purposes of determining if the share holding guideline has been met.
2. The LTIP and Co-Investment Award have performance conditions. For further details please see page 73 above.
3. Alastair Murray was appointed on 30 September 2013. Due to a number of price sensitive strategic projects being undertaken, Alastair Murray has been in a prohibited period and unable to purchase shares. Alastair Murray intends to purchase shares in the Company following the release of the Company's 2013 annual results.
4. Pam Powell was appointed on 7 May 2013.
5. Charles Miller Smith holds his shares in the form of contracts for difference.
6. All employees were invited to participate in the 2013 Sharesave Plan at a discounted option price of 111.1p based on the average share price on 3 to 5 September 2013. Following a scaleback the maximum amount of options an individual could be awarded was 2,106. The Sharesave Plan has no performance conditions other than continued employment and will vest on 1 December 2016.
7. For former directors the figures represent the number of shares held at the date immediately before they ceased to be directors.

Total shareholder return

Source: Thomson Reuters (Datastream)



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 comparator indices.

The market price of a share in the Company on 31 December 2013 was 125.0 pence; the range during the 2013 financial year was 59.75 pence to 185.5 pence.

The table below shows the single figure for total remuneration, annual bonus and LTIP vesting as a percentage of maximum opportunity for the current year and the previous four years.

Year	CEO	Single Figure for total remuneration[1]	Annual bonus as a percentage of max bonus possible	LTIP shares vested as a percentage of max shares possible
2013	Gavin Darby	£1,646,916	16%	nil
	Michael Clarke[2]	£1,122,795	nil	nil
2012	Michael Clarke	£1,699,575	66%	nil
2011	Michael Clarke	£2,277,070	nil	nil
	Robert Schofield[3]	£895,485	nil	nil
2010	Robert Schofield	£715,052	10%	nil
2009	Robert Schofield	£929,967	29%	nil

Footnotes:
1. Details of single figure of total remuneration are set out on page 70.
2. Michael Clarke acted as CEO until 28 January 2013, details of his 2013 emoluments are given in the footnotes to the single figure table on page 70.
3. Robert Schofield acted as CEO until the appointment of Michael Clarke on 16 August 2011. The 2011 figure for Robert Schofield includes all payments until retirement on 28 April 2012.

Percentage change on CEO pay

For the purpose of this table pay is defined as salary, benefits and annual bonus. The average pay of management grades is used for the purposes of comparison as management grades are members of the Group's annual bonus plan.

CEO[1]	Percentage Change
Base Salary	-7%
Benefits	-68%
Annual Bonus	-77%
Management Grades	
Base Salary	2%
Benefits[2]	nil
Annual Bonus[3]	nil

Footnotes:
1. CEO figures relate to Michael Clarke in respect of 2012 and Gavin Derby in respect of 2013.
2. There was no increase in benefits for management grades in the year.
3. A very small number of management grades received a bonus in respect of 2012 and accordingly were not statistically significant when taken as a whole.

Relative Importance of Spend on Pay

The following table sets out the amounts and percentage change in total employee costs and dividends for the years ended 31 December 2012 and 2013. The terms of the current Facilities Agreement contain restrictions on the payment of dividends. Recurring cash flow and net debt have therefore been included as additional indicators. Cash flow demonstrates the cash available to reinvest in the business and service debt payments and the net debt highlights the overall reduction in debt over the course of the year.

	2013 £m	2012 £m	Change %
Total Employee Costs[1]	**293.1**	387.5	-24%
Recurring cash flow[2]	**86.8**	50.0	+73.6%
Net debt[3]	**830.8**	950.7	-12%
Dividends paid	**nil**	nil	nil

Footnotes:
1. Total employee costs include the cost of both Grocery and Bread businesses. The reduction in total employee costs represents disposals completed in 2012 and 2013 in addition to the closure of bakeries and mills in 2013. Please see Note 6 to the Financial Statements for further information.
2. Page 38 provides greater detail on recurring cash flow.
3. Note 26 provides greater detail on the net debt figure.

AGM Voting

Vote	Advisory vote on 2012 Remuneration Report
For	132,704,853 (98%)
Against	3,220,495 (2%)
Abstain	12,711,358
Any issues raised & Company response	As highlighted in the Chairman's letter on page 63 an extensive engagement exercise was undertaken following the appointment of Gavin Darby in February 2013 to explain the background to his appointment and the remuneration arrangements that had been put in place.

Directors' Report

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 before tax on continuing operations for the financial year was £4.4m (2012 (restated): loss of £8m). The directors do not recommend the payment of a dividend for 2013 (2012: £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. Total research and development spend (including capitalised development costs) was £10.0m (2012 (restated): £18.4m).

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.

Substantial Shareholdings

Details of substantial shareholdings are set out on page 136.

Going Concern

On 4 March 2014, the Group announced its proposal to diversify its sources of finance to provide a solid foundation on which it can drive future growth through its category-based strategy and leveraging its strengths. This transformational capital restructure includes a fully underwritten equity offering of approximately £350m (gross of fees) through a placing and rights issue, the issue of £475m senior secured loan notes and a new £300m revolving credit facility with a smaller bank syndicate. Significantly, the Group has also reached a pensions framework agreement with the respective Pension Scheme trustees following the triennial actuarial valuation, which provides the platform for this new capital structure to be put in place. In order for the capital restructuring to proceed, and for the funds to be available, Shareholders will be required to vote at the General Meeting in order to (amongst other things) authorise the Board to allot shares in the Company under the placing and the rights issue.

The Group's 2013 financial statements have been prepared on a going concern basis, which assumes that the Group will continue to be able to meet its liabilities as they fall due for the foreseeable future.

Due to the inter-conditionality of the above elements of the refinancing, if the shareholders do not vote in favour of the resolutions and the placing and the rights issue do not occur, no funds will be available to be drawn by, or released to, the Group under the new revolving credit facility or the new bonds, and the revised schedules of pension contributions, modified funding arrangements and associated matters in relation to the relevant pension schemes pursuant to the new framework agreement will not become effective. If this were to be the case, although the Group's current facilities do not expire within the next 12 months, the Group expects that it would be unable to comply with certain of its financial covenants under the current facilities on or after 31 December 2014. In this scenario, the Group would need to obtain certain consents or waivers from the Group's lenders in respect of such financial covenants under the current facilities. If the Group were unable to maintain compliance with such financial covenants or were unable to obtain such consents or waivers, this would lead to a default under the Group's existing financing arrangements, unless the Group were able to renegotiate or refinance the current facilities. While the Board would seek to renegotiate or refinance the current facilities in such circumstances, there can be no certainty that the Group would be able to do so either on acceptable terms or at all. In the event that the Group were unable to renegotiate or refinance the current facilities in these circumstances, the Group's lenders would be able to demand repayment of all borrowings.

The Board has concluded that the resolutions which are required for the placing and the rights issue to proceed, such that the equity proceeds are received in line with the timetable set out in the associated Prospectus, are likely to be passed. The Board has taken into consideration the undertakings received from Shareholders that they will vote in favour of the resolution, historical voting trends, the underwritten element of the placing and the rights issue, and the backstop banks' commitment to purchase the new bonds.

Nevertheless, the Board acknowledges that there is some theoretical uncertainty as to whether sufficient Shareholders will vote in favour of the resolutions to enable the capital restructuring to proceed. The Board believes that this uncertainty is extremely remote, but the consequence of not succeeding may be material. The directors believe that adopting the going concern basis in preparing the consolidated financial statements is appropriate. Nevertheless, the directors are prudently making full disclosure, as required by accounting standards, to indicate the existence of a material uncertainty, which may cast significant doubt about the Group's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Group were unable to continue as a going concern.

The auditor's report of the financial statements contains an unmodified audit opinion. However, it includes an emphasis of matter in respect of going concern.

Statement of Directors' Responsibilities for the Annual Report

The directors are responsible for preparing the Annual Report, the Directors' Remuneration Report and the 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 European Union, and the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). In preparing the Group financial statements, the directors have also elected to comply with IFRSs, issued by the International Accounting Standards Board (IASB).

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Company and Group 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 European Union and IFRSs issued by IASB 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 financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

The directors are responsible for the maintenance and integrity of the Company's website (www.premierfoods.co.uk). Legislation in the United Kingdom 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 directors consider that the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

Each of the directors, whose names and functions are listed on page 49 confirm that, to the best of their knowledge:

- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- the Directors' Report contained on pages 1 to 77 and 136 to 137 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.

Independent Auditors

The Audit Committee has recommended PwC's 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 2014 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.

Summary of General Disclosures (Incorporated into this Directors' Report)		
Companies Act 2006 S416	Names of all directors who served at any point during the year	Page 52
Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008		
Schedule 7.6	Financial risk management objectives and policies (inc. hedging) if material	Page 116
Schedule 7.6	Exposure to price risk, credit risk, liquidity risk and cash flow risk	Pages 110–117
Schedule 7.7	Important events since year end	Pages 130–131
Schedule 7.7	Likely future developments	Pages12 and 13
Schedule 5.5 & 7.10	Policy on disabled staff and careers	Page 58
Schedule 7.11	Arrangements to engage employees	Page 58
Schedule 7.13/14	Information on capital (securities transfer, restrictions, persons with significant holdings, special rights, voting rights in share scheme, agreements of holders) rules on appointment of directors and changing articles, agreements affected by change of control, employee/director agreements which may affect takeover	Page 126
Schedule 7.15/16/ 17/18/19	Emissions information / statement explaining any omissions / method of calculation / ratios / comparatives / reporting period if different	Page 27

By Order of the Board:

Andrew McDonald
General Counsel & Company Secretary
4 March 2014

GOVERNANCE

DID YOU KNOW?

WE SPENT OVER £1.3 BILLION WITH SUPPLIERS IN 2013, 80% OF WHICH WAS WITH UK PRODUCERS AND SUPPLIERS.

Mr. Kipling Snack Packs

The *Mr. Kipling* Snack Pack range of individually wrapped cake slices, launched in 2011, have proved very popular for home-snacking, lunchbox and on the go.

In 2013 we announced we are investing £20 million in a new production and packaging line for Snack Packs at our Carlton site. The new line will be capable of producing 300 million slices a year, doubling our current capacity. The investment is part of our broader plan to accelerate growth in our cake business. The installation will take around a year, involving a mixing station, oven and sophisticated packing robotics. In 2013 we added Chocolate, Banoffee and Caramel to the existing Lemon, and Angel Slice flavours.

For more information on **Consumers and Brands** see pages **18-19**

Financial Statements

CONTENTS

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

Independent Auditors' Report to the Members of Premier Foods plc

Report on the financial statements

Our opinion

In our opinion:

- The financial statements, defined below, give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2013 and of the Group's profit and of the Group's and Parent Company's cash flows for the year then ended;
- The Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- The Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- The financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

This opinion is to be read in the context of what we say in the remainder of this report.

Emphasis of matter - Going Concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 2 to the financial statements concerning the Group's and the Company's ability to continue as a going concern. The matters explained in note 2 to the financial statements relating to the Shareholder vote required for the fully underwritten rights issue due to take place on 8 April 2014, indicate the existence of a material uncertainty which may cast significant doubt about the Group's and the Company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Group or Company were unable to continue as a going concern.

What we have audited

The Group financial statements and Parent Company financial statements (the "financial statements"), which are prepared by Premier Foods plc, comprise:

- the Consolidated Company balance sheets as at 31 December 2013;
- the Consolidated statement of profit or loss and statement of comprehensive income for the year then ended;
- the Consolidated statement of cash flows for the year then ended;
- the Consolidated statement of changes in equity for the year then ended;
- the Parent Company reconciliation of movements in shareholders' funds for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the Group financial statements comprises applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements comprises applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Certain disclosures required by the financial reporting framework have been presented elsewhere in the Annual report and accounts for the year ended 31 December 2013 (the "Annual Report"), rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). 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 and 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 and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Overview of our audit approach

Materiality

We set certain thresholds for materiality. These helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the Group financial statements as a whole to be £4.45million. In arriving at this value, we had regard to EBITDA, which we consider to be the most relevant measure of the Group's recurring performance.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £220,000 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Overview of the scope of our audit

The Group comprises two divisions, being Grocery and Discontinued operations. The Group financial statements are a consolidation of 25 reporting units, which together make up the Grocery, Discontinued operations and the Group's centralised functions.

In establishing the overall approach to the group audit, we determined the type of work that we needed to perform at the reporting units to enable us to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the Group financial statements as a whole.

Accordingly, of the Group's 25 reporting units, we identified 5 that, in our view, required an audit of their complete financial information due to their size or risk characteristics. Specific audit procedures on certain balances and transactions were performed at the remaining operating units. This, together with additional procedures performed at the Group level, gave us the evidence we needed for our opinion on the Group financial statements as a whole.

Areas of particular audit focus

In preparing the financial statements, the directors made a number of subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. We primarily focused our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

In our audit, we tested and examined information, using sampling and other auditing techniques, to the extent we considered necessary to provide a reasonable basis for us to draw conclusions. We obtained audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

We considered the following areas to be those that required particular focus in the current year. This is not a complete list of all risks or areas of focus identified by our audit. We discussed these areas of focus with the Audit Committee. Their report on those matters that they considered to be significant issues in relation to the financial statements is set out on page 61.

Area of focus	How the scope of our audit addressed the area of focus
Going Concern This was considered to be an area of focus due to the capital structure of the Group and its reliance on the refinancing to be completed after the financial statements are signed, which is fully disclosed in note 2 to the financial statements.	The Group's refinancing included a rights issue due to take place on 8 April 2014. We evaluated the likelihood of the successful completion of the rights issue. We also evaluated the likelihood of the rights issue raising sufficient funds to enable the Group to continue in operation for at least a year from the date of this report. We tested the key judgements within the Group's future cashflow forecasts, including power brand growth and transformation activities, by developing an understanding of and challenging the directors' growth estimates, comparing historical growth estimates to past results to assess budgeting accuracy, and assessing the directors' contingency plans. We also considered forecast compliance with financial covenants, and assessed the sensitivity of the director's calculations to changes in key inputs, in particular forecast underlying trading profit. Our conclusion on going concern is below.
Carrying value of goodwill and parent company investment The Group holds material goodwill relating to continuing operations and the Parent Company holds a material investment in subsidiary on its balance sheet. We focused on this area as the assessment of whether the goodwill in the Group financial statements and the investment in the Parent Company financial statements involves complex and subjective judgements by the directors about the future results of the business. The Company investment of £481.1 million was fully impaired by the directors in the year.	In evaluating whether any impairment was necessary to the carrying value of the goodwill relating to continuing operations and whether the impairment of the Parent Company's investment was warranted, we obtained and tested the directors' calculations (including the value in use computations and discount rate) and tested both the methodology and the assumptions applied. We also tested the historical accuracy of forecasts and budgets. We applied sensitivity analysis to the calculations to assess the impact of variations in the key assumptions, including the forecast underlying trading profit, both individually and in aggregate.
Sale of the Bread business We focused on this area due to the impact on the Group's continuing operations (see note 10) and the significant impairment recognised on disposal, whose value was based on subjective judgements made by the directors; specifically the valuation of the contingent deferred consideration from the sale of the Bread business.	We tested the fair value less costs to sell off the Bread business by challenging the assumptions underpinning the directors' evaluation of the deferred contingent consideration and agreeing the costs to sell to supporting documentation to check that they were appropriately recognised. We also considered the adequacy of the disclosures within the Group financial statements.

Independent Auditors' Report to the Members of Premier Foods plc

Area of focus	How the scope of our audit addressed the area of focus
Carrying value of deferred tax assets The Group holds significant deferred tax assets on the balance sheet. We focused on this area as it involves complex and subjective judgements by the directors about the future results of the business.	We tested the directors' assessment of the recoverability of both recognised and unrecognised deferred tax assets by evaluating the likelihood of achieving expected taxable profits against which such assets are to be utilised. To do this, we compared the expected taxable profits to board approved budgets and forecasts and evaluated the sensitivity of the judgement of whether the assets would be recoverable to the estimates of growth rates.
The valuation of the sales rebates and discount accruals Material sales rebates and discount accruals are held on the balance sheet, which require the directors to estimate expected levels of rebates and discounts with reference to recent promotional activity and historical invoicing trends.	We tested the valuation of the sales rebates and discount accruals by challenging the directors' judgements and comparing the value of the prior year accrual with actual discount invoicing received post year-end. We also tested the sufficiency of the accrual by comparing the amount and ageing of disputed balances against historic recovery rates from the Group's customers
Risk of management override of internal controls ISAs (UK & Ireland) require we consider this.	We assessed the overall control environment of the Group, including the arrangements for staff to "whistle-blow" inappropriate actions, and interviewed senior management and the Group's internal audit function. We examined the significant accounting estimates and judgements relevant to the financial statements for evidence of bias by the directors that may represent a risk of material misstatement due to fraud. This included testing manual journal entries and evaluating significant accounting estimates (for example, goodwill value in use computations) for evidence based judgements.
Risk of Fraud in Revenue Recognition ISAs (UK & Ireland) presume there is a risk of fraud in revenue recognition. We focused on the risk that revenue may have been recognised for all revenue streams for transactions that had not occurred.	We tested journal entries posted to revenue accounts to identify any unusual or irregular items, which we agreed to supporting documentation to check that the revenue was recognised based on the date the goods are delivered and title passes. We also tested the reconciliations between the revenue systems used by the Group and its financial ledgers.

Going Concern

Under the Listing Rules we are required to review the directors' statement, set out on page 76, in relation to going concern. We have nothing to report having performed our review.

As noted in the directors' statement, the directors have concluded that it is appropriate to prepare the Group's and Parent Company's financial statements using the going concern basis of accounting. The going concern basis presumes that the Group and Parent Company have adequate resources to remain in operation, and that the directors intend them to do so, for at least one year from the date the financial statements were signed.

As outlined in note 2 to the financial statements, the Group's and the Parent Company's ability to remain in operation is reliant on the refinancing to be completed after the financial statements are signed, including the rights issue due to take place on 8 April 2014. As part of our audit we have concluded that the directors' use of the going concern basis is appropriate, although because the successful completion of the rights issue is a prerequisite for the Group's and the Parent Company's ability to continue as a going concern, a material uncertainty exists which may cast significant doubt about the ability.

Because not all future events or conditions can be predicted, even if the rights issue is successfully completed, these statements are not a guarantee as to the Group's and the Parent Company's ability to continue as a going concern.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements;
- 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 Corporate Governance Statement set out on pages 46 to 77 in the Annual Report with respect to internal control and risk management systems and about share capital structures is consistent with the financial statements.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

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

- we have not received all the information and explanations we require for our audit; or
- 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.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law have not been made, and under the Listing Rules we are required to review certain elements of the report to shareholders by the Board on directors' remuneration. We have no exceptions to report arising from these responsibilities.

Corporate Governance Statement

Under the Companies Act 2006, we are required to report to you if, in our opinion a corporate governance statement has not been prepared by the Parent Company. We have no exceptions to report arising from these responsibilities.

Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to the Company's compliance with nine provisions of the UK Corporate Governance Code ("the Code"). We have nothing to report having performed our review.

On page 77 of the Annual Report, as required by the Code Provision C.1.1, the directors state that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Group's performance, business model and strategy. On page 61, as required by C.3.8 of the Code, the Audit Committee has set out the significant issues that it considered in relation to the financial statements, and how they were addressed. Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:

- the statement given by the directors is materially inconsistent with our knowledge of the Group acquired in the course of performing our audit; or
- the section of the Annual Report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We have no exceptions to report arising from this responsibility.

Other information in the Annual Report

Under ISAs (UK & Ireland), we are required to report to you if, in our opinion, information in the Annual Report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group and Parent Company acquired in the course of performing our audit; or
- is otherwise misleading.

We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Directors' Responsibilities Statement set out pages 76 to 77, the directors are responsible for the preparation of the Group and 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 Group and Parent Company financial statements in accordance with applicable law and ISAs (UK & 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.

Pauline Campbell
(Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
4 March 2014

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Consolidated statement of profit or loss

	Note	Year ended 31 Dec 2013 £m	Year ended 31 Dec 2012 (Restated)[1] £m
Continuing operations			
Revenue	4	**856.2**	1,070.9
Cost of sales		**(556.1)**	(721.6)
Gross profit		**300.1**	349.3
Selling, marketing and distribution costs		**(111.9)**	(141.6)
Administrative costs		**(133.5)**	(123.5)
Net other operating expense		**(2.1)**	(0.5)
Operating profit	5	**52.6**	83.7
Before (loss)/profit on disposal of operations		**55.0**	50.6
(Loss)/profit on disposal of operations	11	**(2.4)**	33.1
Finance cost	7	**(62.2)**	(86.1)
Finance income	7	**2.4**	4.1
Net movement on fair valuation of interest rate financial instruments	7	**11.6**	(9.7)
Profit/(loss) before taxation from continuing operations		**4.4**	(8.0)
Taxation (charge)/credit	8	**(51.1)**	18.0
(Loss)/profit after taxation from continuing operations		**(46.7)**	10.0
Loss from discontinued operations	10	**(199.2)**	(27.9)
Loss for the year attributable to owners of the Parent		**(245.9)**	(17.9)
Basic and diluted (loss)/earnings per share			
From continuing operations (pence)	9	**(19.5)**	4.2
From discontinued operations (pence)	9	**(83.1)**	(11.6)
From loss for the year		**(102.6)**	(7.4)
Adjusted earnings/(loss) per share[2]			
From continuing operations (pence)	9	**25.9**	28.2
From discontinued operations (pence)	9	**1.8**	(6.9)
From adjusted profit for the year		**27.7**	21.3

1. Comparatives have been restated to reflect the reclassification of the Bread business as a discontinued operation and the adoption of IAS 19 (Revised).
2. Adjusted earnings/(loss) per share is defined as trading profit less net regular interest payable, less a notional tax charge at 23.25% (2012: 24.5%) divided by the weighted average number of ordinary shares of the Company.

The notes on pages 89 to 131 form an integral part of the consolidated financial statements.

Consolidated statement of comprehensive income

	Note	Year ended 31 Dec 2013 £m	Year ended 31 Dec 2012 (Restated)[1] £m
Loss for the year		(245.9)	(17.9)
Other comprehensive (losses)/income			
Items that will never be reclassified to profit or loss			
Remeasurements of defined benefit liability	23	(152.7)	(191.4)
Deferred tax credit	8	8.4	37.2
Items that are or may be reclassified to profit or loss			
Exchange differences on translation		(0.3)	—
Other comprehensive losses, net of tax		(144.6)	(154.2)
Total comprehensive losses attributable to owners of the parent		(390.5)	(172.1)

1. Comparatives have been restated to reflect the reclassification of the Bread business as a discontinued operation and the adoption of IAS 19 (Revised).

The notes on pages 89 to 131 form an integral part of the consolidated financial statements.

FINANCIAL STATEMENTS

Consolidated balance sheet

	Note	As at 31 Dec 2013 £m	As at 31 Dec 2012 £m
ASSETS:			
Non-current assets			
Property, plant and equipment	13	**196.3**	374.2
Goodwill	14	**713.9**	713.9
Other intangible assets	15	**575.5**	677.0
Deferred tax assets	8	**72.7**	71.9
		1,558.4	1,837.0
Current assets			
Assets held for sale	12	**26.8**	81.0
Inventories	17	**68.9**	116.2
Trade and other receivables	18	**248.3**	298.6
Financial assets — derivative financial instruments	21	**0.5**	1.0
Cash and cash equivalents	26	**157.0**	53.2
		501.5	550.0
Total assets		**2,059.9**	2,387.0
LIABILITIES:			
Current liabilities			
Liabilities held for sale	12	**(1.4)**	(3.4)
Trade and other payables	19	**(336.7)**	(412.4)
Financial liabilities			
— short-term borrowings	20	**(169.1)**	(229.8)
— derivative financial instruments	21	**(9.5)**	(19.6)
Provisions for liabilities and charges	22	**(15.0)**	(25.6)
Current income tax liabilities		**(0.7)**	(0.8)
		(532.4)	(691.6)
Non-current liabilities			
Financial liabilities — long-term borrowings	20	**(818.7)**	(774.1)
Retirement benefit obligations	23	**(603.3)**	(466.8)
Provisions for liabilities and charges	22	**(57.2)**	(48.3)
Other liabilities	24	**(30.4)**	(1.3)
		(1,509.6)	(1,290.5)
Total liabilities		**(2,042.0)**	(1,982.1)
Net assets		**17.9**	404.9
EQUITY:			
Capital and reserves			
Share capital	25	**24.0**	24.0
Share premium	25	**1,124.7**	1,124.7
Merger reserve	25	**404.7**	587.5
Other reserves	25	**(9.3)**	(9.3)
Profit and loss reserve	25	**(1,526.3)**	(1,322.1)
Capital and reserves attributable to owners of the Parent		**17.8**	404.8
Non-controlling interest		**0.1**	0.1
Total equity		**17.9**	404.9

The notes on pages 89 to 131 form an integral part of the consolidated financial statements.

The financial statements on pages 84 to 131 were approved by the Board of directors on 4 March 2014 and signed on its behalf by:

Gavin Darby
Chief Executive Officer

Alastair Murray
Chief Financial Officer

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Consolidated statement of cash flows

	Note	Year ended 31 Dec 2013 £m	Year ended 31 Dec 2012 £m
Cash generated from operating activities	26	123.4	56.4
Interest paid		(38.5)	(56.8)
Interest received		2.6	4.3
Taxation received		–	0.3
Cash generated from operating activities		**87.5**	4.2
Sale of subsidiaries/businesses		90.8	312.2
Purchase of property, plant and equipment		(32.6)	(49.4)
Purchase of intangible assets		(7.8)	(17.2)
Sale of property, plant and equipment		14.8	0.2
Cash generated from investing activities		**65.2**	245.8
Repayment of borrowings		(93.3)	(312.2)
Proceeds from borrowings		91.0	1.5
Proceeds from securitisation programme		24.3	72.4
Financing fees and other costs of finance		(27.5)	(24.0)
Cash used in financing activities		**(5.5)**	(262.3)
Net inflow/(outflow) of cash and cash equivalents		**147.2**	(12.3)
Cash, cash equivalents and bank overdrafts at beginning of year		9.7	22.1
Effect of movement in foreign exchange		0.1	(0.1)
Cash, cash equivalents and bank overdrafts at end of year	26	**157.0**	9.7

The notes on pages 89 to 131 form an integral part of the consolidated financial statements.

Consolidated statement of changes in equity

	Note	Share capital £m	Share premium £m	Merger reserve £m	Other reserves £m	Profit and loss reserve £m	Non-controlling interest £m	Total equity £m
At 1 January 2013		24.0	1,124.7	587.5	(9.3)	(1,322.1)	0.1	404.9
Loss for the year		—	—	—	—	(245.9)	—	(245.9)
Remeasurements of defined benefit liability	23	—	—	—	—	(152.7)	—	(152.7)
Deferred tax credit	8	—	—	—	—	8.4	—	8.4
Exchange differences on translation		—	—	—	—	(0.3)	—	(0.3)
Other comprehensive losses		—	—	—	—	(144.6)	—	(144.6)
Total comprehensive losses		—	—	—	—	(390.5)	—	(390.5)
Share-based payments		—	—	—	—	3.5	—	3.5
Realisation of merger reserve		—	—	(182.8)	—	182.8	—	—
At 31 December 2013		24.0	1,124.7	404.7	(9.3)	(1,526.3)	0.1	17.9
At 1 January 2012		24.0	1,124.7	606.0	(9.3)	(1,172.8)	0.1	572.7
Profit for the year		—	—	—	—	(17.9)	—	(17.9)
Remeasurements of defined benefit liability	23	—	—	—	—	(191.4)	—	(191.4)
Deferred tax charge	8	—	—	—	—	37.2	—	37.2
Other comprehensive losses		—	—	—	—	(154.2)	—	(154.2)
Total comprehensive losses		—	—	—	—	(172.1)	—	(172.1)
Share-based payments		—	—	—	—	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

1. Comparatives have been restated to reflect the reclassification of the Bread business as a discontinued operation and the adoption of IAS 19 (Revised).

The notes on pages 89 to 131 form an integral part of the consolidated financial statements.

Notes to the financial statements

1. General information

Premier Foods plc (the "Company") is a public limited company incorporated and domiciled in England and Wales, registered number 5160050, with its registered office at Premier House, Centrium Business Park, Griffiths Way, St Albans, Hertfordshire, AL1 2RE. The principal activity of the Company and its subsidiaries (the "Group") is the manufacture and distribution of branded and own label food and beverage products as described in note 16. 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 4 March 2014.

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	
Annual improvements 2011	
Amendments to IFRS 7	Financial Instruments: Disclosures — Offsetting Financial Assets and Financial Liabilities
IFRS 13	Fair Value Measurement
Amendments to IAS 1	Presentation of Items of Other Comprehensive Income
IAS 12	Income Taxes
IAS 19 (Revised)	Employee Benefits

There has been no significant impact on the Group's results, net assets, cash flows or disclosures on adoption of new or revised standards in the period, other than on adoption of IAS 19 (Revised) as set out in note 23.

New standards and interpretations not applied

The following amendments to published standards, effective for periods on or after 1 January 2014, have been endorsed by the EU:

International Financial Reporting Standards	
IFRS 10	Consolidated Financial Statements
IFRS 11	Joint Arrangements
IFRS 12	Disclosure of Interests in Other Entities
IAS 27 (Revised)	Separate Financial Statements
Amendments to IAS 32	Financial Instruments: Presentation — Offsetting Financial Assets and Financial Liabilities

The following standards and amendments to published standards, effective for periods on or after 1 January 2014, have not been endorsed by the EU:

International Financial Reporting Standards	
IFRS 9	Financial Instruments
Amendments to IFRS 10, IFRS 12 and IAS 27	Investment Entities
Amendments to IAS 36	Recoverable Amount Disclosures for Non-Financial Assets
Amendments to IAS 39	Novation of Derivatives and Continuation of Hedge Accounting
IFRIC 21	Levies

It is not expected that any of the new standards and interpretations not applied will have a material impact on the results, net assets or cash flows of the Group.

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Notes to the financial statements

2. Accounting policies (continued)

Basis for preparation of financial statements on a going concern basis

On 4 March 2014, the Group announced its proposal to diversify its sources of finance to provide a solid foundation on which it can drive future growth through its category-based strategy and leveraging its strengths. This transformational capital restructure includes a fully underwritten equity offering of approximately £350m (gross of fees) through a placing and rights issue, the issue of £475m senior secured loan notes and a new £300m revolving credit facility with a smaller bank syndicate. Significantly, the Group has also reached a pensions framework agreement with the respective Pension Scheme trustees following the triennial actuarial valuation, which provides the platform for this new capital structure to be put in place. In order for the capital restructuring to proceed, and for the funds to be available, Shareholders will be required to vote at the General Meeting in order to (amongst other things) authorise the Board to allot shares in the Company under the placing and the rights issue.

The Group's 2013 financial statements have been prepared on a going concern basis, which assumes that the Group will continue to be able to meet its liabilities as they fall due for the foreseeable future.

Due to the inter-conditionality of the above elements of the refinancing, if the shareholders do not vote in favour of the resolutions and the placing and the rights issue do not occur, no funds will be available to be drawn by, or released to, the Group under the new revolving credit facility or the new bonds, and the revised schedules of pension contributions, modified funding arrangements and associated matters in relation to the relevant pension schemes pursuant to the new framework agreement will not become effective. If this were to be the case, although the Group's current facilities do not expire within the next twelve months, the Group expects that it would be unable to comply with certain of its financial covenants under the current facilities on or after 31 December 2014. In this scenario, the Group would need to obtain certain consents or waivers from the Group's lenders in respect of such financial covenants under the current facilities. If the Group were unable to maintain compliance with such financial covenants or were unable to obtain such consents or waivers, this would lead to a default under the Group's existing financing arrangements, unless the Group were able to renegotiate or refinance the current facilities. While the Board would seek to renegotiate or refinance the current facilities in such circumstances, there can be no certainty that the Group would be able to do so either on acceptable terms or at all. In the event that the Group were unable to renegotiate or refinance the current facilities in these circumstances, the Group's lenders would be able to demand repayment of all borrowings.

The Board has concluded that the resolutions which are required for the placing and the rights issue to proceed, such that the equity proceeds are received in line with the timetable set out in the associated Prospectus, are likely to be passed. The Board has taken into consideration the undertakings received from Shareholders that they will vote in favour of the resolution, historical voting trends, the underwritten element of the placing and the rights issue, and the backstop banks' commitment to purchase the new bonds.

Nevertheless, the Board acknowledges that there is some theoretical uncertainty as to whether sufficient Shareholders will vote in favour of the resolutions to enable the capital restructuring to proceed. The Board believes that this uncertainty is extremely remote, but the consequence of not succeeding may be material. The directors believe that adopting the going concern basis in preparing the consolidated financial statements is appropriate. Nevertheless, the directors are prudently making full disclosure, as required by accounting standards, to indicate the existence of a material uncertainty, which may cast significant doubt about the Group's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Group were unable to continue as a going concern.

The auditor's report of the financial statements contains an unmodified audit opinion. However, it includes an emphasis of matter in respect of going concern.

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 is exposed to or has rights to variable returns from involvement with an investee and has the ability to affect those returns through its power over the investee.

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

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.

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.

2. Accounting policies (continued)

(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 ("CODM"). The CODM is responsible for allocating resources and assessing performance of the operating segments. See note 4 for further details.

2.5 Share-based payments

The Company operates a number of equity-settled and cash-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 statement of profit or loss, with a corresponding adjustment to equity.

2.6 Foreign currency translation

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into 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 re-translation 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 statement of profit or loss 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 statement of profit or loss.

2.7 Property, plant and equipment ("PPE")

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

PPE is initially recorded at cost. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. Subsequent expenditure is added to the carrying value of the asset when it is probable that incremental future economic benefits will transfer to the Group. All other subsequent expenditure is expensed in the period it is incurred.

Differences between the cost of each item of PPE and its 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 property, plant and equipment in the course of its construction. Directly attributable costs that are capitalised as part of the PPE include the employee costs and an appropriate portion of relevant overheads. When the item of property, plant and equipment is brought into use, it is depreciated.

2.8 Business combinations and goodwill

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

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash generating units ("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.

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Notes to the financial statements

2. Accounting policies (continued)

2.9 Intangible assets

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

Acquired intangible assets

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

Research and development

Research expenditure is charged to the statement of profit or loss 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 until 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'.

Software

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

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

The useful economic lives of intangible assets are determined based on a review of a combination of factors including the asset ownership rights acquired and the nature of the overall product life cycle. Reviews of the estimated remaining useful lives and residual values of individual intangible assets are performed annually.

2.10 Impairment

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

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

Impairment losses are recognised in the statement of profit or loss in the 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 and income

(i) Finance cost

Borrowing costs are accounted for on an accruals basis in the statement of profit or loss 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 statement of profit or loss on a straight-line basis over the lease period.

2. Accounting policies (continued)

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.

2.14 Taxation

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

Current tax

Income tax is recognised in the statement of profit or loss except to the extent that it relates to items recognised directly in other comprehensive income ("OCI") in which case it is also recognised in OCI. 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 statement of profit or loss except when it relates to items credited or charged directly to OCI, in which case the deferred tax is also recognised in OCI.

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 remeasurements 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.

Remeasurements 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, and the net interest on the net defined benefit liability are recognised immediately in the statement of profit or loss.

Curtailments are recognised as a past service cost 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 amended 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.

Notes to the financial statements

2. Accounting policies (continued)

Obligations for contributions to defined contribution pension plans are recognised as an expense in the statement of profit or loss as they fall due. Differences between contributions payable in the year and contributions actually paid are recognised as either accruals or prepayments in the balance sheet.

2.16 Provisions

Provisions (for example restructuring or property exit costs) are recognised when the Group has present legal or constructive obligations as a result of past events, it is probable that an outflow of resources will be required to settle the obligations and a reliable estimate of the amount can be made. In the case of where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset when the reimbursement is virtually certain. Where material, the Group discounts its provisions using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance expense.

2.17 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 in hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

For the purpose of the statement of cash flows, cash and cash equivalents 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.

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2. Accounting policies (continued)

Derivative financial instruments

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

Other items at fair value through profit or loss

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

2.20 Deferred income

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

3. Critical accounting policies, estimates and judgements

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

3.1 Employee benefits

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

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

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 CGU's are determined based on the higher of net realisable value and value in use calculations. These calculations require the use of estimates.

The Group has considered the impact of the assumptions used on the calculations and has conducted sensitivity analysis on the impairment tests of the CGU's carrying values. See note 14 for further details.

Acquired trademarks, brands and customer relationships 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 statement of profit or loss according to the substance of the agreements with customers and the terms of any contractual relationship. Promotional support is generally charged to the statement of profit or loss 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 the liability becomes probable.

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

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Notes to the financial statements

4. Segmental analysis

IFRS 8 requires operating segments to be determined based on the Group's internal reporting to the 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 uses divisional contribution as the key measure of the segments' results; it 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.

The Group uses 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 administration costs and net interest on the net defined benefit liability.

The Group's operating segments are "Grocery" and "Discontinued operations". The Grocery segment, which has been redefined to include all continuing operations, sells both sweet and savoury ambient food products. The Discontinued operations segment primarily sells bread, morning goods and flour products. During the year the Group realigned how it reported divisional results to the CODM in line with updated internal reporting lines; 2012 comparatives have been restated to reflect this change. In 2013 the Group's operating segments have been monitored below divisional contribution for strategic purposes.

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 and during 2013, the Group completed the disposal of the Sweet Pickles and Table Sauces business; the results of these businesses have not been reported separately as they were fully integrated within the Grocery and Bread segments in 2012.

On 27 January 2014 the Group announced the conditional sale of its majority share in the Bread business. The assets and associated liabilities to be sold with the transaction are held for sale in the financial statements. As a result of the transaction, the Bread business has been classified as a discontinued operation as it was a separate major component of the Group; 2012 comparatives have been restated to reflect this change.

The segment results for the year ended 31 December 2013 and for the year ended 31 December 2012 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 2013		
	Grocery £m	Discontinued operations £m	Total Group £m
Revenue			
External	856.2	654.6	1,510.8
Inter-segment	–	27.0	27.0
Result			
Divisional contribution	202.9	27.8	230.7
Total SG&A costs	(63.4)	(22.1)	(85.5)
Trading profit	139.5	5.7	145.2
Amortisation of intangible assets	(43.8)	(2.1)	(45.9)
Fair value movements on foreign exchange and other derivative contracts	(1.9)	–	(1.9)
Restructuring costs associated with divestment activity	(7.3)	(11.9)	(19.2)
Refinancing costs	(0.2)	–	(0.2)
Net interest on pensions and administrative expenses	(31.3)	–	(31.3)
Operating profit/(loss) before impairment and loss on disposal of operations	55.0	(8.3)	46.7
Impairment	–	(234.4)	(234.4)
Loss on disposal of operations	(2.4)	–	(2.4)
Operating profit/(loss)	52.6	(242.7)	(190.1)
Finance cost	(62.2)	–	(62.2)
Finance income	2.4	–	2.4
Net movement on fair valuation of interest rate financial instruments	11.6	–	11.6
Profit/(loss) before taxation	4.4	(242.7)	(238.3)
Depreciation	(17.3)	(15.6)	(32.9)

4. Segmental analysis (continued)

	Grocery £m	Discontinued operations £m	Total £m
	Year ended 31 Dec 2012 (Restated)[1]		
Revenue			
External	1,070.9	685.3	1,756.2
Inter-segment	0.5	21.2	21.7
Result			
Divisional contribution	227.8	26.3	254.1
Total SG&A costs	(68.7)	(48.2)	(116.9)
Trading profit/(loss)	159.1	(21.9)	137.2
Amortisation of intangible assets	(50.4)	(2.9)	(53.3)
Fair value movements on foreign exchange and other derivative contracts	2.0	—	2.0
Restructuring costs associated with divestment activity	(31.3)	(14.8)	(46.1)
Re-financing costs	(1.1)	—	(1.1)
Net interest on pensions and administrative expenses	(27.7)	—	(27.7)
Operating profit/(loss) before impairment and profit on disposal of operations	50.6	(39.6)	11.0
Impairment	—	(36.2)	(36.2)
Profit on disposal of operations	33.1	30.6	63.7
Operating profit/(loss)	83.7	(45.2)	38.5
Finance cost	(86.1)	(0.2)	(86.3)
Finance income	4.1	—	4.1
Net movement on fair valuation of interest rate financial instruments	(9.7)	—	(9.7)
Loss before taxation	(8.0)	(45.4)	(53.4)
Depreciation	(23.4)	(16.2)	(39.6)

1. Comparatives have been restated to reflect the reclassification of the Bread business as a discontinued operation and the adoption of IAS 19 (Revised).

Further details of the impairment to Discontinued operations are available in note 14 of the Group's consolidated financial statements.

Revenues, on a continuing basis, of £173.7m and £143.7m (2012: £226.9m and £174.6m) are derived from two external customers.

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

The Group primarily supplies the UK market, although it also supplies certain products to other 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

	31 Dec 2013 £m	31 Dec 2012 (Restated)[1] £m
United Kingdom	**821.3**	1,019.4
Other Europe	**21.7**	29.5
Rest of world	**13.2**	22.0
Total	**856.2**	1,070.9

1. Comparatives have been restated to reflect the reclassification of the Bread business as a discontinued operation.

Discontinued operations — revenue

	31 Dec 2013 £m	31 Dec 2012 (Restated)[1] £m
United Kingdom	**636.7**	669.3
Other Europe	**17.9**	15.8
Rest of world	**—**	0.2
Total	**654.6**	685.3

1. Comparatives have been restated to reflect the reclassification of the Bread business as a discontinued operation.

Non-current assets

	31 Dec 2013 £m	31 Dec 2012 £m
United Kingdom	**1,558.4**	1,837.0

5. Operating profit for continuing operations

Notes to the financial statements

5a. Analysis of costs by nature

	Year ended 31 Dec 2013 £m	Year ended 31 Dec 2012 (Restated)[1] £m
Employee benefits expense (note 6)	**134.1**	194.8
Depreciation of property, plant and equipment	**17.3**	23.4
Amortisation of intangible assets	**43.8**	50.4
Operating lease rental payments	**5.5**	14.7
Repairs and maintenance expenditure	**23.4**	34.7
Research and development costs	**4.2**	5.7
Loss on disposal of non-current assets	**7.8**	4.1
Net foreign exchange (gain)/loss	**(0.2)**	0.5
Past service credit relating to defined benefit schemes	**(22.3)**	(31.7)
Charge relating to restructuring and onerous lease provisions	**7.3**	31.3
Refinancing costs	**0.2**	1.1
Auditors' remuneration	**1.0**	2.2

1. Comparatives have been restated to reflect the reclassification of the Bread business as a discontinued operation and the adoption of IAS 19 (Revised).

Operating lease commitments are further disclosed in note 27.

5b. Auditors' remuneration

	Year ended 31 Dec 2013 £m	Year ended 31 Dec 2012 £m
Fees payable to the Company's auditors for the audit of the Parent Company and consolidated financial statements	**0.4**	0.4
Fees payable to the Company's auditors and its associates for other services:		
— The audit of the Company's subsidiaries, pursuant to legislation	**0.2**	0.4
— Other services relating to taxation	**0.1**	0.1
— Services relating to corporate finance transactions	**0.3**	2.3
Total auditors' remuneration	**1.0**	3.2

The total operating profit charge for auditors' remuneration was £1.0m (2012: £2.2m).

In 2012 £2.3m of costs were directly attributable to advice related to the Group's re-financing and support with the necessary circulars in connection with the disposal programme. £1.0m of the £2.3m was capitalised, resulting in a total of £2.8m held on the balance sheet at 31 December 2012, with the remaining £1.3m charged to operating profit. £0.7m of these capitalised fees were charged to operating profit in 2013, resulting in a total of £2.1m held on the balance sheet at 31 December 2013.

6. Employees

	Year ended 31 Dec 2013 £m	Year ended 31 Dec 2012 (Restated)[1] £m
Staff costs for the Group during the year — continuing operations		
Wages and salaries	(129.9)	(174.1)
Social security costs	(13.3)	(17.9)
Termination benefits	(1.1)	(11.1)
Share options granted to directors and employees	(4.1)	(4.6)
Contributions to defined contribution schemes (note 23)	(2.0)	(0.5)
Credit for defined benefit schemes (note 23)	16.3	13.4
Total — continuing operations	(134.1)	(194.8)
Staff costs for the Group during the year — discontinued operations		
Wages and salaries	(142.6)	(158.9)
Social security costs	(13.2)	(14.7)
Termination benefits	(9.9)	(1.0)
Share options granted to directors and employees	(0.6)	(0.1)
Contributions to defined contribution schemes (note 23)	(1.4)	(0.3)
Credit/(charge) for defined benefit schemes (note 23)	8.7	(17.7)
Total — discontinued operations	(159.0)	(192.7)
Total — continuing and discontinued operations	(293.1)	(387.5)

1. Comparatives have been restated to reflect the reclassification of the Bread business as a discontinued operation.

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

	2013 Number	2012 Number
Average monthly number of people employed — continuing operations		
Management	720	799
Administration	501	573
Production, distribution and other	3,062	3,357
Total — continuing operations	4,283	4,729
Average monthly number of people employed — discontinued operations		
Management	516	618
Administration	211	321
Production, distribution and other	3,369	4,119
Total — discontinued operations	4,096	5,058
Total — continuing and discontinued operations	8,379	9,787

Directors' remuneration is disclosed in the audited sections of the Annual Report on Remuneration on pages 70 to 75, which form part of these financial statements.

Notes to the financial statements

7. Finance income and costs

	Year ended 31 Dec 2013 £m	Year ended 31 Dec 2012 (Restated)[1] £m
Interest payable on bank loans and overdrafts	(7.7)	(10.2)
Interest payable on term facility	(17.4)	(24.6)
Interest payable on revolving facility	(5.8)	(9.4)
Interest payable on interest rate derivatives	(7.2)	(5.8)
Interest payable on interest rate financial liabilities designated as other financial liabilities at fair value through profit or loss	—	(11.5)
Other interest payable	(1.4)	(0.7)
Amortisation of debt issuance costs and deferred fees	(22.7)	(13.1)
	(62.2)	(75.3)
Write off of financing costs[2]	—	(10.8)
Total finance cost	(62.2)	(86.1)
Interest receivable on bank deposits	2.4	4.1
Total finance income	2.4	4.1
Movement on fair valuation of interest rate derivatives	11.6	(14.8)
Movement on fair valuation of interest rate financial liabilities designated as other financial liabilities at fair value through profit or loss	—	5.1
Net movement on fair valuation of interest rate financial instruments	11.6	(9.7)
Net finance cost	(48.2)	(91.7)

1. Comparatives have been restated to reflect the reclassification of the Bread business as a discontinued operation.
2. Relates to the write-off of debt issuance costs in 2012 relating to the Group's previous financing agreement.

The net movement on fair valuation of interest rate financial instruments relates to a £11.6m favourable movement on interest rate swaps held (2012: £19.2m adverse). In 2012 there was an additional £9.5m favourable movement in swaps held before re-financing in March 2012.

8. Taxation

Current tax

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

	Continuing operations £m	Discontinued operations £m	Total £m
2013			
Current tax			
— Current year	—	—	—
— Prior years	—	—	—
Overseas current tax			
— Current year	—	—	—
— Prior years	—	—	—
Deferred tax			
— Current year	(52.7)	37.9	(14.8)
— Prior years	3.2	—	3.2
— Adjustment to restate opening deferred tax at 20.0%	(1.6)	5.6	4.0
Income tax (charge)/credit for the year	(51.1)	43.5	(7.6)
2012 (Restated)[1]			
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	27.5	17.5	45.0
— 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	18.0	17.5	35.5

1. Comparatives have been restated to reflect the reclassification of the Bread business as a discontinued operation and the adoption of IAS 19 (Revised).

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8. Taxation (continued)

Income tax charge for the year

As a result of the 2012 Finance Act provision to reduce the UK corporation tax rate from 24% to 23% from 1 April 2013 the applicable rate of corporation tax for the year is 23.25%. As a result of the 2013 Finance Act provision to reduce the UK corporation tax rate to 20% from 1 April 2015 deferred tax balances have been restated at 20%, the rate at which they are expected to reverse.

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

	Year ended 31 Dec 2013 £m	Year ended 31 Dec 2012 (Restated)[1] £m
Deferred tax charge on reduction of corporate tax rate	(13.3)	(4.5)
Deferred tax credit on pension movements	28.3	41.4
Deferred tax (charge)/credit on losses	(6.6)	0.3
	8.4	37.2

1. Comparatives have been restated to reflect the adoption of IAS 19 (Revised).

The tax charge for the year differs from the standard rate of corporation tax in the United Kingdom of 23.25% (2012: 24.5%). The reasons for this are explained below:

	Year ended 31 Dec 2013 £m	Year ended 31 Dec 2012 (Restated)[1] £m
Profit/(loss) before taxation for continuing operations	4.4	(8.0)
Tax (charge)/credit at the domestic income tax rate of 23.25% (2012: 24.5%)	(1.0)	1.9
Tax effect of:		
Non-deductible items[2]	(0.3)	11.9
Other disallowable items	(0.5)	(0.2)
Adjustment for overseas results taxed at different rate	–	(1.0)
Adjustment for share-based payments	(1.0)	(1.1)
Previously unrecognised losses utilised	3.3	11.7
Capital gain on disposal of business	(3.3)	(13.0)
Adjustment due to current year deferred tax being provided at 20.0% (2012: 23.0%)	0.4	(0.6)
Movements in losses recognised[4]	(52.2)	16.9
Adjustment to restate opening deferred tax at 20.0% (2012: 23.0%)	(1.6)	5.4
Adjustments to prior years[3]	3.2	(13.9)
Deferred tax released on disposal of properties	1.9	–
Income tax (charge)/credit	**(51.1)**	18.0

1. Comparatives have been restated to reflect the reclassification of the Bread business as a discontinued operation.
2. In 2012 non-deductible items primarily related to profits made on the disposal of businesses during the year.
3. In 2012 adjustments to prior years primarily related to a disclaim of capital allowances in 2011 group accounts not repeated in the tax returns.
4. The proposed disposal of the Bread business has resulted in a significant increase in the potential net deferred tax asset. As a result of this increase it has been decided that potential deferred tax assets relating to corporation tax losses should not be recognised in the current year.

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 20.0% (2012: 23.0%) except for an asset of £0.5m (2012: £1.7m) relating to Irish retirement benefit obligations where the local rate of 12.5% has been used.

	2013 £m	2012 (Restated)[1] £m
At 1 January	71.9	(10.9)
(Charged)/credited to the income statement	(7.6)	36.5
Credited to OCI	8.4	37.2
Transferred to held for sale	–	3.4
Disposal of subsidiaries/businesses	–	5.7
At 31 December	**72.7**	71.9

1. Comparatives have been restated to reflect the reclassification of the Bread business as a discontinued operation the adoption of IAS 19 (Revised).

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8. Taxation (continued)

Due to the level of taxable profits anticipated the Group has not recognised deferred tax assets of £14.9m (2012: £20.5m) relating to capital losses, £95.9m (2012: £33.9m) relating to UK corporation tax losses and £24.9m (2012: £28.6m) relating to ACT. Under current legislation these losses can generally be carried forward indefinitely.

Deferred tax liabilities	Intangibles £m	Other £m	Total £m
At 1 January 2012	(132.9)	(4.3)	(137.2)
Prior year restatement of opening balances	10.6	0.3	10.9
Disposal of subsidiaries/businesses	5.7	—	5.7
Current year credit	15.0	—	15.0
Prior year charge	(0.7)	(0.6)	(1.3)
Transfer to held for sale	2.3	—	2.3
At 31 December 2012	**(100.0)**	**(4.6)**	**(104.6)**
Prior year restatement of opening balances	**11.4**	**0.6**	**12.0**
Current year credit	**3.8**	**—**	**3.8**
Prior year charge	**(0.3)**	**—**	**(0.3)**
Deferred tax credit on discontinued activities	**12.1**	**—**	**12.1**
At 31 December 2013	**(73.0)**	**(4.0)**	**(77.0)**

Deferred tax assets	Accelerated tax depreciation £m	Retirement benefit obligation £m	Share based payments £m	Financial instruments £m	Losses £m	Total £m
At 1 January 2012	6.3	70.0	(0.1)	50.1	—	126.3
Prior year restatement of opening balances						
— To income statement	(0.5)	(1.0)	—	(4.0)	—	(5.5)
— To OCI	—	(4.5)	—	—	—	(4.5)
Current year (charge)/credit	(7.8)	—	0.4	1.8	24.2	18.6
Credited to OCI	—	41.4	—	—	0.3	41.7
Deferred tax credit on discontinued activities	7.3	0.1	—	—	4.0	11.4
Prior year charge	(12.6)	—	—	—	—	(12.6)
Transferred to held for sale	1.1	—	—	—	—	1.1
At 31 December 2012 (Restated)[1]	**(6.2)**	**106.0**	**0.3**	**47.9**	**28.5**	**176.5**
Prior year restatement of opening balances						
— To income statement	**(3.2)**	**(1.2)**	**(0.1)**	**(6.3)**	**(2.8)**	**(13.6)**
— To OCI	**—**	**(12.3)**	**—**	**—**	**(1.0)**	**(13.3)**
Current year credit/(charge)	**3.5**	**(0.5)**	**0.7**	**(1.9)**	**(58.3)**	**(56.5)**
Prior year credit/(charge)	**—**	**0.4**	**0.1**	**(37.2)**	**40.2**	**3.5**
Credited to OCI	**—**	**28.3**	**—**	**—**	**(6.6)**	**21.7**
Deferred tax credit on discontinued activities	**31.4**	**—**	**—**	**—**	**—**	**31.4**
At 31 December 2013	**25.5**	**120.7**	**1.0**	**2.5**	**—**	**149.7**

Net deferred tax asset	£m
At 31 December 2013	**72.7**
At 31 December 2012	**71.9**

1. Comparatives have been restated to reflect the reclassification of the Bread business as a discontinued operation and the adoption of IAS 19 (Revised).

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 corporation tax losses are only recognised as other deferred tax assets are realised and to the extent that it is anticipated they will be utilised in the near future.

9. Earnings/(loss) per share

Basic loss per share has been calculated by dividing the loss attributable to owners of the parent of £245.9m (2012: £17.9m loss) by the weighted average number of ordinary shares of the Company.

	Year ended 31 Dec 2013			Year ended 31 Dec 2012 (Restated)[1]		
	Basic	Dilutive effect of share options	Diluted	Basic	Dilutive effect of share options	Diluted
Continuing operations						
(Loss)/profit after tax (£m)	(46.7)		(46.7)	10.0		10.0
Weighted average number of shares (m)	239.8	—	239.8	239.8	—	239.8
(Loss)/earnings per share (pence)	(19.5)	—	(19.5)	4.2	—	4.2
Discontinued operations						
Loss after tax (£m)	(199.2)		(199.2)	(27.9)		(27.9)
Weighted average number of shares (m)	239.8	—	239.8	239.8	—	239.8
Loss per share (pence)	(83.1)	—	(83.1)	(11.6)	—	(11.6)
Total						
Loss after tax (£m)	(245.9)		(245.9)	(17.9)		(17.9)
Weighted average number of shares (m)	239.8	—	239.8	239.8	—	239.8
Loss per share (pence)	(102.6)	—	(102.6)	(7.4)	—	(7.4)

1. Comparatives have been restated to reflect the reclassification of the Bread business as a discontinued operation the adoption of IAS 19 (Revised).

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.

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

	2013 Number	2012 Number
Weighted average number of ordinary shares for the purpose of basic earnings per share	239,828,166	239,806,206
Effect of dilutive potential ordinary shares:		
— Share options	453,414	—
Weighted average number of ordinary shares for the purpose of diluted earnings per share	240,281,580	239,806,206

Given that the Group made a loss in the year there is no dilutive effect of share options.

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 23.25% (2012: 24.5%) divided by the weighted average number of ordinary shares of the Company.

Net regular interest payable is defined as net interest after excluding non-cash items, including write-off of financing costs, fair value adjustments on interest rate financial instruments and other interest.

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

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

	Year ended 31 Dec 2013		
	Continuing £m	Discontinued £m	Total £m
Operating profit/(loss)	52.6	(242.7)	(190.1)
Impairment of property, plant and equipment and intangible assets	—	234.4	234.4
Loss on disposal of operations	2.4	—	2.4
Operating profit/(loss) before impairment and profit on disposal of operations	55.0	(8.3)	46.7
Net interest on pension and administrative expenses	31.3	—	31.3
Fair value movements on foreign exchange and other derivative contracts	1.9	—	1.9
Amortisation of intangible assets	43.8	2.1	45.9
Restructuring costs associated with divestment activity	7.3	11.9	19.2
Re-financing costs	0.2	—	0.2
Trading profit	139.5	5.7	145.2
Less net regular interest payable	(58.4)	—	(58.4)
Adjusted profit before tax	81.1	5.7	86.8
Notional tax at 23.25%	(18.9)	(1.3)	(20.2)
Adjusted profit after tax	62.2	4.4	66.6
Average shares in issue (m)	239.8	239.8	239.8
Adjusted EPS (pence)	25.9	1.8	27.7
Net regular interest payable			
Net interest payable	(48.2)	—	(48.2)
Exclude fair value adjustments on interest rate financial instruments	(11.6)	—	(11.6)
Exclude other interest	1.4	—	1.4
Net regular interest payable	(58.4)	—	(58.4)

	Year ended 31 Dec 2012 (Restated)[1]		
	Continuing £m	Discontinued £m	Total £m
Operating profit/(loss)	83.7	(45.2)	38.5
Impairment of property, plant and equipment and intangible assets	—	36.2	36.2
Profit on disposal of operations	(33.1)	(30.6)	(63.7)
Operating profit/(loss) before impairment and loss on disposal of operations	50.6	(39.6)	11.0
Net interest on pension and administrative expenses	27.7	—	27.7
Fair value movements on foreign exchange and other derivative contracts	(2.0)	—	(2.0)
Amortisation of intangible assets	50.4	2.9	53.3
Restructuring costs associated with divestment activity	31.3	14.8	46.1
Re-financing costs	1.1	—	1.1
Trading profit/(loss)	159.1	(21.9)	137.2
Less net regular interest payable	(69.5)	—	(69.5)
Adjusted profit/(loss) before tax	89.6	(21.9)	67.7
Notional tax at 24.5%	(22.0)	5.4	(16.6)
Adjusted profit/(loss) after tax	67.6	(16.5)	51.1
Average shares in issue (m)	239.8	239.8	239.8
Adjusted EPS (pence)	28.2	(6.9)	21.3
Net regular interest payable			
Net interest payable	(91.7)	(0.2)	(91.9)
Exclude write-off of financing costs and other	11.8	0.1	11.9
Exclude fair value adjustments on interest rate financial instruments	9.7	—	9.7
Exclude other interest	0.7	0.1	0.8
Net regular interest payable	(69.5)	—	(69.5)

1. Comparatives have been restated to reflect the reclassification of the Bread business as a discontinued operation and the adoption of IAS 19 (Revised).

10. Discontinued operations

Income and expenditure incurred on discontinued operations during the year predominantly comprises the Bread business, in light of the announcement of the conditional sale of the Group's majority share in this business on 27 January 2014, in addition to other operations that were disposed of in prior years.

	Note	Year ended 31 Dec 2013 £m	Year ended 31 Dec 2012 £m
Revenue		654.6	685.3
Operating expenses		(662.9)	(724.9)
Operating loss before impairment and profit on disposal of operations		(8.3)	(39.6)
Impairment	14	(234.4)	(36.2)
Profit on disposal of operations		–	30.6
Operating loss		(242.7)	(45.2)
Finance cost		–	(0.2)
Loss before taxation		(242.7)	(45.4)
Taxation credit		43.5	17.5
Loss after taxation on discontinued operations for the year		(199.2)	(27.9)

Further details of the impairment to Discontinued operations are available in note 14 of the Group's consolidated financial statements.

During the year, discontinued operations contributed to a net inflow of £14.7m (2012: £11.8m inflow) to the Group's operating cash flows, a net inflow of £3.8m (2012: £14.6m inflow) to investing activities and £nil (2012: £34.0m outflow) to financing activities.

11. Disposal of businesses

On 2 February 2013, the Group completed its sale of the Sweet Pickles and Table Sauces business to Mizkan for £92.5m before disposal costs. This is not a discontinued operation as it was previously integrated and reported as part of the Grocery business.

	Year ended 31 Dec 2013 £m
Net cash inflow arising on disposal:	
Initial consideration	92.5
Proceeds deferred, working capital adjustments and disposal costs	(17.8)
Net cash inflow for the year	74.7
Property, plant and equipment	37.6
Intangible assets and goodwill	34.2
Inventories	8.7
Provisions and lease obligations	(3.4)
Net assets disposed	77.1
Loss on disposal before tax	(2.4)

12. Assets and liabilities held for sale

As at 31 December 2013, the assets and associated liabilities relating to the Bread business were held for sale in light of the announcement of the conditional sale of the Group's majority share in this business on 27 January 2014. The disposal is expected to be completed in the second quarter of 2014. On recognition of the assets and liabilities as held for sale, an impairment loss of £234.4m was recognised in order to write down the disposal group to fair value less costs to sell. Management has assessed fair value less costs to sell based on the initial cash consideration of £15.0m being received for 51% of the business, less estimated costs to sell.

The Bread business is presented in the "Discontinued operations" reportable segment in accordance with "IFRS8 Operating Segments".

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.

Notes to the financial statements

12. Assets and liabilities held for sale (continued)

	2013 £m	2012 £m
Non-current assets:		
Property, plant and equipment	–	37.6
Goodwill	–	31.1
Other intangible assets	–	3.1
Current assets:		
Inventories	25.0	9.2
Trade and other receivables	1.8	–
Total assets held for sale	26.8	81.0
Current liabilities:		
Trade and other payables	(1.4)	–
Deferred tax liabilities	–	(3.4)
Total liabilities held for sale	(1.4)	(3.4)
Net assets and liabilities held for sale	25.4	77.6

13. Property, plant and equipment

	Land and buildings £m	Vehicles, plant and equipment £m	Assets under construction £m	Total £m
Cost				
At 1 January 2012	143.2	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]	79.5	7.9	–	87.4
Transferred to held for sale	(12.0)	(51.4)	(0.8)	(64.2)
At 31 December 2012	194.3	411.5	26.8	632.6
Additions	–	0.2	27.8	28.0
Disposals	(17.0)	(19.5)	–	(36.5)
Transferred to intangible assets and transferred into use	2.5	19.9	(27.9)	(5.5)
At 31 December 2013	179.8	412.1	26.7	618.6
Aggregate depreciation and impairment				
At 1 January 2012	(19.5)	(179.1)	–	(198.6)
Depreciation charge for the year	(4.8)	(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	(23.6)	(56.0)	–	(79.6)
Transferred to held for sale	2.9	23.7	–	26.6
At 31 December 2012	(45.6)	(210.0)	(2.8)	(258.4)
Depreciation charge for the year	(3.6)	(29.2)	–	(32.8)
Disposals	9.1	15.3	–	24.4
Impairment charge	(71.8)	(83.7)	–	(155.5)
At 31 December 2013	(111.9)	(307.6)	(2.8)	(422.3)
Net book value				
At 31 December 2011	123.7	225.2	68.4	417.3
At 31 December 2012	148.7	201.5	24.0	374.2
At 31 December 2013	67.9	104.5	23.9	196.3

1. Following an exercise to verify property, plant and equipment in 2012, fair value adjustments that arose on the acquisition of RHM in 2007 were corrected.
2. £44.8m of assets were classified as intangible assets at 31 December 2011. These were reclassified to property, plant and equipment in 2012.

The net book value of the Group's vehicles, plant and equipment includes an amount of £nil (2012: £0.7m) in respect of assets held under finance leases. None of the additions of £28.0m for the year related to assets held under finance leases (2012: £nil).

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

13. Property, plant and equipment (continued)

Impairment

An impairment charge of £155.5m was recognised in 2013 against property, plant and equipment due to the write down of the Bread business to fair value less costs to sell in light of the announcement of the conditional sale of the Group's majority share in this business on 27 January 2014.

An impairment charge of £12.5m was recognised in 2012 due to planned site closures and restructuring from the Group's decision to exit a branded and own label contract in the Bread division.

14. Goodwill

	2013 £m	2012 £m
Carrying value		
At 1 January	713.9	856.2
Disposals	–	(111.2)
Transferred to held for sale	–	(31.1)
At 31 December	713.9	713.9

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

	2013 £m	2012 £m
Grocery	713.9	713.9
Net carrying value of goodwill	713.9	713.9

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 2.40% (2012: 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 2013, the pre-tax rate used to discount the forecasted cash flows has been determined to be 11.3% (2012: 11.2%).

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 £234.4m was recognised in 2013 primarily against property, plant and equipment and other intangible assets allocated to the Bread CGU. This was due to the write down of the Bread business to fair value less costs to sell in light of the announcement of the conditional sale of the Group's majority share in this business on 27 January 2014.

A total impairment charge of £23.7m was recognised in 2012 against other 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.

Notes to the financial statements

14. Goodwill (continued)

Impairment charge

	Property, Plant and Equipment £m	Other intangible assets £m	Other assets £m	Total £m
2013				
Bread	**155.5**	**66.9**	**12.0**	**234.4**
2012				
Bread	12.5	23.7	—	36.2

15. Other intangible assets

	Software £m	Brands/ trademarks/ licences £m	Customer relationships £m	Assets under construction £m	Total £m
Cost					
At 1 January 2012	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**
Additions	**—**	**—**	**—**	**5.8**	**5.8**
Disposals	**(17.5)**	**—**	**—**	**—**	**(17.5)**
Transferred from PPE and transferred into use	**7.3**	**12.0**	**—**	**(13.8)**	**5.5**
At 31 December 2013	**139.8**	**853.2**	**134.8**	**9.1**	**1,136.9**
Accumulated amortisation and impairment					
At 1 January 2012	(55.1)	(234.1)	(130.8)	—	(420.0)
Disposals	1.0	14.8	11.1	—	26.9
Amortisation charge for the year	(18.9)	(27.4)	(7.0)	—	(53.3)
Impairment charge	—	(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)**
Disposals	**17.5**	**—**	**—**	**—**	**17.5**
Amortisation charge for the year	**(12.1)**	**(27.6)**	**(6.2)**	**—**	**(45.9)**
Impairment charge	**(14.3)**	**(52.6)**	**—**	**—**	**(66.9)**
At 31 December 2013	**(81.9)**	**(346.6)**	**(132.9)**	**—**	**(561.4)**
Net book value					
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
Net book value 31 December 2013	**57.9**	**506.6**	**1.9**	**9.1**	**575.5**

Brands, trademarks and licences 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 2013 and 2012.

Included in the assets under construction additions for the year above are £1.7m of internal costs (2012: £6.1m).

As at 31 December 2013, the Group's borrowings are secured on the assets of the Group including other intangible assets.

Impairment

An impairment charge of £66.9m was recognised in 2013 against other intangible assets due to the write down of the Bread business to fair value less costs to sell in light of the announcement of the conditional disposal of the Group's majority share in this business on 27 January 2014.

An impairment charge of £23.7m was recognised in 2012 against other intangible assets as a result of adverse trading conditions experienced in the year.

15. Other intangible assets (continued)

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

Brand/Trademark	Carrying value at 31 Dec 2013 £m	Estimated useful life remaining Years
Bisto	139.3	23
Oxo	89.7	33
Batchelors	73.1	23
Sharwoods	65.8	23
Mr Kipling	54.1	23

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 2013	2012
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.

17. Inventories

	2013 £m	2012 £m
Raw materials	18.2	45.7
Work in progress	2.7	2.6
Finished goods and goods for resale	48.0	67.9
Inventories	68.9	116.2

Inventory write-offs in the year amounted to £16.4m (2012: £15.7m)

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

18. Trade and other receivables

	2013 £m	2012 £m
Trade receivables	254.2	279.5
Trade receivables provided for	(29.4)	(16.3)
Net trade receivables	224.8	263.2
Prepayments	13.1	27.2
Other tax and social security receivable	0.2	7.2
Other receivables	10.2	1.0
Trade and other receivables	248.3	298.6

The borrowings of the Group are secured against all the assets of the Group including trade and other receivables. At year end the Group has benefited from a £120m securitisation programme to allow it to borrow against trade receivable balances. Further details of the securitisation programme are available in note 20 of the Group's consolidated financial statements.

19. Trade and other payables

	2013 £m	2012 £m
Trade payables	(268.8)	(316.3)
Tax and social security payable	(16.3)	(13.1)
Other payables and accruals	(51.6)	(83.0)
Trade and other payables	(336.7)	(412.4)

Notes to the financial statements

20. Bank and other borrowings

	2013 £m	2012 £m
Current:		
Secured Senior Credit Facility — Revolving (note a)	(17.6)	(15.0)
Debt issuance costs	0.3	0.3
	(17.3)	(14.7)
Secured Senior Credit Facility — Term (note a)	(32.4)	(77.4)
Debt issuance costs	0.6	1.5
	(31.8)	(75.9)
Bank overdrafts	—	(43.5)
Total bank borrowings due within one year	(49.1)	(134.1)
Finance lease obligations (note 21)	—	(0.1)
Securitisation facility (note b)	(120.0)	(95.6)
Total borrowings due within one year	(169.1)	(229.8)
Non-current:		
Secured Senior Credit Facility — Revolving (note a)	(186.9)	(116.7)
Debt issuance costs	3.4	7.7
	(183.5)	(109.0)
Secured Senior Credit Facility — Term (note a)	(647.1)	(677.8)
Debt issuance costs	11.9	13.1
	(635.2)	(664.7)
Total bank borrowings due after more than one year	(818.7)	(773.7)
Finance lease obligations (note 21)	—	(0.3)
Other loans	—	(0.1)
Total borrowings due after more than one year	(818.7)	(774.1)
Total bank and other borrowings	(987.8)	(1,003.9)

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.

The total facility as at 31 December 2013 was £1,036.3m (2012: £1,142.4m).

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

The term loan and revolving credit facility mature on 30 June 2016. The current applicable bank margin is 3.25%. Additionally, amortisations will occur semi-annually from 30 June 2014. Banking covenants of net debt/EBITDA and EBITDA/interest are in place and are tested biannually.

A floating to fixed amortising swap with a 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.

(b) Securitisation facility

The debtors securitisation facility is secured against the Group's trade receivables. It is a three year programme maturing in December 2016, with a £120m facility priced at 2.75% above the cost of commercial paper.

See note 31 for details of the Group's capital restructuring.

21. Financial instruments

The Group's activities expose it to a variety of financial risks: market risk (arising from adverse movements in foreign currency, commodity prices and interest rates), credit risk and liquidity risk. The Group uses a variety of derivative financial instruments to manage certain of these risks. The management of these risks, along with the day-to-day management of treasury activities is performed by the Group's 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, 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.

21. Financial instruments (continued)

(a) Market risk

(i) Foreign exchange risk

The Group's main operating entities' functional currency and the Group's presentation currency is sterling although some transactions are executed in non-sterling currencies, including Euros and US dollars. The transactional amounts realised or settled are therefore subject to the effect of movements in these currencies against sterling. Management of these exposures is centralised and managed by the Group'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 2013	Year ended 31 Dec 2012
Year end	1.2006	1.2257
Average	1.1796	1.2317

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

The table below shows the Group's currency exposures as at 31 December 2013 and 2012 that gave rise to net currency gains and losses recognised in the consolidated statement of profit or loss as a result of monetary assets and liabilities that are not denominated in the functional currency of the subsidiaries involved.

	Functional currency of subsidiaries		
	Sterling £m	Euro £m	Total £m
At 31 December 2013			
Net foreign currency monetary assets:			
— Euro	(1.6)	–	(1.6)
— US dollar	0.6	–	0.6
Total	(1.0)	–	(1.0)
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

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:

	2013 (Payable)/ receivable £m	2012 (Payable)/ receivable £m
Euro	(38.0)	(48.6)
US dollar	(18.4)	(15.2)
Total	(56.4)	(63.8)

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 £1.2m (2012: £1.3m 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 £2.2m (2012: £1.6m 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 £1.9m (2012: £2.9m 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 £2.7m (2012: £3.4m increase).

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

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21. Financial instruments (continued)

(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.

(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 reset on a quarterly basis. As at 31 December 2013 the reset rate was 0.526% (2012: 0.515%).

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

	Weighted average interest rate (%)
Currency: Sterling	
At 31 December 2013	**1.6**
At 31 December 2012	1.6

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.

	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
2013							
Derivative financial liabilities:							
— Fixed rate	**25.0**	**85.0**	**510.0**	**—**	**—**	**—**	**620.0**
2012							
Derivative financial liabilities:							
— Fixed rate	80.0	25.0	85.0	510.0	—	—	700.0

Fixed rate derivative financial liabilities constitute one swap with a nominal value of £620m (2012: £700m) which is an amortising floating to fixed interest rate swap maturing in 2016.

Cash and deposits earn interest at floating rates based on banks short-term treasury deposit rates. Short-term trade and other receivables are interest-free.

The Group's provisions of £72.2m as at 31 December 2013 (2012: £73.9m) include £27.2m relating to onerous leases (2012: £18.7m) which are considered to be floating rate financial liabilities. These cash flows are discounted where the effect is material.

At 31 December 2013, for every 50 basis points reduction in rates below the last floating reset rate of 0.526% (2012: 0.515%) (based on three month LIBOR) with all other variables held constant, annualised net interest expense would decrease by £0.8m (2012: £1.1m decrease).

At 31 December 2013, if interest rates were 200 basis points higher than the last floating reset rate of 0.526% (2012: 0.515%) (based on three month LIBOR), with all other variables held constant, annualised net interest expense would increase by £3.2m (2012: £4.5m increase).

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

21. Financial instruments (continued)

(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 2013 trade and other receivables of £57.2m (2012: £77.9m) 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	Over 120 days £m	Total £m
Trade and other receivables							
2013	**177.8**	**20.0**	**10.3**	**7.2**	**6.6**	**13.1**	**235.0**
2012	186.3	34.8	7.8	6.0	5.3	24.0	264.2

At 31 December 2013, trade and other receivables of £29.4m (2012: £16.3m) 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:

	2013 £m	2012 £m
At 1 January	**16.3**	27.5
Receivables written off during the year as uncollectable	**(0.6)**	(25.9)
Provision for receivables impairment raised	**13.7**	14.7
At 31 December	**29.4**	16.3

The Group has benefited from a £120m securitisation programme to allow it to borrow against trade receivable balances.

(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.

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21. Financial instruments (continued)

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 2013							
Trade and other payables	**(320.4)**	**—**	**—**	**—**	**—**	**—**	**(320.4)**
Bank Term Loan	**(50.0)**	**(60.0)**	**(569.5)**	**—**	**—**	**—**	**(679.5)**
Bank Revolver Facility (Drawn down)	**—**	**—**	**(204.5)**	**—**	**—**	**—**	**(204.5)**
Other loans	**(120.0)**	**—**	**—**	**—**	**—**	**—**	**(120.0)**
At 31 December 2012							
Trade and other payables	(399.3)	—	—	—	—	—	(399.3)
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)

The Bank Term Loan and Bank Revolver Facility are re-priced quarterly to LIBOR, and other liabilities are not re-priced before the maturity date.

The Group has £275.2m (2012: £195.6m) of facilities available and not drawn as at 31 December 2013 expiring between 2 and 3 years.

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

The following table analyses the contractual undiscounted cash flows of interest on the floating rate debt to maturity (based on the last fixed rate reset of 0.526% (2012: 0.515%) 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							
2013	**32.7**	**31.0**	**14.8**	**—**	**—**	**—**	**78.5**
2012	25.7	32.7	30.3	14.0	—	—	102.7

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

	Within 1 year £m	1 and 2 years £m	2 and 3 years £m	3 and 4 years £m	4 and 5 years £m	Over 5 years £m	Total £m
At 31 December 2013							
Forward foreign exchange contracts:							
— Outflow	**(56.4)**	**—**	**—**	**—**	**—**	**—**	**(56.4)**
— Inflow	**54.7**	**—**	**—**	**—**	**—**	**—**	**54.7**
Commodities:							
— Outflow	**(7.0)**	**—**	**—**	**—**	**—**	**—**	**(7.0)**
Interest rate swaps:							
— Outflow	**(10.0)**	**(8.8)**	**(3.9)**	**—**	**—**	**—**	**(22.7)**
— Inflow	**3.3**	**2.9**	**1.3**	**—**	**—**	**—**	**7.5**
	(15.4)	**(5.9)**	**(2.6)**	**—**	**—**	**—**	**(23.9)**
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)

The above table incorporates the contractual cash flows of the interest rate derivatives with floating rates of interest calculated based on LIBOR of 0.526% (2012: 0.515%) 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.

	2013 Book & Market Value £m	2012 Book & Market Value £m
Loans and receivables:		
Cash and cash equivalents	157.0	53.2
Trade and other receivables	235.0	264.2
Financial assets at fair value through profit or loss:		
Derivative financial instruments		
— Forward foreign currency exchange contracts/currency options	0.2	0.7
— Commodity and energy derivatives	0.3	0.3
Financial liabilities at fair value through profit or loss:		
Derivative financial instruments		
— Forward foreign currency exchange contracts/currency options	(1.9)	(0.3)
— Commodity and energy derivatives	—	(0.1)
— Interest rate swaps	(7.6)	(19.2)
Financial liabilities at amortised cost:		
Trade and other payables	(320.4)	(399.3)
Bank Term Loan	(679.5)	(755.2)
Bank Revolver Facility (Drawn down)	(204.5)	(131.7)
Bank overdraft	—	(43.5)
Finance leases	—	(0.4)
Other loans	(120.0)	(95.7)

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2013 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 as at 31 December.

	2013 Level 2	2012 Level 2
Financial assets at fair value through profit or loss:		
Derivative financial instruments:		
— Forward foreign currency exchange contracts/currency options	0.2	0.7
— Commodity and energy derivatives	0.3	0.3
Financial liabilities at fair value through profit or loss:		
Derivative financial instruments:		
— Forward foreign currency exchange contracts/currency options	(1.9)	(0.3)
— Commodity derivatives	—	(0.1)
— Interest rate swaps	(7.6)	(19.2)

Fair value estimation

Derivatives

Forward exchange contracts are marked to market using prevailing market prices. Hedge accounting has not been applied to forward contracts and as a result the movement in the fair value of £2.0m has been charged to the statement of profit or loss in the year (2012: £1.9m credit).

Commodity derivatives are marked to market using prevailing prices and are also not designated for hedge accounting. As a result the fair value movement of £0.1m has been credited to the statement of profit or loss (2012: £0.2m credit).

Interest rate swaps are marked to market using prevailing market prices. Interest rate swaps are also not designated for hedge accounting. As a result the movement in the fair value of £11.6m has been charged to the statement of profit or loss in the year (2012: £14.8m charge).

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21. Financial instruments (continued)

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 approximated book value in 2012.

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	
	2013 £m	2012 £m	**2013 £m**	2012 £m
Not later than one year	**–**	0.1	**–**	0.1
Later than one year but not later than five years	**–**	0.3	**–**	0.2
Later than five years	**–**	0.1	**–**	0.1
	–	0.5	**–**	0.4
Less: Future finance charges	**–**	(0.1)	**n/a**	n/a
Present value of lease obligations	**–**	0.4	**–**	0.4
Less: Amounts due for settlement within 12 months	**n/a**	n/a	**–**	(0.1)
Amounts due for settlement after 12 months	**n/a**	n/a	**–**	0.3

As at 31 December 2013 there were no assets held under finance leases.

For the year ended 31 December 2013, the average effective borrowing rate was nil% (2012: 3.8%).

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 in 2012 approximated their carrying value. The Group's obligations under finance leases in 2012 were 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 £93.3m to repay borrowings.

As part of the re-negotiated banking facilities the Group was required to repay £330m of disposal proceeds by 30 June 2014 to the banking syndicate. This was exceeded and completed ahead of schedule (proceeds of £92.5m from the sale of the Sweet Pickles and Table Sauces business were received on 4 February 2013).

The directors do not recommend the payment of a dividend for the year ended 31 December 2013 (2012: £nil).

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as equity plus net debt.

The gearing ratios at 31 December 2013 and 31 December 2012 were as follows:

	2013 £m	2012 £m
Total borrowings	**(987.8)**	(1,003.9)
Less cash and cash equivalents	**157.0**	53.2
Net debt	**(830.8)**	(950.7)
Total equity	**(17.7)**	(404.9)
Total capital	**(848.5)**	(1,355.6)
Gearing ratio	**98%**	70%

The increase in gearing in 2013 is primarily due to large non-cash charges in relation to impairment of the Bread business and an increase in the retirement benefit obligation.

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 2013.

21. Financial instruments (continued)

(g) Financial compliance risk

Risk

The Group continues to operate with a high level of net debt of £830.8m (2012: £950.7m) and is subject to operating within banking covenants set out in its refinancing agreement agreed with its bank syndicate in March 2012, which include net debt/EBITDA and EBITDA/interest covenant tests. In the event these covenants are not met then the Group would be in breach of its financing agreement and, as would be the case in any covenant breach, the banking syndicate could withdraw their funding to the Group.

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

It also supports three defined benefit pension schemes in the UK, all three schemes have significant technical funding deficits which could have an adverse impact on the financial condition of the Group.

Mitigation

The Group has financing arrangements which provide funding until June 2016 and has in place a debtor securitisation program to provide additional funding and liquidity. In addition, the Group achieved its trading expectations for 2013.

The Group reviews its performance on an ongoing basis and formally tests and reports on covenant compliance to the Group's banking syndicate at each reporting date 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.

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 mitigate our exposure in 2014. During 2013 the UK defined benefit schemes were closed to future accrual which will help mitigate the deficit going forward. The Group continues to monitor the pension risks closely working with the trustees to ensure a collaborative approach. See note 31 for details of the Group's capital restructuring.

22. Provisions for liabilities and charges

	Restructuring £m	Other £m	Total £m
At 1 January 2012	(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)**
Utilised during the year	**26.2**	**4.2**	**30.4**
Additional charge in the year	**(14.8)**	**(17.7)**	**(32.5)**
Unwind of provision	**(0.3)**	**(0.2)**	**(0.5)**
Released during the year	**1.5**	**2.8**	**4.3**
Reclassifications	**0.8**	**(0.8)**	**—**
At 31 December 2013	**(30.7)**	**(41.5)**	**(72.2)**

Analysis of total provisions:			**2013 £m**
Current	**(7.4)**	**(7.6)**	**(15.0)**
Non-current	**(23.3)**	**(33.9)**	**(57.2)**
	(30.7)	**(41.5)**	**(72.2)**

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)

Restructuring provisions at 31 December 2013 primarily relate to provisions for non-operational leasehold properties. Restructuring provisions at 31 December 2012 primarily relate to provisions in respect of the restructuring of the Bread business and programmes aimed at reducing the Group's overhead cost base.

Other provisions at 31 December 2013 and 2012 primarily relate to insurance claims, dilapidations against leasehold properties and environmental liabilities. 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 0.81% and 3.62%. The unwinding of the discount is charged to the statement of profit or loss under interest payable.

Notes to the financial statements

23. Retirement benefit schemes

Defined benefit schemes

The Group operates a number of defined benefit schemes under current and former employees have built up an entitlement to retirement benefits on their retirement. These are as follows:

(a) The Premier schemes, which comprise:

Premier Foods Pension Scheme ("PFPS")
Premier Ambient Products Pension Scheme ("PAPPS")
Premier Grocery Products Pension Scheme ("PGPPS")
Premier Grocery Products Ireland Pension Scheme ("PGPIPS")
Chivers 1987 Pension Scheme
Chivers 1987 Supplementary Pension Scheme.

(b) The RHM schemes, which comprise:

RHM Pension Scheme
Premier Foods Ireland Pension Scheme

The most recent full actuarial valuation of both the PFPS and RHM pension schemes was carried out on 31 March 2010 / 5 April 2010. Valuations as at 31 March 2013 / 5 April 2013 are currently being carried out and are due to be completed in 2014.

The exchange rates used to translate the overseas Euro based schemes are £1.00 = 1.1796 Euros for the average rate during the year, and £1.00 = 1.2006 Euros for the closing position at 31 December 2013.

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. In 2012 a credit to past service costs of £46.4m in respect of the RHM pension scheme 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.

On 30 September 2013 the Group's UK defined benefit pension schemes closed to future accrual. The future pension provision for these members is now made through the Group's defined contribution pension scheme. In accordance with IAS 19 (Revised), the scheme obligations were re-valued by the scheme actuaries immediately prior to the change and assumptions reviewed at that date. The resulting change of £18.2m has been credited to the income statement within past service costs.

All defined benefit plans are held separately from the Company under Trusts. Trustees are appointed to operate the schemes in accordance with their respective governing documents and pensions law. The schemes meet the legal requirement for member nominated trustees representation on the trustee boards and the UK schemes have appointed a professional Independant Trustee as Chair of the boards. The members of the trustee boards undertake regular training and development to ensure that they are equipped appropriately to fulfil their function as trustees. In addition each trustee board has appointed professional advisers to give them the specialist expertise they need to support them in the areas of investment, funding, legal, covenant and administration.

The trustee boards of the UK schemes generally meet at least 4 times a year to conduct their business. To support these meetings the Trustees have delegated certain aspects of the schemes' operation to give specialist focus (e.g. investment, administration and compliance) to committees for which further meetings are held as appropriate throughout the year. These committees regularly report to the full trustee boards.

The schemes invest through investment managers appointed by the trustees in a broad range of assets including UK and Global equities and Corporate and Government bonds. The plan assets do not include any of the Group's own financial instruments, nor any property occupied by, or other assets used by, the Group. The pension schemes hold a security over the assets of the Group which rank pari passu with the banks in the event of insolvency.

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23. Retirement benefit schemes (continued)

The main risks to which the company is exposed in relation to the funded pension schemes are as follows:

- Liquidity risk — all 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. Funding agreements were in place with the trustees of the pension schemes which mitigated the Group's exposure in 2013. The current Schedule of Contributions in place following the 2010 actuarial valuations provide for the deficit contributions to resume from January 2014 and continue until 2022. The Group continues to monitor the pension risks closely working with the trustees to ensure a collaborative approach. See note 31 for details of the revised Schedule of Contributions, agreed as part of the capital restructuring.
- Mortality risk — the assumptions adopted make allowance for future improvements in life expectancy. However, if life expectancy improves at a faster rate than assumed, this would result in greater payments from the schemes and consequently increases in the schemes liabilities. The trustees review the mortality assumption on a regular basis to minimise the risk of using an inappropriate assumption.
- Yield risk — a fall in government bond yields will increase both the scheme's assets and liabilities. However, the liabilities may grow by more in monetary terms, thus increasing the deficit in the scheme.
- Inflation risk — the majority of the scheme's liabilities increase in line with inflation and so if inflation is greater than expected, the liabilities will increase.

The schemes can limit (or "hedge") their exposure to the yield and inflation risks described above by investing in assets that move in the same direction as the liabilities in the event of a fall in yields, or a rise in inflation. The RHM pension scheme has fully hedged interest rate and inflation exposure to the extent of its funding level. The PFPS is in the process of implementing a 30% hedging of its liabilities and has put in place a plan to increase the hedging level when market conditions are considered to be attractive.

The liabilities of the schemes are approximately 49% in respect of former active members who have yet to retire and approximately 51% in respect of pensioner members already in receipt of benefits. The mean duration of the liabilities is approximately 17 years.

IAS 19 (Revised) has been applied retrospectively from 1 January 2012. The principal change is that, expected returns on plan assets of defined benefit plans are not recognised in profit or loss. Instead, interest on the net defined benefit obligation is recognised in profit or loss, calculated using the discount rate used to measure the defined benefit obligation. In addition certain administration expenses are recognised in profit or loss rather than being deducted from the return on plan assets under the previous standard. Comparatives have been restated for the impact of the adoption of IAS 19 (Revised). IAS 19 (Revised) does not impact the balance sheet.

Impact of transition to IAS 19 (Revised) on consolidated statement of profit or loss

	As at 31 Dec 2013 £m	As at 31 Dec 2012 £m
Increase in pensions expense	**(37.9)**	(40.2)
Decrease in current tax expense	**8.4**	9.5
Net decrease in profit and loss for the year	**(29.5)**	(30.7)
Attributable to equity holders of the parent	**(29.5)**	(30.7)
Non-controlling interest	**—**	—
Increase in remeasurements in other comprehensive income	**37.9**	40.2
Increase in tax effect of remeasurements in other comprehensive income	**(8.4)**	(9.5)
Net increase in other comprehensive income	**29.5**	30.7
Net increase in total comprehensive income	**—**	—
Attributable to equity holders of parent	**—**	—
Non-controlling interest	**—**	—

There was no material impact on the Group's consolidated statement of cash flows and consolidated balance sheet.

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23. Retirement benefit schemes (continued)

At the balance sheet date, the combined principal actuarial assumptions used for all the schemes were as follows:

	Premier schemes	RHM schemes
2013		
Discount rate	**4.40%**	**4.40%**
Inflation — RPI	**3.35%**	**3.35%**
Inflation — CPI	**2.35%**	**2.35%**
Expected salary increases	**n/a**	**n/a**
Future pension increases	**2.15%**	**2.15%**
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%

For the smaller overseas schemes the discount rate used was 3.50% (2012: 3.40%), expected salary increases are not applicable as closed to accrual (2012: 3.00%), and future pension increases of 1.75% (2012: 1.75%).

The mortality assumptions are based on standard mortality tables which allow for future mortality improvements. The assumptions are as follows:

	Premier schemes	RHM schemes	Total
2013 Life expectancy			
Male pensioner, currently aged 65	**87.8**	**86.3**	**86.7**
Female pensioner, currently aged 65	**90.0**	**88.5**	**88.8**
Male non-pensioner, currently aged 45	**89.2**	**87.6**	**88.0**
Female non-pensioner, currently aged 45	**91.5**	**90.0**	**90.3**
2012 Life expectancy			
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

A sensitivity analysis on the principal assumptions used to measure the scheme liabilities at the year end is as follows:

	Change in assumption	Impact on scheme liabilities
Discount rate	Increase/decrease by 0.1%	Decrease/increase by £63m/£65m
Inflation — RPI	Increase/decrease by 0.1%	Increase/decrease by £27m/£26m
Inflation — CPI	Increase/decrease by 0.1%	Increase/decrease by £27m/£26m
Assumed life expectancy at age 60 (rate of mortality)	Increase by 1 year	Increase by £121m

The sensitivity information has been derived using projected cash flows for the Schemes valued using the relevant assumptions and membership profile as at 31 December 2013. Extrapolation of these results beyond the sensitivity figures shown may not be appropriate.

23. Retirement benefit schemes (continued)

The fair values of plan assets split by type of asset are as follows:

Pension scheme assets	Premier schemes £m	Percentage of total %	RHM schemes £m	Percentage of total %	Total £m	Percentage of total %
Assets with a quoted price in an active market at 31 December 2013:						
UK equities	0.9	0.2	46.6	1.7	47.5	1.5
Global equities	19.3	3.6	232.9	8.8	252.2	7.8
Government bonds	12.1	2.3	503.6	18.7	515.7	16.0
Corporate bonds	60.3	11.3	323.8	12.1	384.1	11.9
Property	0.9	0.2	180.8	6.7	181.7	5.6
Absolute return products	370.2	69.7	898.0	33.4	1,268.2	39.4
Cash	9.1	1.7	183.2	6.8	192.3	6.0
Other	58.6	11.0	0.1	—	58.7	1.8
Assets without a quoted price in an active market at 31 December 2013:						
Infrastructure funds	—	—	193.5	7.2	193.5	6.0
Swaps	—	—	(116.6)	(4.3)	(116.6)	(3.6)
Private equity	—	—	190.2	7.1	190.2	5.9
Other	—	—	50.9	1.8	50.9	1.7
Fair value of scheme assets at 31 December 2013	531.4	100	2,687.0	100	3,218.4	100
Assets with a quoted price in an active market at 31 December 2012:						
UK equities	0.7	0.1	95.3	3.6	96.0	3.0
Global equities	16.0	3.0	299.3	11.2	315.3	9.8
Government bonds	15.5	2.9	572.9	21.4	588.4	18.3
Corporate bonds	86.5	16.1	522.3	19.5	608.8	19.0
Property	1.0	0.2	104.3	3.9	105.3	3.3
Absolute return products	271.7	50.7	440.4	16.5	712.1	22.2
Cash	9.5	1.8	493.5	18.5	503.0	15.7
Other	135.0	25.2	—	—	135.0	4.2
Assets without a quoted price in an active market at 31 December 2012:						
Infrastructure funds	—	—	153.2	5.7	153.2	4.8
Swaps	—	—	(194.6)	(7.3)	(194.6)	(6.1)
Private equity	—	—	185.9	7.0	185.9	5.8
Other	—	—	0.9	—	0.9	—
Fair value of scheme assets at 31 December 2012	535.9	100	2,673.4	100	3,209.3	100

The schemes invest in interest rate and inflation swaps to protect from fluctuations in interest and inflation.

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

	Premier schemes £m	RHM schemes £m	Total £m
2013			
Present value of funded obligations	(916.9)	(2,904.8)	(3,821.7)
Fair value of plan assets	531.4	2,687.0	3,218.4
Deficit in scheme	(385.5)	(217.8)	(603.3)
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)

The aggregate deficit has increased by £137m during the year (2012: £184m) primarily due to the increase in actuarial inflation assumptions used.

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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
2013			
Opening defined benefit obligation	(871.1)	(2,805.0)	(3,676.1)
Current service cost	(3.4)	(7.6)	(11.0)
Past service credit	17.7	18.3	36.0
Interest cost	(37.3)	(121.3)	(158.6)
Remeasurement losses	(56.6)	(118.4)	(175.0)
Exchange differences	(1.3)	(0.4)	(1.7)
Contributions by plan participants	(2.2)	(4.0)	(6.2)
Benefits paid	37.3	133.6	170.9
Closing defined benefit obligation at 31 December 2013	(916.9)	(2,904.8)	(3,821.7)
2012 (Restated)[1]			
Opening defined benefit obligation	(781.9)	(2,656.5)	(3,438.4)
Current service cost	(6.3)	(11.5)	(17.8)
Past service credit/(cost)	(18.6)	31.6	13.0
Interest cost	(37.3)	(124.0)	(161.3)
Remeasurement losses	(58.1)	(160.2)	(218.3)
Exchange differences	1.0	0.4	1.4
Contributions by plan participants	(3.8)	(6.8)	(10.6)
Benefits paid	33.9	122.0	155.9
Closing defined benefit obligation at 31 December 2012	(871.1)	(2,805.0)	(3,676.1)

1. Comparatives have been restated to reflect the adoption of IAS 19 (Revised).

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

	Premier schemes £m	RHM schemes £m	Total £m
2013			
Opening fair value of plan assets	535.9	2,673.4	3,209.3
Interest income on plan assets	22.9	116.1	139.0
Remeasurement gains	2.1	20.2	22.3
Administrative costs	(5.9)	(5.7)	(11.6)
Contributions by employer	10.8	12.1	22.9
Contributions by plan participants	2.2	4.0	6.2
Exchange differences	0.7	0.5	1.2
Benefits paid	(37.3)	(133.6)	(170.9)
Closing fair value of plan assets at 31 December 2013	531.4	2,687.0	3,218.4
2012 (Restated)[1]			
Opening fair value of plan assets	514.2	2,641.8	3,156.0
Interest income on plan assets	24.4	124.4	148.8
Remeasurement gains	14.1	12.8	26.9
Administrative costs	(1.8)	(12.9)	(14.7)
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 at 31 December 2012	535.9	2,673.4	3,209.3

1. Comparatives have been restated to reflect the adoption of IAS 19 (Revised).

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23. Retirement benefit schemes (continued)

The reconciliation of the net defined benefit liability over the period is as follows:

	Premier schemes £m	RHM schemes £m	Total £m
2013			
Deficit in schemes at beginning of period	(335.2)	(131.6)	(466.8)
Amount recognised in profit or loss	(6.0)	(0.2)	(6.2)
Remeasurements recognised in other comprehensive income	(54.5)	(98.2)	(152.7)
Contributions by employer	10.8	12.1	22.9
Currency (losses)/gains	(0.6)	0.1	(0.5)
Deficit in schemes at end of period	(385.5)	(217.8)	(603.3)
2012 (Restated)[1]			
Deficit in schemes at beginning of period	(267.7)	(14.7)	(282.4)
Amount recognised in profit or loss	(39.6)	7.6	(32.0)
Remeasurements recognised in other comprehensive income	(44.0)	(147.4)	(191.4)
Contributions by employer	16.1	23.0	39.1
Currency losses	—	(0.1)	(0.1)
Deficit in schemes at end of period	(335.2)	(131.6)	(466.8)

1. Comparatives have been restated to reflect the adoption of IAS 19 (Revised).

Remeasurements recognised in other comprehensive income are as follows:

	Premier schemes £m	RHM schemes £m	Total £m
2013			
Remeasurement loss on plan liabilities	(56.6)	(118.4)	(175.0)
Remeasurement gain on plan assets	2.1	20.2	22.3
Net remeasurement loss for the year	(54.5)	(98.2)	(152.7)
2012			
Remeasurement loss on plan liabilities	(58.1)	(160.2)	(218.3)
Remeasurement gain on plan assets	14.1	12.8	26.9
Net remeasurement loss for the year	(44.0)	(147.4)	(191.4)

The actual return on plan assets was a £161.3m gain (2012: £175.7m gain), which is £22.3m more (2012: £26.9m more) than the interest income on plan assets of £139.0m (2012: £148.8m) at the start of the relevant periods.

The remeasurement loss on liabilities of £175.0m (2012: £218.3m loss) comprises a loss on member experience of £45.0m (2012: £33.6m loss), and a loss due to changes in actuarial assumptions of £130.0m (2012: £184.7 loss).

The net remeasurement loss taken to the consolidated statement of comprehensive income was £152.7m (2012: £191.4m loss). These were £124.4m (2012: £148.9m) net of taxation (with tax at 23.25% for UK schemes, and 12.5% for Irish schemes).

The Group expects to contribute approximately £8.8m to its defined benefit plans in 2014 in relation to expenses and government levies (2013: £25.6m, including regular contributions) and £83m (2013: £2.0m) of additional contributions to fund the scheme deficits under the 2012 Schedule of Contributions. The increase 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. See note 31 for details of the revised Schedule of Contributions, agreed as part of the capital restructuring.

Notes to the financial statements

23. Retirement benefit schemes (continued)

The total amounts recognised in profit or loss are as follows:

	Premier schemes £m	RHM schemes £m	Total £m
2013			
Operating profit			
Current service cost	(3.4)	(7.6)	(11.0)
Past service credit	17.7	18.3	36.0
Administrative costs	(5.9)	(5.7)	(11.6)
Net interest cost	(14.4)	(5.2)	(19.6)
Total	(6.0)	(0.2)	(6.2)
2012 (Restated)[1]			
Operating profit			
Current service cost	(6.3)	(11.5)	(17.8)
Past service (cost)/credit	(18.6)	31.6	13.0
Administrative costs	(1.8)	(12.9)	(14.7)
Net interest (cost)/income	(12.9)	0.4	(12.5)
Total	(39.6)	7.6	(32.0)

1. Comparatives have been restated to reflect the adoption of IAS 19 (Revised).

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 statement of profit or loss of £3.4m (2012: £0.8m) represents contributions payable to the plans by the Group at rates specified in the rules of the plans.

24. Other liabilities

	2013 £m	2012 £m
Deferred financing fees	(15.8)	–
Deferred income	(14.0)	–
Other accruals	(0.6)	(1.3)
Other liabilities	(30.4)	(1.3)

25. Reserves and Share capital

Share premium

The share premium reserve comprises the premium paid over the nominal value of shares for shares issued.

Merger reserve

The merger reserve comprises the non-statutory premium arising on shares issued as consideration for acquisition of subsidiaries where merger relief under section 612 of the Companies Act 2006 applies, less subsequent realised losses relating to those acquisitions. During the year the Company transferred to the P&L reserve an amount that became realised on the write down of the Bread business.

Other reserves

Other reserves comprise the hedging reserve, which represents the effective portion of the gains or losses on derivative financial instruments that have historically been designated as hedges, and the translation reserve, which represents exchange differences arising from re-translation at year end exchange rates of the net investment in foreign subsidiaries.

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 Employee Benefit Trust on behalf of the Company in order to satisfy options and awards under the Company's incentive schemes.

25. Reserves and Share capital (continued)

Share capital

	Number of shares	Ordinary shares £m	Share premium £m	Total £m
At 1 January 2011	239,805,802	24.0	1,124.7	1,148.7
Shares issued under share option schemes	404	—	—	—
At 31 December 2012	239,806,206	24.0	1,124.7	1,148.7
Shares issued under share option schemes	21,960	—	—	—
At 31 December 2013	**239,828,166**	**24.0**	**1,124.7**	**1,148.7**

During the year 21,960 (2012: 404) ordinary shares of 10 pence each were issued to certain employees at a price of 70 pence per ordinary share (2012: 96 pence) pursuant to exercise of share options under the Sharesave Plan.

Share award schemes

The Company has share award schemes for certain senior executives and key individuals. For 2013, a summary of the Company's share award schemes is as follows:

1. A CEO Co-Investment Award ("CEO Co-Investment Award"). The scheme is structured as a share matching plan and was specifically created to facilitate the recruitment of Gavin Darby as CEO in 2013. Gavin Darby is 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 vest on 1 May 2014, 1 May 2015 and 1 May 2016. No further awards will be made under this plan.

2. A Long-Term Incentive Plan ("2011 LTIP") for executive directors and senior managers, approved by shareholders in 2011. The 2011 LTIP comprises two elements; performance shares and matching shares.

   For Performance Shares, participants have the right to subscribe for 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 Performance Share award is conditional on achievement of an earnings per share performance target. The vesting of the 2012 and 2013 Performance Share awards are conditional on achievement of a combination of absolute adjusted earnings per share targets and average share price targets.

   For Matching Shares, participants 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 Matching Share award is conditional on achievement of an absolute share price target. Matching Shares were not awarded in 2012 or 2013.

3. A Deferred Share Bonus Plan ("DSBP") for executive directors and senior managers which operates alongside the annual bonus plan. Awards are satisfied in the form of shares deferred for a period of up to two years. There were no awards outstanding at 31 December 2013.

4. A Restricted Stock Plan ("RSP") which provides specific ad-hoc share awards to senior managers. Awards are normally subject only to continued employment. These awards may be equity-settled or cash-settled and normally have a retention term of two to three years.

5. Michael Clarke Recruitment Award ("Recruitment Award"). Awards made following the appointment of Michael Clarke to compensate him for forfeited equity awards from his previous employer. The Recruitment Award was subject to continued employment and the Remuneration Committee's assessment of both personal and Group performance at the relevant vesting dates. A portion of the awards granted under the Recruitment Award relating to employment in 2013 have now vested and been exercised. The remaining options lapsed on cessation of employment in June 2013. There were no awards outstanding at 31 December 2013.

6. A Long-Term Incentive Plan ("2004 LTIP") for executive directors and senior managers approved by shareholders in 2004. 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 were equity-settled and had a maximum term of three years. No further awards are anticipated under this plan.

   The performance and vesting conditions of the scheme are aligned with those of the Co-Investment Plan below. During the year, performance conditions were not met and the 2010 award lapsed in full. There were no awards outstanding at 31 December 2013.

7. A Co-Investment Plan ("2007 CIP") for executive directors and senior managers. The scheme was structured as a share matching plan and the individuals involved in the scheme were 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 were equity-settled and had 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 2010 CIP award lapsed in full. There were no awards outstanding at 31 December 2013.

Notes to the financial statements

25. Reserves and Share capital (continued)

Share option schemes

The Company has share option schemes for certain senior executives and key individuals. The employees involved in the schemes hold options to subscribe for up to 6.7m (2012: 6.1m) ordinary shares of 10 pence each between 2014 and 2016, granted at prices ranging between 10 pence per ordinary share and 1,620 pence per ordinary share. For 2013, a summary of the Company's share option schemes is as follows:

1. A Savings Related Share Option Scheme ("Sharesave Plan") for all employees. The employees involved in this HMRC approved save as you earn scheme have the right to subscribe for up to 6.5m 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.
2. The Company adopted an Executive Share Option Scheme ("ESOS") at the time of flotation for executive directors and senior managers. 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. The last award was made in 2004 and will lapse in 2014, no further awards will be made under this scheme.

Details of the share awards of the Premier Foods plc CEO Co-Investment Award are as follows:

Premier Foods plc CEO Co-Investment Award

	2013	
	Awards	**Weighted average exercise price (p)**
Outstanding at beginning of year	–	–
Granted during the year	1,477,572	10
Outstanding at the end of the year	1,477,572	10
Exercisable at the end of the year	–	–

The awards outstanding at 31 December 2013 had a weighted average remaining contractual life of 1.1 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 plc 2011 LTIP (Performance share award) are as follows:

Premier Foods plc 2011 LTIP (Performance share award)

	2013		2012	
	Awards	**Weighted average exercise price (p)**	Awards	Weighted average exercise price (p)
Outstanding at beginning of year	3,883,365	10	564,653	10
Granted during the year	2,150,395	10	3,608,689	10
Forfeited during the year	(2,986,906)	10	(289,977)	10
Outstanding at the end of the year	3,046,854	10	3,883,365	10
Exercisable at the end of the year	–	–	–	–

The awards outstanding at 31 December 2013 had a weighted average remaining contractual life of 1.6 years (2012: 2.1 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 plc 2011 LTIP (Matching share award) are as follows:

Premier Foods plc 2011 LTIP (Matching share award)

	2013		2012	
	Awards	**Weighted average exercise price (p)**	Awards	Weighted average exercise price (p)
Outstanding at beginning of year	267,376	10	267,376	10
Forfeited during the year	(140,749)	10	–	–
Outstanding at the end of the year	126,627	10	267,376	10
Exercisable at the end of the year	–	–	–	–

The awards outstanding at 31 December 2013 had a weighted average remaining contractual life of 0.4 years (2012: 1.4 years).

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25. Reserves and Share capital (continued)

Details of the share awards of the Premier Foods plc Restricted Stock Plan are as follows:

Premier Foods plc Restricted Stock Plan

	2013		2012	
	Awards	Weighted average exercise price (p)	Awards	Weighted average exercise price (p)
Outstanding at beginning of year	104,347	10	—	—
Granted during the year	3,931,327	10	104,347	10
Outstanding at the end of the year	4,035,674	10	104,347	10
Exercisable at the end of the year	—	—	—	—

The awards outstanding at 31 December 2013 had a weighted average remaining contractual life of 1.2 years (2012: 2.3 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 plc Recruitment Award are as follows:

Premier Foods plc Recruitment Award

	2013		2012	
	Awards	Weighted average exercise price (p)	Awards	Weighted average exercise price (p)
Outstanding at beginning of year	875,000	10	—	—
Granted during the year	—	—	875,000	10
Exercised during the year	(500,000)	10	—	—
Forfeited during the year	(375,000)	10	—	—
Outstanding at the end of the year	—	—	875,000	10
Exercisable at the end of the year	—	—	—	—

There were no awards outstanding at 31 December 2013.

Details of the share awards of the Premier Foods plc 2004 LTIP are as follows:

Premier Foods plc 2004 LTIP

	2013		2012	
	Awards	Weighted average exercise price (p)	Awards	Weighted average exercise price (p)
Outstanding at beginning of year	196,330	10	509,167	10
Forfeited during the year	(196,330)	10	(312,837)	10
Outstanding at the end of the year	—	—	196,330	10
Exercisable at the end of the year	—	—	—	—

There were no awards outstanding at 31 December 2013.

Details of the share awards of the Premier Foods plc 2007 CIP are as follows:

Premier Foods plc 2007 CIP

	2013		2012	
	Awards	Weighted average exercise price (p)	Awards	Weighted average exercise price (p)
Outstanding at beginning of year	308,414	10	833,428	10
Forfeited during the year	(308,414)	10	(525,014)	10
Outstanding at the end of the year	—	—	308,414	10
Exercisable at the end of the year	—	—	—	—

There were no awards outstanding at 31 December 2013.

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Notes to the financial statements

25. Reserves and Share capital (continued)

Details of the share options of the Premier Foods plc Sharesave Plan are as follows:

Premier Foods plc Sharesave Plan

	2013		2012	
	Options	Weighted average exercise price (p)	Options	Weighted average exercise price (p)
Outstanding at beginning of year	5,959,333	114	6,191,072	170
Exercised during the year	(21,960)	70	(592)	96
Granted during the year	2,391,628	111	2,367,721	51
Forfeited during the year	(1,850,155)	166	(2,598,868)	228
Outstanding at the end of the year	6,478,846	98	5,959,333	114
Exercisable at the end of the year	1,044,438	152	462,306	360

During the year 2.4m (2012: 2.4m) options were granted under the Sharesave schemes, with a weighted average exercise price at the date of exercise of 111 pence per ordinary share (2012: 51 pence).

The options outstanding at 31 December 2013 had a weighted average exercise price of 98 pence (2012: 114 pence), and a weighted average remaining contractual life of 1.9 years (2012: 1.9 years).

Details of the share options of the Premier Foods plc ESOS are as follows:

Premier Foods plc Executive Share Option Scheme

		2013		2012	
	Year of expiry	Options	Weighted average exercise price (p)	Options	Weighted average exercise price (p)
Outstanding at beginning of year		131,885	1,620	131,885	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

The options outstanding at 31 December 2013 had a weighted average exercise price of 1,620 pence (2012: 1,620 pence), and a weighted average remaining contractual life of 0.6 years (2012: 1.6 years).

In 2013, the Group's continuing operations recognised an expense of £3.8m (2012: £4.7m), related to all equity-settled share based payment transactions.

A summary of the range of exercise price and weighted average remaining contractual life is shown below:

Weighted average remaining life and exercise prices

	As at 31 Dec 2013			As at 31 Dec 2012		
	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	8,686,727	1.3	10	5,530,485	1.8	10
£0.10 to £9.90	6,478,846	1.9	98	5,959,333	1.9	114
£10.00 to £20.00	131,885	0.6	1,620	131,885	1.6	1,620
Total	15,297,458	1.5	61	11,621,703	1.9	81

26. Notes to the cash flow statement

Reconciliation of profit before tax to cash flows from operating activities

	Year ended 31 Dec 2013 £m	Year ended 31 Dec 2012 (Restated)[1] £m
Continuing operations		
Profit/(loss) before taxation	4.4	(8.0)
Net finance cost	48.2	91.7
Operating profit	52.6	83.7
Depreciation of property, plant and equipment	17.3	23.4
Amortisation of intangible assets	43.8	50.4
Loss/(profit) on the sale of businesses	2.4	(33.1)
Loss on disposal of property, plant and equipment	7.8	4.1
Revaluation losses/(gains) on financial instruments	1.9	(2.1)
Employee incentive schemes	4.1	4.6
Net cash inflow from operating activities before interest, tax and movements in working capital	129.9	131.0
Decrease/(increase) in inventories	5.0	(8.8)
Decrease/(increase) in trade and other receivables	35.7	(0.1)
Decrease in trade and other payables and provisions	(45.6)	(53.8)
Movement in retirement benefit obligations	(16.3)	(23.7)
Cash generated from continuing operations	108.7	44.6
Discontinued operations	14.7	11.8
Cash generated from operating activities	123.4	56.4

1. Comparatives have been restated to reflect the reclassification of the Bread business as a discontinued operation and the adoption of IAS 19 (Revised).

Reconciliation of cash and cash equivalents to net borrowings

	Year ended 31 Dec 2013 £m	Year ended 31 Dec 2012 £m
Net inflow/(outflow) of cash and cash equivalents	147.2	(12.3)
Decrease in finance leases	0.4	0.3
(Increase)/decrease in borrowings	(21.4)	262.0
Other non-cash movements	(6.3)	(205.6)
Decrease in borrowings net of cash	119.9	44.4
Total net borrowings at beginning of year	(950.7)	(995.1)
Total net borrowings at end of year	(830.8)	(950.7)

Analysis of movement in borrowings

	As at 1 Jan 2013 £m	Cash flow £m	Other non-cash movements £m	As at 31 Dec 2013 £m
Bank overdrafts	(43.5)	43.5	—	—
Cash and bank deposits	53.2	103.7	0.1	157.0
Net cash and cash equivalents	9.7	147.2	0.1	157.0
Borrowings — term facilities	(755.2)	75.7	—	(679.5)
Borrowings — revolving credit facilities	(131.7)	(72.8)	—	(204.5)
Finance leases	(0.4)	0.4	—	—
Securitisation facility	(95.7)	(24.3)	—	(120.0)
Gross borrowings net of cash[1]	(973.3)	126.2	0.1	(847.0)
Debt issuance costs	22.6	—	(6.4)	16.2
Total net borrowings[1]	(950.7)	126.2	(6.3)	(830.8)

1. Borrowings excludes derivative financial instruments and other financial liabilities fair valued through profit or loss.

The Group has the following cash pooling arrangements where both the Group and the bank have a legal right of offset:

	As at 31 Dec 2013			As at 31 Dec 2012		
	Offset asset	Offset liability	Net offset asset	Offset asset	Offset liability	Net offset asset
Cash, cash equivalents and bank overdrafts	322.8	(165.8)	157.0	261.2	(251.5)	9.7

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27. Operating lease commitments

The Group has lease agreements in respect of property, plant and equipment, for which future minimum payments extend over a number of years. Leases primarily relate to the Group's properties, which principally comprise offices and factories. Lease payments are typically subject to market review every five years to reflect market rentals, but because of the uncertainty over the amount of any future changes, such changes have not been reflected in the table above. Within our leasing arrangements there are no significant contingent rentals, renewal, purchase or escalation clauses.

The future aggregate minimum lease payments under non-cancellable operating leases for continuing operations are as follows:

	2013		2012	
	Property £m	Plant and Equipment £m	Property £m	Plant and Equipment £m
Within one year	3.8	0.5	12.0	5.5
Between 2 and 5 years	13.2	1.3	44.0	4.4
After 5 years	15.6	–	66.8	0.1
Total operating lease commitments	32.6	1.8	122.8	10.0

The Group sub-lets various properties under non-cancellable lease arrangements. Sub-lease receipts of £1.5m (2012: £1.2m) were recognised in the statement of profit or loss during the year. The total future minimum sub-lease payments at the year end is £3.1m (2012: £3.4m).

28. Capital commitments

Capital expenditure for continuing operations contracted for at the end of the reporting period but not yet incurred is as follows:

	2013 £m	2012 £m
Contracts placed for future capital expenditure not provided in the financial statements:		
Intangible assets	–	0.4
Property, plant and equipment	3.1	8.5
Total capital commitments	3.1	8.9

29. Contingencies

There were no material contingent liabilities at 31 December 2013. Other contingencies and guarantees in respect of the Parent Company are described in note 9 of the Parent Company financial statements.

30. 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 section of the Annual Report on Remuneration on pages 70 to 75.

	Year ended 31 Dec 2013 £m	Year ended 31 Dec 2012 £m
Short term employee benefits	5.8	5.6
Post employment benefits	0.3	0.2
Termination benefits	–	0.2
Share based payments	3.6	1.3
Total	9.7	7.3

WP X Investments Limited ("Warburg Pincus") is considered to be a related party of the Group by virtue of its 17.3% (2012: 17.3%) equity shareholding in Premier Foods plc and of its power to appoint a member to the Board of directors, which has been exercised.

Apart from the information above there were no other related party transactions.

31. Subsequent events

Disposal of Bread business

On 27 January 2014 the Group announced that it had agreed to sell a majority share in the Bread business to The Gores Group LLC. The disposal is expected to be completed in the second quarter of 2014.

The disposal is subject to and conditional upon: (i) the passing of the resolutions by shareholders at the General Meeting; (ii) Premier Foods plc obtaining certain consents and/or waivers from the lenders under the Group's finance facilities; (iii) Premier Foods plc obtaining certain consents and/or waivers from the trustees of each of the pension schemes; and (iv) obtaining competition approval from the European Commission. Conditions (ii) and (iii) will be satisfied upon completion of the capital refinancing plan.

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31. Subsequent events (continued)

Premier Foods plc has agreed to pay The Gores Group LLC reasonable out-of-pocket costs if the disposal does not complete due to a failure to satisfy the conditions (except that, where the disposal does not complete due to a failure to satisfy the competition condition, Premier Foods plc will only be liable for The Gores Group LLC's costs if it is responsible for such failure). The costs indemnity is capped at the lower of The Gores Group LLC's costs and 1% of Premier Foods plc's market capitalisation at the time of signing the disposal agreement.

Capital Restructuring

On 4 March 2014 the Group announced its proposal to diversify its sources of finance to provide a solid foundation on which it can drive future growth through its category based strategy and leveraging its strengths. This transformational capital restructure includes a fully underwritten equity raise of approximately £350m (gross of fees) through a placing and rights issue, the issue of £475m senior secured loan notes and a new £300m revolving credit facility with a smaller bank syndicate. Significantly, the Group has also reached a pensions framework agreement with the Pension Scheme trustees following the triennial actuarial valuation which provides the platform for this new capital structure to be put in place.

Equity Issue

The Group announced it is proposing to raise new equity of approximately £350m gross of fees. The issue will be fully underwritten by a group of lending banks. This issuance will reduce the indebtedness of the Group and substantially strengthens the balance sheet.

Pensions Agreement

The Group has agreed what it considers to be a comprehensive and significant agreement with the Pension Scheme trustees. The pension deficit contribution schedule will, on completion of the capital restructuring, be revised, with the impact of reducing cash payments when compared to the previous schedule by £161m over the next six years. Committed deficit contributions are fixed until December 2019 and set out in the "Capital Refinancing Terms" table below. Under the new arrangements, the Pension Schemes will be granted security up to £450m (in aggregate) and will have certain dividend matching rights for any dividends paid by the Group up to 2019.

Revolving Credit Facility and Securitisation Facility

The Group's existing term loan and revolving credit facilities will be repaid to the respective lenders on completion of the recapitalisation. These facilities will be replaced by senior secured notes and a revolving credit facility of £300m which is due to mature in March 2019 and attracts an initial bank margin of 3.50% above LIBOR. The Group has agreed with the lenders of the new revolving credit facility that dividends are permitted to be distributed to shareholders when the Group's Net debt/EBITDA ratio falls below a ratio of 3.0x. This facility has been arranged with a significantly smaller group of lenders than was the case previously and includes an appropriate covenant package, the details of which are set out in the "Capital Refinancing Terms" table below.

Following completion of the joint venture transaction, the Group's ability to draw on its existing securitisation facility of £120m is expected to reduce to around £60m and attracts a margin of 2.75% above the cost of commercial paper.

Senior Secured Notes

To achieve its objective of diversifying its sources of finance, the Group also announced its intention to raise approximately £475m of senior secured notes. This programme will extend the maturity of this tranche of the Group's debt by up to seven years and will bring in a new and diversified investor base. The notes are likely to be issued as a combination of fixed and floating rates, although in the case of floating rate notes the Group intends to use plain vanilla swaps to eliminate the net interest rate exposure. The Group has also entered into a backstop arrangement on standard market terms under which issuance of these notes is effectively underwritten.

Capital Refinancing Terms

Equity	Approximate firm placing:	£100m
	Approximate rights issue:	£250m
	Approximate gross issue proceeds:	£350m
Pension	Contributions fixed until 2019, revised deficit contribution schedule as follows:	
	2014	£35m
	2015	£9m
	2016	£42m
	2017	£50m
	2018	£44m
	2019	£42m
	Total	£222m
	Recovery period extended to 2032	
Lending facilities	Revolving credit facility ("RCF")	£300m
	RCF maturity	March 2019
	RCF margin	3.50% + LIBOR
	Committment fee on undrawn facilities	40% of applicable margin
	Securitisation facility & margin	£120m at 2.75% + cost of commercial paper
Senior Secured Notes	Amount	£475m
	Tenor	6 year floating/7 year fixed

Premier Foods plc — Company financial statements

The following statements reflect the financial position of the Company, Premier Foods plc as at 31 December 2013 and 2012. 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 2013 £m	As at 31 Dec 2012 £m
Fixed assets			
Investments in Group undertakings	3	—	479.1
Current assets			
Debtors	4	895.6	660.4
Deferred tax assets	6	1.1	0.9
Cash at bank and in hand		0.3	0.3
Total assets		897.0	1,140.7
Creditors: amounts falling due within one year	5	(314.1)	(59.7)
Net current assets		582.9	601.9
Total assets less current liabilities		582.9	1,081.0
Capital and reserves			
Called up share capital	7	24.0	24.0
Share premium account	7	1,124.7	1,124.7
Merger reserve	7	—	29.7
Profit and loss account	7	(565.8)	(97.4)
Total shareholders' funds		582.9	1,081.0

The notes on pages 133 to 135 form an integral part of the financial statements.

The financial statements on pages 132 to 135 were approved by the Board of directors on 4 March 2014 and signed on its behalf by:

Gavin Darby
Chief Executive Officer

Alastair Murray
Chief Financial Officer

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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 £501.6m (2012: £246.4m loss) 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 is exempt under the terms of Financial Reporting Standard 8 "Related Party Disclosures" ("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. Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. The Company discounts its deferred tax liability as appropriate.

Deferred tax assets are recognised to the extent that it is probable that future taxable benefit will be available against 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 Company operates a number of equity-settled share-based compensation plans. 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.

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 profit and loss, with a corresponding adjustment to equity.

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 profit and loss account on a straight-line basis over the lease period.

2. Operating profit

Audit fees in respect of the Company are £nil (2012: £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 2013, the Company had three employees (2012: three), and their remuneration totalled £1.6m (2012: £2.3m). This excludes the Company's six (2012: eight) non executive directors whose remuneration totalled £0.6m (2012: £0.7m). Directors' emolument disclosures are provided in the Single Figure Table on page 70 of this annual report.

Notes to the Company financial statements

3. Investments in Group undertakings

	2013 £m	2012 £m
Cost		
At 1 January	1,757.3	1,753.9
Additions	2.0	3.4
At 31 December	1,759.3	1,757.3
Accumulated impairment		
At 1 January	(1,278.2)	(1,024.2)
Impairment charge for the year	(481.1)	(254.0)
At 31 December	(1,759.3)	(1,278.2)
NBV at 31 December	–	479.1

Impairment

An impairment charge of £481.1m (2012: £254.0m) was recognised in the year against the value of the Company's investment in subsidiaries principally as a result of the announcement of the conditional sale of the Group's majority share in the Bread business on 27 January 2014.

During the year, a capital contribution of £2.0m (2012: £3.4m) 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 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

	2013 £m	2012 £m
Amounts owed by Group undertakings	895.6	660.4

Amounts owed by Group undertakings are unsecured, have no fixed date of repayment, are repayable on demand and are not subject to interest rate risk as they are interest free, with the exception of £330.2m (2012: £319.7m) which attracted interest at a rate of LIBOR plus 3.0% (2012: LIBOR plus 3.0%). Carrying value approximates fair value.

5. Creditors: amounts falling due within one year

	2013 £m	2012 £m
Amounts owed to group undertakings	(297.5)	(45.2)
Corporation tax	(16.6)	(14.5)
Total creditors falling due within one year	(314.1)	(59.7)

Amounts owed to Group undertakings are unsecured, have no fixed date of repayment, are repayable on demand and are not subject to interest rate risk as they are interest free, with the exception of £39.4m (2012: £38.7m) which attracted interest at a rate of LIBOR plus 3.0% (2012: LIBOR plus 3.0%). Carrying value approximates fair value.

6. Deferred tax

	2013 £m	2012 £m
At 1 January	0.9	0.8
Charged to the profit and loss account	0.2	0.1
At 31 December	1.1	0.9

The deferred tax asset relates to share-based payments.

7. Called up share capital and other reserves

	Called up share capital £m	Share premium account £m	Merger reserve £m	Profit and loss account £m	Total £m
At 1 January 2012	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**
Loss for the year	**—**	**—**	**—**	**(501.6)**	**(501.6)**
Realisation of merger reserve (b)	**—**	**—**	**(29.7)**	**29.7**	**—**
Share based payments (a)	**—**	**—**	**—**	**3.5**	**3.5**
At 31 December 2013	**24.0**	**1,124.7**	**—**	**(565.8)**	**582.9**

Called up share capital

	2013 £m	2012 £m
Issued and fully paid		
239,828,166 (2012: 239,806,206) ordinary shares of 10 pence each	**24.0**	24.0

(a) Share based payments

The costs reflect the Company's share option schemes in operation. Further details are available in note 25 of the Group's consolidated financial statements.

The charge relating to employees of the Company amounted to £1.7m (2012: £1.0m). Further details of these schemes can be found in the Annual Report on Remuneration on pages 70 to 75.

(b) Realisation of merger reserve

The Company transferred to the profit and loss account an amount that became realised on the write down of the related investment.

8. Operating lease commitments

At 31 December 2013, the Company had annual commitments under non-cancellable operating leases in respect of land and buildings as follows:

	2013 £m	2012 £m
Between 2 and 5 years	**0.3**	—
After 5 years	**—**	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 2013 is £1.2bn (2012: £1.2bn).

10. Subsequent events

Details of subsequent events are shown in note 31 to the Group financial statements.

Shareholder Information & Frequently Asked Questions ("FAQs")

Share capital information

The Company's issued share capital at 31 December 2013 comprised 239,828,166 ordinary 10p shares. During the year, 21,960 ordinary shares were issued; details of the movements can be found in note 25. All of the ordinary shares rank equally with respect to voting rights, the rights to receive dividends and distributions on a winding up.

Substantial shareholdings

Information provided to the Company pursuant to the Financial Conduct Authority's ("FCA") Disclosure and Transparency Rules ("DTRs") is published on a Regulatory Information Service and on the Group's website. As at 4 March 2014, the Company has been notified of the following interests of 3% or more in the Company:

Shareholder	Ordinary shares	% of capital	Nature of holding
Warburg Pincus	41,573,972	17.33	Direct
Paulson & Co. Inc	25,830,000	10.77	Direct
Schroders plc (Cazenove Capital Management Limited)	24,024,331	10.02	Indirect
Standard Life Investments Ltd.	12,178,274	5.08	Direct
JPMorgan Asset Management U.K. Limited	11,953,403	4.98	Indirect
Norges Bank Investment Management (NBIM)	9,220,355	3.84	Direct

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.

SHAREHOLDER FAQs

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/investor-relations/

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 set out the powers of directors, amongst other things, and 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 FCA's website: ***www.fca.org.uk/consumers/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 2013 AGM.

2014 AGM — Tuesday 29 April 2014 at 11.00 am

The 2014 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,
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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 8.30 am to 5.30 pm, Monday to Friday.)

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

Called-up share capital
Ordinary shares, issued and fully paid

Capex
Capital Expenditure

Capital Refinancing Plan/ Capital Restructuring
A plan comprising of three components: the raising of gross proceeds of approximately £350 million by way of a Placing and Rights Issue; the raising of gross proceeds of approximately £475 million by way of the issue of senior secured loan notes; and a £300 million new Revolving Credit Facility

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 2012

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 SG&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

FCA
Financial Conduct Authority

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

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
Food Standards Agency

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

***Hovis* Joint Venture**
An agreement to create a stand alone joint venture for the Bread business.

IAS
International Accounting Standards

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

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

Relationship Agreement
The relationship agreement entered into between the Company and Warburg Pincus LLC dated 5 March 2009.

RIDDOR
Reporting of Injuries, Diseases and Dangerous Occurrences Regulations

RPI
Retail Price Index

SG&A
Selling, general and administrative costs

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 administration costs and net interest on the net defined benefit liability.

TSR
Total Shareholder Return — the growth in value of a shareholding over a specified period assuming that dividends are reinvested to purchase additional shares

YoY
Year on year

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Our Brands

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 throughout this annual report. The Group has an exclusive worldwide licence to use the Loyd Grossman name on certain products. The Group has an exclusive licence to use the Cadbury trademark in the UK (and other specified territories) on a variety of ambient cake products. Cadbury is a trademark of Mondelez International, Inc.

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PREMIER FOODS

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