

# Premier Foods plc

## Financial Statements

for the year ended

31 December 2013

# Financials

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

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# **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.

## *Area of focus*

### **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.

### **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.

### **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.

### **Risk of management override of internal controls**

ISAs (UK & Ireland) require we consider this.

### **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.

## *How the scope of our audit addressed the area of focus*

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.

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.

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.

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.

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

## Consolidated statement of profit or loss

|  |      | Year ended<br>31 Dec 2013<br>£m | Year ended<br>31 Dec 2012<br>(Restated) <sup>1</sup><br>£m |
|--|------|---------------------------------|--|
|  | Note |                                 |  |
| <b>Continuing operations</b>   |      |                                 |  |
| Revenue  | 4    | 856.2                           | 1,070.9  |
| Cost of sales  |      | (556.1)                         | (721.6)  |
| <b>Gross profit</b>  |      | 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)  |
| <b>Operating profit</b>  | 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<br>financial instruments | 7    | 11.6                            | (9.7)  |
| <b>Profit/(loss) before taxation from continuing operations</b>          |      | 4.4                             | (8.0)  |
| Taxation (charge)/credit   | 8    | (51.1)                          | 18.0   |
| <b>(Loss)/profit after taxation from continuing operations</b>           |      | (46.7)                          | 10.0   |
| Loss from discontinued operations  | 10   | (199.2)                         | (27.9)   |
| <b>Loss for the year attributable to owners of the Parent</b>            |      | (245.9)                         | (17.9)   |
| <b>Basic and diluted (loss)/earnings per share</b>                       |      |                                 |  |
| From continuing operations (pence)                                       | 9    | (19.5)                          | 4.2  |
| From discontinued operations (pence)                                     | 9    | (83.1)                          | (11.6)   |
| <b>From loss for the year</b>  |      | (102.6)                         | (7.4)  |
| <b>Adjusted earnings/(loss) per share<sup>2</sup></b>                    |      |                                 |  |
| From continuing operations (pence)                                       | 9    | 25.9                            | 28.2   |
| From discontinued operations (pence)                                     | 9    | 1.8                             | (6.9)  |
| <b>From adjusted profit for the year</b>                                 |      | 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 15 to 72 form an integral part of the consolidated financial statements.

## Consolidated statement of comprehensive income

|  |      | Year ended<br>31 Dec 2013<br>£m | Year ended<br>31 Dec 2012<br>(Restated) <sup>1</sup><br>£m |
|--|------|---------------------------------|--|
|  | Note |                                 |  |
| Loss for the year  |      | (245.9)                         | (17.9)   |
| <b>Other comprehensive (losses)/income</b>                             |      |                                 |  |
| <b>Items that will never be reclassified to profit or loss</b>         |      |                                 |  |
| Remeasurements of defined benefit liability                            | 23   | (152.7)                         | (191.4)  |
| Deferred tax credit  | 8    | 8.4                             | 37.2   |
| <b>Items that are or may be reclassified to profit or loss</b>         |      |                                 |  |
| Exchange differences on translation                                    |      | (0.3)                           | –  |
| <b>Other comprehensive losses, net of tax</b>                          |      | (144.6)                         | (154.2)  |
| <b>Total comprehensive losses attributable to owners of the parent</b> |      | (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 15 to 72 form an integral part of the consolidated financial statements.

## Consolidated balance sheet

|   |      | As at<br>31 Dec 2013<br>£m | As at<br>31 Dec 2012<br>£m |
|---|------|----------------------------|----------------------------|
|   | Note |                            |                            |
| <b>ASSETS:</b>                                      |      |                            |                            |
| <b>Non-current assets</b>                           |      |                            |                            |
| 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                       |
|   |      | <hr/> 1,558.4              | <hr/> 1,837.0              |
| <b>Current assets</b>                               |      |                            |                            |
| 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                       |
|   |      | <hr/> 501.5                | <hr/> 550.0                |
| <b>Total assets</b>                                 |      | <hr/> 2,059.9              | <hr/> 2,387.0              |
| <b>LIABILITIES:</b>                                 |      |                            |                            |
| <b>Current liabilities</b>                          |      |                            |                            |
| 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)                      |
|   |      | <hr/> (532.4)              | <hr/> (691.6)              |
| <b>Non-current liabilities</b>                      |      |                            |                            |
| 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)                      |
|   |      | <hr/> (1,509.6)            | <hr/> (1,290.5)            |
| <b>Total liabilities</b>                            |      | <hr/> (2,042.0)            | <hr/> (1,982.1)            |
| <b>Net assets</b>                                   |      | <hr/> 17.9                 | <hr/> 404.9                |

|  |      | As at<br>31 Dec 2013<br>£m | As at<br>31 Dec 2012<br>£m |
|--|------|----------------------------|----------------------------|
|  | Note |                            |                            |
| <b>EQUITY:</b>   |      |                            |                            |
| <b>Capital and reserves</b>                                      |      |                            |                            |
| 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)                  |
| <b>Capital and reserves attributable to owners of the Parent</b> |      | 17.8                       | 404.8                      |
| Non-controlling interest   |      | 0.1                        | 0.1                        |
| <b>Total equity</b>  |      | 17.9                       | 404.9                      |

The notes on pages 15 to 72 form an integral part of the consolidated financial statements.

The financial statements on pages 9 to 72 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*

## Consolidated statement of cash flows

|  |      | Year ended<br>31 Dec 2013 | Year ended<br>31 Dec 2012 |
|--|------|---------------------------|---------------------------|
|  | Note | £m                        | £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                       |
| <b>Cash generated from operating activities</b>                  |      | <b>87.5</b>               | <b>4.2</b>                |
| 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                       |
| <b>Cash generated from investing activities</b>                  |      | <b>65.2</b>               | <b>245.8</b>              |
| 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)                    |
| <b>Cash used in financing activities</b>                         |      | <b>(5.5)</b>              | <b>(262.3)</b>            |
| <b>Net inflow/(outflow) of cash and cash equivalents</b>         |      | <b>147.2</b>              | <b>(12.3)</b>             |
| Cash, cash equivalents and bank overdrafts at beginning of year  |      | 9.7                       | 22.1                      |
| Effect of movement in foreign exchange                           |      | 0.1                       | (0.1)                     |
| <b>Cash, cash equivalents and bank overdrafts at end of year</b> | 26   | <b>157.0</b>              | <b>9.7</b>                |

The notes on pages 15 to 72 form an integral part of the consolidated financial statements.

## Consolidated statement of changes in equity

|   | Note | Share capital<br>£m | Share premium<br>£m | Merger reserve<br>£m | Other reserves<br>£m | Profit and loss reserve<br>£m | Non-controlling interest<br>£m | Total equity<br>£m |
|---|------|---------------------|---------------------|----------------------|----------------------|-------------------------------|--------------------------------|--------------------|
| <b>At 1 January 2013</b>                    |      | 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)            |
| <b>Total comprehensive losses</b>           |      | –                   | –                   | –                    | –                    | (390.5)                       | –                              | (390.5)            |
| Share-based payments                        |      | –                   | –                   | –                    | –                    | 3.5                           | –                              | 3.5                |
| Realisation of merger reserve               |      | –                   | –                   | (182.8)              | –                    | 182.8                         | –                              | –                  |
| <b>At 31 December 2013</b>                  |      | 24.0                | 1,124.7             | 404.7                | (9.3)                | (1,526.3)                     | 0.1                            | 17.9               |
| <b>At 1 January 2012</b>                    |      | 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)            |
| <b>Total comprehensive losses</b>           |      | –                   | –                   | –                    | –                    | (172.1)                       | –                              | (172.1)            |
| Share-based payments                        |      | –                   | –                   | –                    | –                    | 4.3                           | –                              | 4.3                |
| Realisation of merger reserve               |      | –                   | –                   | (18.5)               | –                    | 18.5                          | –                              | –                  |
| <b>At 31 December 2012</b>                  |      | 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 15 to 72 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, | Investment Entities  |
| IFRS 12 and IAS 27     |  |
| 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.

*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 restructure 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 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.

(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.

## 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.

### 2.13 ***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.

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.

#### *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.

## 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:

|   | <b>Year ended 31 Dec 2013</b> |   |                               |
|---|-------------------------------|---|-------------------------------|
|   | <b>Grocery<br/>£m</b>         | <b>Discontinued<br/>operations<br/>£m</b> | <b>Total<br/>Group<br/>£m</b> |
| <b>Revenue</b>  |                               |   |                               |
| External  | 856.2                         | 654.6                                     | 1,510.8                       |
| Inter-segment   | –                             | 27.0                                      | 27.0                          |
| <b>Result</b>   |                               |   |                               |
| <b>Divisional contribution</b>  | 202.9                         | 27.8                                      | 230.7                         |
| Total SG&A costs  | (63.4)                        | (22.1)                                    | (85.5)                        |
| <b>Trading profit</b>   | 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)                        |
| <b>Operating profit/(loss) before impairment and loss on disposal of operations</b> | 55.0                          | (8.3)                                     | 46.7                          |
| Impairment  | –                             | (234.4)                                   | (234.4)                       |
| Loss on disposal of operations  | (2.4)                         | –   | (2.4)                         |
| <b>Operating profit/(loss)</b>  | 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                          |
| <b>Profit/(loss) before taxation</b>  | 4.4                           | (242.7)                                   | (238.3)                       |
| Depreciation  | (17.3)                        | (15.6)                                    | (32.9)                        |

|   | Year ended 31 Dec 2012 (Restated) <sup>1</sup> |                         |         |
|---|--|-------------------------|---------|
|   | Grocery  | Discontinued operations | Total   |
|   | £m   | £m                      | £m      |
| <b>Revenue</b>  |  |                         |         |
| External  | 1,070.9  | 685.3                   | 1,756.2 |
| Inter-segment   | 0.5  | 21.2                    | 21.7    |
| <b>Result</b>   |  |                         |         |
| <b>Divisional contribution</b>  | 227.8  | 26.3                    | 254.1   |
| Total SG&A costs  | (68.7)   | (48.2)                  | (116.9) |
| <b>Trading profit/(loss)</b>  | 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)  |
| <b>Operating profit/(loss) before impairment and profit on disposal of operations</b> | 50.6   | (39.6)                  | 11.0    |
| Impairment  | –  | (36.2)                  | (36.2)  |
| Profit on disposal of operations  | 33.1   | 30.6                    | 63.7    |
| <b>Operating profit/(loss)</b>  | 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)   |
| <b>Loss before taxation</b>   | (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**

|                | <b>31 Dec 2013</b> | <b>31 Dec 2012</b>            |
|----------------|--------------------|-------------------------------|
|                | <b>£m</b>          | <b>(Restated)<sup>1</sup></b> |
| United Kingdom | 821.3              | 1,019.4                       |
| Other Europe   | 21.7               | 29.5                          |
| Rest of world  | 13.2               | 22.0                          |
| <b>Total</b>   | <b>856.2</b>       | <b>1,070.9</b>                |

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

**Discontinued operations – revenue**

|                | <b>31 Dec 2013</b> | <b>31 Dec 2012</b>            |
|----------------|--------------------|-------------------------------|
|                | <b>£m</b>          | <b>(Restated)<sup>1</sup></b> |
| United Kingdom | 636.7              | 669.3                         |
| Other Europe   | 17.9               | 15.8                          |
| Rest of world  | –                  | 0.2                           |
| <b>Total</b>   | <b>654.6</b>       | <b>685.3</b>                  |

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

**Non-current assets**

|                | <b>31 Dec 2013</b> | <b>31 Dec 2012</b> |
|----------------|--------------------|--------------------|
|                | <b>£m</b>          | <b>£m</b>          |
| United Kingdom | 1,558.4            | 1,837.0            |

**5. Operating profit for continuing operations**

**5a. Analysis of costs by nature**

|   | <b>Year ended</b>  | <b>Year ended</b>             |
|---|--------------------|-------------------------------|
|   | <b>31 Dec 2013</b> | <b>31 Dec 2012</b>            |
|   | <b>£m</b>          | <b>(Restated)<sup>1</sup></b> |
| 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<br>31 Dec 2013<br>£m | Year ended<br>31 Dec 2012<br>£m |
|--|---------------------------------|---------------------------------|
| Fees payable to the Company's auditors for the audit of the Parent Company and consolidated financial statements | 0.4                             | 0.4                             |
| <b>Fees payable to the Company's auditors and its associates for other services:</b>                             |                                 |                                 |
| – 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                             |
| <b>Total auditors' remuneration</b>  | <b>1.0</b>                      | <b>3.2</b>                      |

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<br>31 Dec 2013<br>£m | Year ended<br>31 Dec 2012<br>(Restated) <sup>1</sup><br>£m |
|--|---------------------------------|--|
| <b>Staff costs for the Group during the year – continuing operations</b>   |                                 |  |
| 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   |
| <b>Total – continuing operations</b>                                       | <b>(134.1)</b>                  | <b>(194.8)</b>   |
| <b>Staff costs for the Group during the year – discontinued operations</b> |                                 |  |
| 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)   |
| <b>Total – discontinued operations</b>                                     | <b>(159.0)</b>                  | <b>(192.7)</b>   |
| <b>Total – continuing and discontinued operations</b>                      | <b>(293.1)</b>                  | <b>(387.5)</b>   |

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<br>Number | 2012<br>Number |
|--|----------------|----------------|
| <b>Average monthly number of people employed – continuing operations</b>   |                |                |
| Management   | 720            | 799            |
| Administration   | 501            | 573            |
| Production, distribution and other   | 3,062          | 3,357          |
| <b>Total – continuing operations</b>                                       | 4,283          | 4,729          |
| <b>Average monthly number of people employed – discontinued operations</b> |                |                |
| Management   | 516            | 618            |
| Administration   | 211            | 321            |
| Production, distribution and other   | 3,369          | 4,119          |
| <b>Total – discontinued operations</b>                                     | 4,096          | 5,058          |
| <b>Total – continuing and discontinued operations</b>                      | 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.

## 7. Finance income and costs

|   | Year ended<br>31 Dec 2013<br>£m | Year ended<br>31 Dec 2012<br>(Restated) <sup>1</sup><br>£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<br>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 <sup>2</sup>   | –                               | (10.8)   |
| <b>Total finance cost</b>   | (62.2)                          | (86.1)   |
| Interest receivable on bank deposits  | 2.4                             | 4.1  |
| <b>Total finance income</b>   | 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<br>as other financial liabilities at fair value through profit or loss | –                               | 5.1  |
| <b>Net movement on fair valuation of interest rate financial instruments</b>  | 11.6                            | (9.7)  |
| <b>Net finance cost</b>   | (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<br>operations<br>£m | Discontinued<br>operations<br>£m | Total<br>£m  |
|---|--------------------------------|----------------------------------|--------------|
| <b>2013</b>   |                                |                                  |              |
| 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          |
| <b>Income tax (charge)/credit for the year</b>        | <b>(51.1)</b>                  | <b>43.5</b>                      | <b>(7.6)</b> |
| <b>2012 (Restated)<sup>1</sup></b>                    |                                |                                  |              |
| 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          |
| <b>Income tax credit for the year</b>                 | <b>18.0</b>                    | <b>17.5</b>                      | <b>35.5</b>  |

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

### *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<br>31 Dec 2013<br>£m | Year ended<br>31 Dec 2012<br>(Restated) <sup>1</sup><br>£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  |
|  | <b>8.4</b>                      | <b>37.2</b>  |

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<br>31 Dec 2013<br>£m | Year ended<br>31 Dec 2012<br>(Restated) <sup>1</sup><br>£m |
|--|---------------------------------|--|
| Profit/(loss) before taxation for continuing operations                              | 4.4                             | (8.0)  |
| Tax (charge)/credit at the domestic income tax rate of 23.25%<br>(2012: 24.5%)       | (1.0)                           | 1.9  |
| Tax effect of:   |                                 |  |
| Non-deductible items <sup>2</sup>  | (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%<br>(2012: 23.0%) | 0.4                             | (0.6)  |
| Movements in losses recognised <sup>4</sup>  | (52.2)                          | 16.9   |
| Adjustment to restate opening deferred tax at 20.0% (2012: 23.0%)                    | (1.6)                           | 5.4  |
| Adjustments to prior years <sup>3</sup>  | 3.2                             | (13.9)   |
| Deferred tax released on disposal of properties                                      | 1.9                             | –  |
| <b>Income tax (charge)/credit</b>  | <b>(51.1)</b>                   | <b>18.0</b>  |

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<br>£m  | 2012<br>(Restated) <sup>1</sup><br>£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                                   |
| <b>At 31 December</b>                      | <b>72.7</b> | <b>71.9</b>                           |

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

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.

|  | <b>Intangibles<br/>£m</b> | <b>Other<br/>£m</b> | <b>Total<br/>£m</b> |
|--|---------------------------|---------------------|---------------------|
| <b>Deferred tax liabilities</b>                |                           |                     |                     |
| <b>At 1 January 2012</b>                       | (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                 |
| <b>At 31 December 2012</b>                     | (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                |
| <b>At 31 December 2013</b>                     | (73.0)                    | (4.0)               | (77.0)              |

|   | <b>Accelerated<br/>tax<br/>depreciation<br/>£m</b> | <b>Retirement<br/>benefit<br/>obligation<br/>£m</b> | <b>Share based<br/>payments<br/>£m</b> | <b>Financial<br/>instruments<br/>£m</b> | <b>Losses<br/>£m</b> | <b>Total<br/>£m</b> |
|---|--|---|--|---|----------------------|---------------------|
| <b>Deferred tax assets</b>                            |  |   |  |   |                      |                     |
| <b>At 1 January 2012</b>                              | 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                 |
| <b>At 31 December 2012<br/>(Restated)<sup>1</sup></b> | (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                |
| <b>At 31 December 2013</b>                            | 25.5   | 120.7   | 1.0                                    | 2.5                                     | –                    | 149.7               |
| <b>Net deferred tax asset</b>                         |  |   |  |   |                      | <b>£m</b>           |
| <b>At 31 December 2013</b>                            |  |   |  |   |                      | 72.7                |
| <b>At 31 December 2012</b>                            |  |   |  |   |                      | 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<br>(Restated) <sup>1</sup> |   |         |
|--|------------------------|---|---------|---|---|---------|
|  | Basic                  | Dilutive<br>effect<br>of share<br>options | Diluted | Basic   | Dilutive<br>effect<br>of share<br>options | Diluted |
| <b>Continuing operations</b>                 |                        |   |         |   |   |         |
| (Loss)/profit after tax (£m)                 | (46.7)                 |   | (46.7)  | 10.0  |   | 10.0    |
| Weighted average number<br>of shares (m)     | 239.8                  | –   | 239.8   | 239.8   | –   | 239.8   |
| <b>(Loss)/earnings per share<br/>(pence)</b> | (19.5)                 | –   | (19.5)  | 4.2   | –   | 4.2     |
| <b>Discontinued operations</b>               |                        |   |         |   |   |         |
| Loss after tax (£m)                          | (199.2)                |   | (199.2) | (27.9)  |   | (27.9)  |
| Weighted average number<br>of shares (m)     | 239.8                  | –   | 239.8   | 239.8   | –   | 239.8   |
| <b>Loss per share (pence)</b>                | (83.1)                 | –   | (83.1)  | (11.6)  | –   | (11.6)  |
| <b>Total</b>                                 |                        |   |         |   |   |         |
| Loss after tax (£m)                          | (245.9)                |   | (245.9) | (17.9)  |   | (17.9)  |
| Weighted average number<br>of shares (m)     | 239.8                  | –   | 239.8   | 239.8   | –   | 239.8   |
| <b>Loss per share (pence)</b>                | (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<br>Number     | 2012<br>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            | –                  |
| <b>Weighted average number of ordinary shares for the purpose of diluted earnings per share</b> | <b>240,281,580</b> | <b>239,806,206</b> |

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.

|   | Year ended 31 Dec 2013 |                    |               |
|---|------------------------|--------------------|---------------|
|   | Continuing<br>£m       | Discontinued<br>£m | Total<br>£m   |
| <b>Operating profit/(loss)</b>  | 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           |
| <b>Operating profit/(loss) before impairment and profit on disposal of operations</b> | 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           |
| <b>Trading profit</b>   | 139.5                  | 5.7                | 145.2         |
| Less net regular interest payable   | (58.4)                 | –                  | (58.4)        |
| <b>Adjusted profit before tax</b>   | 81.1                   | 5.7                | 86.8          |
| Notional tax at 23.25%  | (18.9)                 | (1.3)              | (20.2)        |
| <b>Adjusted profit after tax</b>  | 62.2                   | 4.4                | 66.6          |
| Average shares in issue (m)   | 239.8                  | 239.8              | 239.8         |
| <b>Adjusted EPS (pence)</b>   | 25.9                   | 1.8                | 27.7          |
| <b>Net regular interest payable</b>   |                        |                    |               |
| 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           |
| <b>Net regular interest payable</b>   | <b>(58.4)</b>          | <b>–</b>           | <b>(58.4)</b> |

|   | Year ended 31 Dec 2012<br>(Restated) <sup>1</sup> |                    |             |
|---|---|--------------------|-------------|
|   | Continuing<br>£m                                  | Discontinued<br>£m | Total<br>£m |
| <b>Operating profit/(loss)</b>  | 83.7  | (45.2)             | 38.5        |
| Impairment of property, plant and equipment and<br>intangible assets                    | –   | 36.2               | 36.2        |
| Profit on disposal of operations  | (33.1)  | (30.6)             | (63.7)      |
| <b>Operating profit/(loss) before impairment and loss on<br/>disposal of operations</b> | 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<br>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         |
| <b>Trading profit/(loss)</b>  | 159.1   | (21.9)             | 137.2       |
| Less net regular interest payable   | (69.5)  | –                  | (69.5)      |
| <b>Adjusted profit/(loss) before tax</b>  | 89.6  | (21.9)             | 67.7        |
| Notional tax at 24.5%   | (22.0)  | 5.4                | (16.6)      |
| <b>Adjusted profit/(loss) after tax</b>   | 67.6  | (16.5)             | 51.1        |
| Average shares in issue (m)   | 239.8   | 239.8              | 239.8       |
| <b>Adjusted EPS (pence)</b>   | 28.2  | (6.9)              | 21.3        |
| <b>Net regular interest payable</b>   |   |                    |             |
| 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<br>financial instruments                | 9.7   | –                  | 9.7         |
| Exclude other interest  | 0.7   | 0.1                | 0.8         |
| <b>Net regular interest payable</b>   | (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<br>31 Dec 2013<br>£m | Year ended<br>31 Dec 2012<br>£m |
|--|------|---------------------------------|---------------------------------|
| Revenue  |      | 654.6                           | 685.3                           |
| Operating expenses   |      | (662.9)                         | (724.9)                         |
| <b>Operating loss before impairment and profit on disposal of operations</b> |      | (8.3)                           | (39.6)                          |
| Impairment   | 14   | (234.4)                         | (36.2)                          |
| Profit on disposal of operations   |      | –                               | 30.6                            |
| <b>Operating loss</b>  |      | (242.7)                         | (45.2)                          |
| Finance cost   |      | –                               | (0.2)                           |
| <b>Loss before taxation</b>  |      | (242.7)                         | (45.4)                          |
| Taxation credit  |      | 43.5                            | 17.5                            |
| <b>Loss after taxation on discontinued operations for the year</b>           |      | (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<br>31 Dec 2013<br>£m |
|---|---------------------------------|
| Net cash inflow arising on disposal:                              |                                 |
| Initial consideration   | 92.5                            |
| Proceeds deferred, working capital adjustments and disposal costs | (17.8)                          |
| <b>Net cash inflow for the year</b>                               | 74.7                            |
| Property, plant and equipment                                     | 37.6                            |
| Intangible assets and goodwill                                    | 34.2                            |
| Inventories   | 8.7                             |
| Provisions and lease obligations                                  | (3.4)                           |
| <b>Net assets disposed</b>  | 77.1                            |
| <b>Loss on disposal before tax</b>                                | (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.

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

### 13. Property, plant and equipment

|  | <b>Land and<br/>buildings<br/>£m</b> | <b>Vehicles, plant<br/>and equipment<br/>£m</b> | <b>Assets under<br/>construction<br/>£m</b> | <b>Total<br/>£m</b> |
|--|--------------------------------------|---|---|---------------------|
| <b>Cost</b>  |                                      |   |   |                     |
| 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 <sup>2</sup>              | –                                    | 44.8  | –   | 44.8                |
| Transferred into use   | 1.5                                  | 78.2  | (79.7)                                      | –                   |
| Reversal of fair value adjustment <sup>1</sup>               | 79.5                                 | 7.9   | –   | 87.4                |
| Transferred to held for sale                                 | (12.0)                               | (51.4)  | (0.8)                                       | (64.2)              |
| <b>At 31 December 2012</b>                                   | <b>194.3</b>                         | <b>411.5</b>                                    | <b>26.8</b>                                 | <b>632.6</b>        |
| Additions  | –                                    | 0.2   | 27.8  | 28.0                |
| Disposals  | (17.0)                               | (19.5)  | –   | (36.5)              |
| Transferred to intangible assets and<br>transferred into use | 2.5                                  | 19.9  | (27.9)                                      | (5.5)               |
| <b>At 31 December 2013</b>                                   | <b>179.8</b>                         | <b>412.1</b>                                    | <b>26.7</b>                                 | <b>618.6</b>        |

|  | Land and<br>buildings<br>£m | Vehicles, plant<br>and equipment<br>£m | Assets under<br>construction<br>£m | Total<br>£m    |
|--|-----------------------------|--|------------------------------------|----------------|
| <b>Aggregate depreciation and impairment</b> |                             |  |                                    |                |
| 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           |
| <b>At 31 December 2012</b>                   | <b>(45.6)</b>               | <b>(210.0)</b>                         | <b>(2.8)</b>                       | <b>(258.4)</b> |
| 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)        |
| <b>At 31 December 2013</b>                   | <b>(111.9)</b>              | <b>(307.6)</b>                         | <b>(2.8)</b>                       | <b>(422.3)</b> |
| <b>Net book value</b>                        |                             |  |                                    |                |
| At 31 December 2011                          | 123.7                       | 225.2                                  | 68.4                               | 417.3          |
| At 31 December 2012                          | 148.7                       | 201.5                                  | 24.0                               | 374.2          |
| <b>At 31 December 2013</b>                   | <b>67.9</b>                 | <b>104.5</b>                           | <b>23.9</b>                        | <b>196.3</b>   |

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.

### **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<br>£m   | 2012<br>£m   |
|------------------------------|--------------|--------------|
| <b>Carrying value</b>        |              |              |
| At 1 January                 | 713.9        | 856.2        |
| Disposals                    | –            | (111.2)      |
| Transferred to held for sale | –            | (31.1)       |
| <b>At 31 December</b>        | <b>713.9</b> | <b>713.9</b> |



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

|                                       | <b>2013</b>  | <b>2012</b>  |
|---------------------------------------|--------------|--------------|
|                                       | <b>£m</b>    | <b>£m</b>    |
| Grocery                               | 713.9        | 713.9        |
| <b>Net carrying value of goodwill</b> | <b>713.9</b> | <b>713.9</b> |

### ***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.

### *Impairment charge*

|             | <b>Property,<br/>Plant and<br/>Equipment<br/>£m</b> | <b>Other<br/>intangible<br/>assets<br/>£m</b> | <b>Other assets<br/>£m</b> | <b>Total<br/>£m</b> |
|-------------|---|---|----------------------------|---------------------|
| <b>2013</b> |   |   |                            |                     |
| Bread       | 155.5   | 66.9  | 12.0                       | 234.4               |
| <b>2012</b> |   |   |                            |                     |
| Bread       | 12.5  | 23.7  | –                          | 36.2                |

### **15. Other intangible assets**

|  | <b>Software<br/>£m</b> | <b>Brands/<br/>trademarks/<br/>licences<br/>£m</b> | <b>Customer<br/>relationships<br/>£m</b> | <b>Assets<br/>under<br/>construction<br/>£m</b> | <b>Total<br/>£m</b> |
|--|------------------------|--|--|---|---------------------|
| <b>Cost</b>  |                        |  |  |   |                     |
| 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 <sup>1</sup> | (44.8)                 | –  | –  | –   | (44.8)              |
| Transferred into use                                   | 32.9                   | –  | –  | (32.9)  | –                   |
| Transferred to held for sale                           | –                      | (7.1)  | –  | –   | (7.1)               |
| <b>At 31 December 2012</b>                             | <b>150.0</b>           | <b>841.2</b>                                       | <b>134.8</b>                             | <b>17.1</b>                                     | <b>1,143.1</b>      |
| 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                 |
| <b>At 31 December 2013</b>                             | <b>139.8</b>           | <b>853.2</b>                                       | <b>134.8</b>                             | <b>9.1</b>                                      | <b>1,136.9</b>      |
| <b>Accumulated amortisation and impairment</b>         |                        |  |  |   |                     |
| 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                 |
| <b>At 31 December 2012</b>                             | <b>(73.0)</b>          | <b>(266.4)</b>                                     | <b>(126.7)</b>                           | <b>–</b>  | <b>(466.1)</b>      |
| 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)              |
| <b>At 31 December 2013</b>                             | <b>(81.9)</b>          | <b>(346.6)</b>                                     | <b>(132.9)</b>                           | <b>–</b>  | <b>(561.4)</b>      |
| <b>Net book value</b>                                  |                        |  |  |   |                     |
| 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               |
| <b>Net book value 31 December 2013</b>                 | <b>57.9</b>            | <b>506.6</b>                                       | <b>1.9</b>                               | <b>9.1</b>                                      | <b>575.5</b>        |

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.

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

| <i>Brand/Trademark</i> | <b>Carrying<br/>value at<br/>31 Dec 2013<br/>£m</b> | <b>Estimated<br/>useful life<br/>remaining<br/>Years</b> |
|------------------------|---|--|
| 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***

| <b>Name of Subsidiary</b>            | <b>Country of<br/>incorporation<br/>or registration<br/>and principal<br/>operations</b> | <b>Principal activity</b>  | <b>Effective<br/>interest<br/>in ordinary<br/>share capital at<br/>31 December</b> |             |
|--------------------------------------|--|--|--|-------------|
|                                      |  |  | <b>2013</b>  | <b>2012</b> |
| <b>Operating subsidiaries</b>        |  |  |  |             |
| 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%        |
| <b>Other subsidiaries</b>            |  |  |  |             |
| 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<br>£m  | 2012<br>£m   |
|-------------------------------------|-------------|--------------|
| Raw materials                       | 18.2        | 45.7         |
| Work in progress                    | 2.7         | 2.6          |
| Finished goods and goods for resale | 48.0        | 67.9         |
| <b>Inventories</b>                  | <b>68.9</b> | <b>116.2</b> |

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<br>£m   | 2012<br>£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          |
| <b>Trade and other receivables</b>       | <b>248.3</b> | <b>298.6</b> |

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<br>£m     | 2012<br>£m     |
|---------------------------------|----------------|----------------|
| Trade payables                  | (268.8)        | (316.3)        |
| Tax and social security payable | (16.3)         | (13.1)         |
| Other payables and accruals     | (51.6)         | (83.0)         |
| <b>Trade and other payables</b> | <b>(336.7)</b> | <b>(412.4)</b> |

## 20. Bank and other borrowings

|  | 2013<br>£m     | 2012<br>£m       |
|--|----------------|------------------|
| <b>Current:</b>                                      |                |                  |
| 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)           |
| <b>Total borrowings due within one year</b>          | <b>(169.1)</b> | <b>(229.8)</b>   |
| <b>Non-current:</b>                                  |                |                  |
| 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)            |
| <b>Total borrowings due after more than one year</b> | <b>(818.7)</b> | <b>(774.1)</b>   |
| <b>Total bank and other borrowings</b>               | <b>(987.8)</b> | <b>(1,003.9)</b> |

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.

### (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:

|   | Year ended<br>31 Dec 2013 | Year ended<br>31 Dec 2012 |
|---|---------------------------|---------------------------|
| <b>Principal rate of exchange EUR/£</b> |                           |                           |
| Year end                                | 1.2206                    | 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.

|                                       | <b>Functional currency of subsidiaries</b> |                    |                     |
|---------------------------------------|--|--------------------|---------------------|
|                                       | <b>Sterling<br/>£m</b>                     | <b>Euro<br/>£m</b> | <b>Total<br/>£m</b> |
| <b>At 31 December 2013</b>            |  |                    |                     |
| Net foreign currency monetary assets: |  |                    |                     |
| – Euro                                | (1.6)                                      | –                  | (1.6)               |
| – US dollar                           | 0.6  | –                  | 0.6                 |
| <b>Total</b>                          | <b>(1.0)</b>                               | <b>–</b>           | <b>(1.0)</b>        |

|                                       | Functional currency of subsidiaries |            |             |
|---------------------------------------|-------------------------------------|------------|-------------|
|                                       | Sterling<br>£m                      | Euro<br>£m | Total<br>£m |
| <b>At 31 December 2012</b>            |                                     |            |             |
| Net foreign currency monetary assets: |                                     |            |             |
| – Euro                                | 0.5                                 | –          | 0.5         |
| – US dollar                           | 0.8                                 | –          | 0.8         |
| <b>Total</b>                          | <b>1.3</b>                          | <b>–</b>   | <b>1.3</b>  |

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<br>(Payable)/<br>receivable<br>£m | 2012<br>(Payable)/<br>receivable<br>£m |
|--------------|--|--|
| Euro         | (38.0)                                 | (48.6)                                 |
| US dollar    | (18.4)                                 | (15.2)                                 |
| <b>Total</b> | <b>(56.4)</b>                          | <b>(63.8)</b>                          |

Sensitivities are disclosed below using the following reasonably possible scenarios.

If the US dollar were to weaken against sterling by 20 US dollar cents, with all other variables held constant, 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.

(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:

|                            | <b>Weighted<br/>average<br/>interest rate<br/>(%)</b> |
|----------------------------|---|
| <b>Currency: Sterling</b>  |   |
| <b>At 31 December 2013</b> | 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.

|  | <b>Within 1<br/>year<br/>£m</b> | <b>1 and 2<br/>years<br/>£m</b> | <b>2 and 3<br/>years<br/>£m</b> | <b>3 and 4<br/>years<br/>£m</b> | <b>4 and 5<br/>years<br/>£m</b> | <b>Over 5<br/>years<br/>£m</b> | <b>Total<br/>£m</b> |
|--|---------------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|--------------------------------|---------------------|
| <b>2013</b>                              |                                 |                                 |                                 |                                 |                                 |                                |                     |
| <b>Derivative financial liabilities:</b> |                                 |                                 |                                 |                                 |                                 |                                |                     |
| – Fixed rate                             | 25.0                            | 85.0                            | 510.0                           | –                               | –                               | –                              | 620.0               |
| <b>2012</b>                              |                                 |                                 |                                 |                                 |                                 |                                |                     |
| <b>Derivative financial liabilities:</b> |                                 |                                 |                                 |                                 |                                 |                                |                     |
| – 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.

(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:

|                                    | Fully performing<br>£m | 1–30 days<br>£m | 31–60 days<br>£m | Past due<br>61–90 days<br>£m | 91–120 days<br>£m | Over 120 days<br>£m | Total<br>£m |
|------------------------------------|------------------------|-----------------|------------------|------------------------------|-------------------|---------------------|-------------|
| <b>Trade and other receivables</b> |                        |                 |                  |                              |                   |                     |             |
| <b>2013</b>                        | 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<br>£m  | 2012<br>£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        |
| <b>At 31 December</b>                                    | <b>29.4</b> | <b>16.3</b> |

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.

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

|                                     | Within 1 year<br>£m | 1 and 2 years<br>£m | 2 and 3 years<br>£m | 3 and 4 years<br>£m | 4 and 5 years<br>£m | Over 5 years<br>£m | Total<br>£m |
|-------------------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|--------------------|-------------|
| <b>At 31 December 2013</b>          |                     |                     |                     |                     |                     |                    |             |
| 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)     |

|                                     | Within 1<br>year<br>£m | 1 and 2<br>years<br>£m | 2 and 3<br>years<br>£m | 3 and 4<br>years<br>£m | 4 and 5<br>years<br>£m | Over 5<br>years<br>£m | Total<br>£m |
|-------------------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|-----------------------|-------------|
| <b>At 31 December 2012</b>          |                        |                        |                        |                        |                        |                       |             |
| 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<br>year<br>£m | 1 and 2<br>years<br>£m | 2 and 3<br>years<br>£m | 3 and 4<br>years<br>£m | 4 and 5<br>years<br>£m | Over 5<br>years<br>£m | Total<br>£m |
|-----------------|------------------------|------------------------|------------------------|------------------------|------------------------|-----------------------|-------------|
| <b>Interest</b> |                        |                        |                        |                        |                        |                       |             |
| 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<br>year<br>£m | 1 and 2<br>years<br>£m | 2 and 3<br>years<br>£m | 3 and 4<br>years<br>£m | 4 and 5<br>years<br>£m | Over 5<br>years<br>£m | Total<br>£m |
|--|------------------------|------------------------|------------------------|------------------------|------------------------|-----------------------|-------------|
| <b>At 31 December 2013</b>                 |                        |                        |                        |                        |                        |                       |             |
| <b>Forward foreign exchange contracts:</b> |                        |                        |                        |                        |                        |                       |             |
| – Outflow                                  | (56.4)                 | –                      | –                      | –                      | –                      | –                     | (56.4)      |
| – Inflow                                   | 54.7                   | –                      | –                      | –                      | –                      | –                     | 54.7        |
| <b>Commodities:</b>                        |                        |                        |                        |                        |                        |                       |             |
| – Outflow                                  | (7.0)                  | –                      | –                      | –                      | –                      | –                     | (7.0)       |
| <b>Interest rate swaps:</b>                |                        |                        |                        |                        |                        |                       |             |
| – 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)      |
| <b>At 31 December 2012</b>                 |                        |                        |                        |                        |                        |                       |             |
| <b>Forward foreign exchange contracts:</b> |                        |                        |                        |                        |                        |                       |             |
| – Outflow                                  | (63.8)                 | –                      | –                      | –                      | –                      | –                     | (63.8)      |
| – Inflow                                   | 64.4                   | –                      | –                      | –                      | –                      | –                     | 64.4        |
| <b>Commodities:</b>                        |                        |                        |                        |                        |                        |                       |             |
| – Outflow                                  | (6.4)                  | –                      | –                      | –                      | –                      | –                     | (6.4)       |
| <b>Interest rate swaps:</b>                |                        |                        |                        |                        |                        |                       |             |
| – 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.

(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.

|  | <b>2013</b>         | <b>2012</b>         |
|--|---------------------|---------------------|
|  | <b>Book &amp;</b>   | <b>Book &amp;</b>   |
|  | <b>Market Value</b> | <b>Market Value</b> |
|  | <b>£m</b>           | <b>£m</b>           |
| <b>Loans and receivables:</b>                                      |                     |                     |
| Cash and cash equivalents  | 157.0               | 53.2                |
| Trade and other receivables  | 235.0               | 264.2               |
| <b>Financial assets at fair value through profit or loss:</b>      |                     |                     |
| Derivative financial instruments                                   |                     |                     |
| – Forward foreign currency exchange contracts/currency options     | 0.2                 | 0.7                 |
| – Commodity and energy derivatives                                 | 0.3                 | 0.3                 |
| <b>Financial liabilities at fair value through profit or loss:</b> |                     |                     |
| 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)              |
| <b>Financial liabilities at amortised cost:</b>                    |                     |                     |
| 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.

|  | <b>2013</b>    | <b>2012</b>    |
|--|----------------|----------------|
|  | <b>Level 2</b> | <b>Level 2</b> |
| <b>Financial assets at fair value through profit or loss:</b>      |                |                |
| Derivative financial instruments:                                  |                |                |
| – Forward foreign currency exchange contracts/currency options     | 0.2            | 0.7            |
| – Commodity and energy derivatives                                 | 0.3            | 0.3            |
| <b>Financial liabilities at fair value through profit or loss:</b> |                |                |
| 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).

### ***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***

|   | <b>Minimum lease payments</b> |             | <b>Present value of minimum lease payments</b> |             |
|---|-------------------------------|-------------|--|-------------|
|   | <b>2013</b>                   | <b>2012</b> | <b>2013</b>                                    | <b>2012</b> |
|   | <b>£m</b>                     | <b>£m</b>   | <b>£m</b>                                      | <b>£m</b>   |
| 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:

|                                | <b>2013</b> | <b>2012</b> |
|--------------------------------|-------------|-------------|
|                                | <b>£m</b>   | <b>£m</b>   |
| 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)   |
| <b>Gearing ratio</b>           | <b>98%</b>  | <b>70%</b>  |

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.

(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**

|                                      | <b>Restructuring<br/>£m</b> | <b>Other<br/>£m</b> | <b>Total<br/>£m</b> |
|--------------------------------------|-----------------------------|---------------------|---------------------|
| <b>At 1 January 2012</b>             | (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                 | –                   |
| <b>At 31 December 2012</b>           | (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)               | –                   |
| <b>At 31 December 2013</b>           | (30.7)                      | (41.5)              | (72.2)              |
|                                      |                             |                     | <b>2013<br/>£m</b>  |
| <b>Analysis of total provisions:</b> |                             |                     |                     |
| Current                              | (7.4)                       | (7.6)               | (15.0)              |
| Non-current                          | (23.3)                      | (33.9)              | (57.2)              |
|                                      | (30.7)                      | (41.5)              | (72.2)              |
|                                      |                             |                     | <b>2012<br/>£m</b>  |
| <b>Analysis of total provisions:</b> |                             |                     |                     |
| 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.

## **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 Independent Trustee as Chair of the boards. The members of the trustee boards undertake regular training and development to ensure that they are equipped appropriately to fulfil their function as trustees. In addition each trustee board has appointed



professional advisers to give them the specialist expertise they need to support them in the areas of investment, funding, legal, covenant and administration.

The trustee boards of the UK schemes generally meet at least 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.

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***

|  | <b>As at<br/>31 Dec<br/>2013<br/>£m</b> | <b>As at<br/>31 Dec<br/>2012<br/>£m</b> |
|--|---|---|
| Increase in pensions expense   | (37.9)                                  | (40.2)                                  |
| Decrease in current tax expense  | 8.4                                     | 9.5                                     |
| <b>Net decrease in profit and loss for the year</b>                    | <b>(29.5)</b>                           | <b>(30.7)</b>                           |
| 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)                                   |
| <b>Net increase in other comprehensive income</b>                      | <b>29.5</b>                             | <b>30.7</b>                             |
| <b>Net increase in total comprehensive income</b>                      | <b>–</b>                                | <b>–</b>                                |
| 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.

At the balance sheet date, the combined principal actuarial assumptions used for all the schemes were as follows:

|                           | <b>Premier<br/>schemes</b> | <b>RHM<br/>schemes</b> |
|---------------------------|----------------------------|------------------------|
| <b>2013</b>               |                            |                        |
| 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%                  |
| <b>2012</b>               |                            |                        |
| 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<br>schemes | RHM<br>schemes | Total |
|---|--------------------|----------------|-------|
| <b>2013 Life expectancy</b>             |                    |                |       |
| 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  |
| <b>2012 Life expectancy</b>             |                    |                |       |
| 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.

The fair values of plan assets split by type of asset are as follows:

|   | Premier<br>schemes<br>£m | Percentage<br>of total<br>% | RHM<br>schemes<br>£m | Percentage<br>of total<br>% | Total<br>£m    | Percentage<br>of total |
|---|--------------------------|-----------------------------|----------------------|-----------------------------|----------------|------------------------|
| <b>Pension scheme assets</b>  |                          |                             |                      |                             |                |                        |
| <b>Assets with a quoted price in an active market at 31 December 2013:</b>    |                          |                             |                      |                             |                |                        |
| 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                    |
| <b>Assets without a quoted price in an active market at 31 December 2013:</b> |                          |                             |                      |                             |                |                        |
| 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                    |
| <b>Fair value of scheme assets at 31 December 2013</b>                        | <b>531.4</b>             | <b>100</b>                  | <b>2,687.0</b>       | <b>100</b>                  | <b>3,218.4</b> | <b>100</b>             |

|   | Premier<br>schemes<br>£m | Percentage<br>of total<br>% | RHM<br>schemes<br>£m | Percentage<br>of total<br>% | Total<br>£m    | Percentage<br>of total |
|---|--------------------------|-----------------------------|----------------------|-----------------------------|----------------|------------------------|
| <b>Pension scheme assets</b>  |                          |                             |                      |                             |                |                        |
| <b>Assets with a quoted price in an active market at 31 December 2012:</b>    |                          |                             |                      |                             |                |                        |
| 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                    |
| <b>Assets without a quoted price in an active market at 31 December 2012:</b> |                          |                             |                      |                             |                |                        |
| 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            | –                      |
| <b>Fair value of scheme assets at 31 December 2012</b>                        | <b>535.9</b>             | <b>100</b>                  | <b>2,673.4</b>       | <b>100</b>                  | <b>3,209.3</b> | <b>100</b>             |

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<br>schemes<br>£m | RHM<br>schemes<br>£m | Total<br>£m    |
|-------------------------------------|--------------------------|----------------------|----------------|
| <b>2013</b>                         |                          |                      |                |
| 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        |
| <b>Deficit in scheme</b>            | <b>(385.5)</b>           | <b>(217.8)</b>       | <b>(603.3)</b> |
| <b>2012</b>                         |                          |                      |                |
| 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        |
| <b>Deficit in scheme</b>            | <b>(335.2)</b>           | <b>(131.6)</b>       | <b>(466.8)</b> |

The aggregate deficit has increased by £137m during the year (2012: £184m) primarily due to the increase in actuarial inflation assumptions used.

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

|   | <b>Premier<br/>schemes<br/>£m</b> | <b>RHM<br/>schemes<br/>£m</b> | <b>Total<br/>£m</b> |
|---|-----------------------------------|-------------------------------|---------------------|
| <b>2013</b>   |                                   |                               |                     |
| 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               |
| <b>Closing defined benefit obligation at<br/>31 December 2013</b> | <b>(916.9)</b>                    | <b>(2,904.8)</b>              | <b>(3,821.7)</b>    |
| <b>2012 (Restated)<sup>1</sup></b>                                |                                   |                               |                     |
| 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               |
| <b>Closing defined benefit obligation at<br/>31 December 2012</b> | <b>(871.1)</b>                    | <b>(2,805.0)</b>              | <b>(3,676.1)</b>    |

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

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

|  | <b>Premier<br/>schemes<br/>£m</b> | <b>RHM<br/>schemes<br/>£m</b> | <b>Total<br/>£m</b> |
|--|-----------------------------------|-------------------------------|---------------------|
| <b>2013</b>  |                                   |                               |                     |
| 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)             |
| <b>Closing fair value of plan assets at<br/>31 December 2013</b> | <b>531.4</b>                      | <b>2,687.0</b>                | <b>3,218.4</b>      |

|  | <b>Premier<br/>schemes<br/>£m</b> | <b>RHM<br/>schemes<br/>£m</b> | <b>Total<br/>£m</b> |
|--|-----------------------------------|-------------------------------|---------------------|
| <b>2012 (Restated)<sup>1</sup></b>                               |                                   |                               |                     |
| 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)             |
| <b>Closing fair value of plan assets at<br/>31 December 2012</b> | <b>535.9</b>                      | <b>2,673.4</b>                | <b>3,209.3</b>      |

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

The reconciliation of the net defined benefit liability over the period is as follows:

|  | <b>Premier<br/>schemes<br/>£m</b> | <b>RHM<br/>schemes<br/>£m</b> | <b>Total<br/>£m</b> |
|--|-----------------------------------|-------------------------------|---------------------|
| <b>2013</b>  |                                   |                               |                     |
| 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<br>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)               |
| <b>Deficit in schemes at end of period</b>                 | <b>(385.5)</b>                    | <b>(217.8)</b>                | <b>(603.3)</b>      |
| <b>2012 (Restated)<sup>1</sup></b>                         |                                   |                               |                     |
| 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<br>comprehensive income | (44.0)                            | (147.4)                       | (191.4)             |
| Contributions by employer                                  | 16.1                              | 23.0                          | 39.1                |
| Currency losses  | –                                 | (0.1)                         | (0.1)               |
| <b>Deficit in schemes at end of period</b>                 | <b>(335.2)</b>                    | <b>(131.6)</b>                | <b>(466.8)</b>      |

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

Remeasurements recognised in other comprehensive income are as follows:

|  | <b>Premier<br/>schemes<br/>£m</b> | <b>RHM<br/>schemes<br/>£m</b> | <b>Total<br/>£m</b> |
|--|-----------------------------------|-------------------------------|---------------------|
| <b>2013</b>                                |                                   |                               |                     |
| Remeasurement loss on plan liabilities     | (56.6)                            | (118.4)                       | (175.0)             |
| Remeasurement gain on plan assets          | 2.1                               | 20.2                          | 22.3                |
| <b>Net remeasurement loss for the year</b> | <b>(54.5)</b>                     | <b>(98.2)</b>                 | <b>(152.7)</b>      |

|  | Premier<br>schemes<br>£m | RHM<br>schemes<br>£m | Total<br>£m    |
|--|--------------------------|----------------------|----------------|
| <b>2012</b>                                |                          |                      |                |
| Remeasurement loss on plan liabilities     | (58.1)                   | (160.2)              | (218.3)        |
| Remeasurement gain on plan assets          | 14.1                     | 12.8                 | 26.9           |
| <b>Net remeasurement loss for the year</b> | <b>(44.0)</b>            | <b>(147.4)</b>       | <b>(191.4)</b> |

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.

The total amounts recognised in profit or loss are as follows:

|                                    | Premier<br>schemes<br>£m | RHM<br>schemes<br>£m | Total<br>£m   |
|------------------------------------|--------------------------|----------------------|---------------|
| <b>2013</b>                        |                          |                      |               |
| <b>Operating profit</b>            |                          |                      |               |
| 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)        |
| <b>Total</b>                       | <b>(6.0)</b>             | <b>(0.2)</b>         | <b>(6.2)</b>  |
| <b>2012 (Restated)<sup>1</sup></b> |                          |                      |               |
| <b>Operating profit</b>            |                          |                      |               |
| 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)        |
| <b>Total</b>                       | <b>(39.6)</b>            | <b>7.6</b>           | <b>(32.0)</b> |

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<br>£m    | 2012<br>£m   |
|--------------------------|---------------|--------------|
| Deferred financing fees  | (15.8)        | –            |
| Deferred income          | (14.0)        | –            |
| Other accruals           | (0.6)         | (1.3)        |
| <b>Other liabilities</b> | <b>(30.4)</b> | <b>(1.3)</b> |

## 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.

### *Share capital*

|  | Number of<br>shares | Ordinary<br>shares<br>£m | Share<br>premium<br>£m | Total<br>£m |
|--|---------------------|--------------------------|------------------------|-------------|
| <b>At 1 January 2011</b>                 | 239,805,802         | 24.0                     | 1,124.7                | 1,148.7     |
| Shares issued under share option schemes | 404                 | –                        | –                      | –           |
| <b>At 31 December 2012</b>               | 239,806,206         | 24.0                     | 1,124.7                | 1,148.7     |
| Shares issued under share option schemes | 21,960              | –                        | –                      | –           |
| <b>At 31 December 2013</b>               | 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.

### ***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***

|                                    | <b>2013</b>   | <b>Weighted<br/>average<br/>exercise price<br/>(p)</b> |
|------------------------------------|---------------|--|
|                                    | <b>Awards</b> |  |
| 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)**

|   | <b>2013</b>      |  | <b>2012</b>      |  |
|---|------------------|--|------------------|--|
|   | <b>Awards</b>    | <b>Weighted average exercise price (p)</b> | <b>Awards</b>    | <b>Weighted average exercise price (p)</b> |
| 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   |
| <b>Outstanding at the end of the year</b> | <b>3,046,854</b> | <b>10</b>                                  | <b>3,883,365</b> | <b>10</b>                                  |
| <b>Exercisable at the end of the year</b> | <b>–</b>         | <b>–</b>                                   | <b>–</b>         | <b>–</b>                                   |

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)**

|   | <b>2013</b>    |  | <b>2012</b>    |  |
|---|----------------|--|----------------|--|
|   | <b>Awards</b>  | <b>Weighted average exercise price (p)</b> | <b>Awards</b>  | <b>Weighted average exercise price (p)</b> |
| Outstanding at beginning of year          | 267,376        | 10   | 267,376        | 10   |
| Forfeited during the year                 | (140,749)      | 10   | –              | –  |
| <b>Outstanding at the end of the year</b> | <b>126,627</b> | <b>10</b>                                  | <b>267,376</b> | <b>10</b>                                  |
| <b>Exercisable at the end of the year</b> | <b>–</b>       | <b>–</b>                                   | <b>–</b>       | <b>–</b>                                   |

The awards outstanding at 31 December 2013 had a weighted average remaining contractual life of 0.4 years (2012: 1.4 years).

Details of the share awards of the Premier Foods plc Restricted Stock Plan are as follows:

**Premier Foods plc Restricted Stock Plan**

|   | <b>2013</b>      |  | <b>2012</b>    |  |
|---|------------------|--|----------------|--|
|   | <b>Awards</b>    | <b>Weighted average exercise price (p)</b> | <b>Awards</b>  | <b>Weighted average exercise price (p)</b> |
| Outstanding at beginning of year          | 104,347          | 10   | –              | –  |
| Granted during the year                   | 3,931,327        | 10   | 104,347        | 10   |
| <b>Outstanding at the end of the year</b> | <b>4,035,674</b> | <b>10</b>                                  | <b>104,347</b> | <b>10</b>                                  |
| <b>Exercisable at the end of the year</b> | <b>–</b>         | <b>–</b>                                   | <b>–</b>       | <b>–</b>                                   |

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***

|   | <b>2013</b>   |  | <b>2012</b>    |  |
|---|---------------|--|----------------|--|
|   | <b>Awards</b> | <b>Weighted average exercise price (p)</b> | <b>Awards</b>  | <b>Weighted average exercise price (p)</b> |
| 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   | –              | –  |
| <b>Outstanding at the end of the year</b> | <b>–</b>      | <b>–</b>                                   | <b>875,000</b> | <b>10</b>                                  |
| <b>Exercisable at the end of the year</b> | <b>–</b>      | <b>–</b>                                   | <b>–</b>       | <b>–</b>                                   |

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***

|   | <b>2013</b>   |  | <b>2012</b>    |  |
|---|---------------|--|----------------|--|
|   | <b>Awards</b> | <b>Weighted average exercise price (p)</b> | <b>Awards</b>  | <b>Weighted average exercise price (p)</b> |
| Outstanding at beginning of year          | 196,330       | 10   | 509,167        | 10   |
| Forfeited during the year                 | (196,330)     | 10   | (312,837)      | 10   |
| <b>Outstanding at the end of the year</b> | <b>–</b>      | <b>–</b>                                   | <b>196,330</b> | <b>10</b>                                  |
| <b>Exercisable at the end of the year</b> | <b>–</b>      | <b>–</b>                                   | <b>–</b>       | <b>–</b>                                   |

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***

|   | <b>2013</b>   |  | <b>2012</b>    |  |
|---|---------------|--|----------------|--|
|   | <b>Awards</b> | <b>Weighted average exercise price (p)</b> | <b>Awards</b>  | <b>Weighted average exercise price (p)</b> |
| Outstanding at beginning of year          | 308,414       | 10   | 833,428        | 10   |
| Forfeited during the year                 | (308,414)     | 10   | (525,014)      | 10   |
| <b>Outstanding at the end of the year</b> | <b>–</b>      | <b>–</b>                                   | <b>308,414</b> | <b>10</b>                                  |
| <b>Exercisable at the end of the year</b> | <b>–</b>      | <b>–</b>                                   | <b>–</b>       | <b>–</b>                                   |

There were no awards outstanding at 31 December 2013.

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                                 |
| <b>Outstanding at the end of the year</b> | <b>6,478,846</b> | <b>98</b>                           | <b>5,959,333</b> | <b>114</b>                          |
| <b>Exercisable at the end of the year</b> | <b>1,044,438</b> | <b>152</b>                          | <b>462,306</b>   | <b>360</b>                          |

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        | Options        | Weighted average exercise price (p) |
| Outstanding at beginning of year          |                | 131,885        | 131,885        | 1,620                               |
| <b>Outstanding at the end of the year</b> | <b>2014</b>    | <b>131,885</b> | <b>131,885</b> | <b>1,620</b>                        |
| <b>Exercisable at the end of the year</b> |                | <b>131,885</b> | <b>131,885</b> | <b>1,620</b>                        |

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                               |
| <b>Total</b>     | <b>15,297,458</b>                     | <b>1.5</b>  | <b>61</b>                           | <b>11,621,703</b>                     | <b>1.9</b>  | <b>81</b>                           |

## 26. Notes to the cash flow statement

### *Reconciliation of profit before tax to cash flows from operating activities*

|  | Year ended<br>31 Dec 2013<br>£m | Year ended<br>31 Dec 2012<br>(Restated) <sup>1</sup><br>£m |
|--|---------------------------------|--|
| <b>Continuing operations</b>   |                                 |  |
| Profit/(loss) before taxation  | 4.4                             | (8.0)  |
| Net finance cost   | 48.2                            | 91.7   |
| <b>Operating profit</b>  | 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  |
| <b>Net cash inflow from operating activities before interest, tax and movements in working capital</b> | 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)   |
| <b>Cash generated from continuing operations</b>   | 108.7                           | 44.6   |
| Discontinued operations  | 14.7                            | 11.8   |
| <b>Cash generated from operating activities</b>  | 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<br>31 Dec 2013<br>£m | Year ended<br>31 Dec 2012<br>£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)                         |
| <b>Decrease in borrowings net of cash</b>         | 119.9                           | 44.4                            |
| Total net borrowings at beginning of year         | (950.7)                         | (995.1)                         |
| <b>Total net borrowings at end of year</b>        | (830.8)                         | (950.7)                         |

### Analysis of movement in borrowings

|   | As at<br>1 Jan 2013<br>£m | Cash flow<br>£m | Other<br>non-cash<br>movements<br>£m | As at<br>31 Dec 2013<br>£m |
|---|---------------------------|-----------------|--------------------------------------|----------------------------|
| Bank overdrafts                                 | (43.5)                    | 43.5            | –                                    | –                          |
| Cash and bank deposits                          | 53.2                      | 103.7           | 0.1                                  | 157.0                      |
| <b>Net cash and cash equivalents</b>            | <b>9.7</b>                | <b>147.2</b>    | <b>0.1</b>                           | <b>157.0</b>               |
| 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)                    |
| <b>Gross borrowings net of cash<sup>1</sup></b> | <b>(973.3)</b>            | <b>126.2</b>    | <b>0.1</b>                           | <b>(847.0)</b>             |
| Debt issuance costs                             | 22.6                      | –               | (6.4)                                | 16.2                       |
| <b>Total net borrowings<sup>1</sup></b>         | <b>(950.7)</b>            | <b>126.2</b>    | <b>(6.3)</b>                         | <b>(830.8)</b>             |

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<br>asset   | Offset<br>liability | Net<br>offset<br>asset | Offset<br>asset   | Offset<br>liability | Net<br>offset<br>asset |
| Cash, cash equivalents and bank overdrafts | 322.8             | (165.8)             | 157.0                  | 261.2             | (251.5)             | 9.7                    |

### 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<br>£m | Plant and<br>Equipment<br>£m | Property<br>£m | Plant and<br>Equipment<br>£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                          |
| <b>Total operating lease commitments</b> | <b>32.6</b>    | <b>1.8</b>                   | <b>122.8</b>   | <b>10.0</b>                  |

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<br>£m | 2012<br>£m |
|--|------------|------------|
| <b>Contracts placed for future capital expenditure not provided in the financial statements:</b> |            |            |
| Intangible assets  | –          | 0.4        |
| Property, plant and equipment  | 3.1        | 8.5        |
| <b>Total capital commitments</b>   | <b>3.1</b> | <b>8.9</b> |

## 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<br>31 Dec 2013<br>£m | Year ended<br>31 Dec 2012<br>£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                             |
| <b>Total</b>                 | <b>9.7</b>                      | <b>7.3</b>                      |

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.

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 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***

|                             |   |   |
|-----------------------------|---|---|
| <b>Equity</b>               | Approximate firm placing:   | £100m                                     |
|                             | Approximate rights issue:   | £250m                                     |
|                             | Gross issue proceeds:   | £350m                                     |
| <b>Pension</b>              | Contributions fixed until 2019, revised deficit contribution schedule as follows: |   |
|                             | 2014  | £35m                                      |
|                             | 2015  | £9m                                       |
|                             | 2016  | £42m                                      |
|                             | 2017  | £50m                                      |
|                             | 2018  | £44m                                      |
|                             | 2019  | £42m                                      |
|                             | Total   | £222m                                     |
| <b>Lending facilities</b>   | Recovery period extended to 2032  |   |
|                             | Revolving credit facility ("RCF")   | £300m                                     |
|                             | RCF maturity  | March 2019                                |
|                             | RCF margin  | 3.50% + LIBOR                             |
|                             | Commitment fee on undrawn facilities  | 40% of applicable margin                  |
| <b>Senior Secured Notes</b> | Securitisation facility & margin  | £120m at 2.75% + cost of commercial paper |
|                             | 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<br>31 Dec 2013<br>£m | As at<br>31 Dec 2012<br>£m |
|--|------|----------------------------|----------------------------|
| <b>Fixed assets</b>                            |      |                            |                            |
| Investments in Group undertakings              | 3    | –                          | 479.1                      |
| <b>Current assets</b>                          |      |                            |                            |
| Debtors  | 4    | 895.6                      | 660.4                      |
| Deferred tax assets                            | 6    | 1.1                        | 0.9                        |
| Cash at bank and in hand                       |      | 0.3                        | 0.3                        |
| <b>Total assets</b>                            |      | 897.0                      | 1,140.7                    |
| Creditors: amounts falling due within one year | 5    | (314.1)                    | (59.7)                     |
| <b>Net current assets</b>                      |      | 582.9                      | 601.9                      |
| <b>Total assets less current liabilities</b>   |      | 582.9                      | 1,081.0                    |
| <b>Capital and reserves</b>                    |      |                            |                            |
| 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)                     |
| <b>Total shareholders’ funds</b>               |      | 582.9                      | 1,081.0                    |

The notes on pages 74 to 77 form an integral part of the financial statements.

The financial statements on pages 73 to 77 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*

## **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.

## **3. Investments in Group undertakings**

|                                | <b>2013</b>      | <b>2012</b>      |
|--------------------------------|------------------|------------------|
|                                | <b>£m</b>        | <b>£m</b>        |
| <b>Cost</b>                    |                  |                  |
| At 1 January                   | 1,757.3          | 1,753.9          |
| Additions                      | 2.0              | 3.4              |
| <b>At 31 December</b>          | <b>1,759.3</b>   | <b>1,757.3</b>   |
| <b>Accumulated impairment</b>  |                  |                  |
| At 1 January                   | (1,278.2)        | (1,024.2)        |
| Impairment charge for the year | (481.1)          | (254.0)          |
| <b>At 31 December</b>          | <b>(1,759.3)</b> | <b>(1,278.2)</b> |
| <b>NBV at 31 December</b>      | <b>–</b>         | <b>479.1</b>     |

### ***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**

|                                    | <b>2013</b> | <b>2012</b> |
|------------------------------------|-------------|-------------|
|                                    | <b>£m</b>   | <b>£m</b>   |
| 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<br>£m     | 2012<br>£m    |
|--|----------------|---------------|
| Amounts owed to group undertakings                 | (297.5)        | (45.2)        |
| Corporation tax                                    | (16.6)         | (14.5)        |
| <b>Total creditors falling due within one year</b> | <b>(314.1)</b> | <b>(59.7)</b> |

Amounts owed to Group undertakings are unsecured, have no fixed date of repayment, are repayable on demand and are not subject to interest rate risk as they are interest free, with the exception of £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<br>£m | 2012<br>£m |
|--|------------|------------|
| At 1 January                           | 0.9        | 0.8        |
| Charged to the profit and loss account | 0.2        | 0.1        |
| <b>At 31 December</b>                  | <b>1.1</b> | <b>0.9</b> |

The deferred tax asset relates to share-based payments.

#### 7. Called up share capital and other reserves

|                                   | <b>Called up<br/>Share<br/>capital<br/>£m</b> | <b>Share<br/>premium<br/>account<br/>£m</b> | <b>Merger<br/>reserve<br/>£m</b> | <b>Profit and<br/>loss account<br/>£m</b> | <b>Total<br/>£m</b> |
|-----------------------------------|---|---|----------------------------------|---|---------------------|
| <b>At 1 January 2012</b>          | 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                 |
| <b>At 31 December 2012</b>        | 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                 |
| <b>At 31 December 2013</b>        | 24.0  | 1,124.7                                     | –                                | (565.8)                                   | 582.9               |

#### *Called up share capital*

|  | 2013<br>£m | 2012<br>£m |
|--|------------|------------|
| <b>Issued and fully paid</b>                                     |            |            |
| 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:

|                       | <b>2013</b> | <b>2012</b> |
|-----------------------|-------------|-------------|
|                       | <b>£m</b>   | <b>£m</b>   |
| 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.