5 March 2009

Premier Foods plc Annual Results 2008

Business trading well – adjusted earnings per share from continuing operations up 5.4%
Transformation nearing completion – competitively positioned for the future

Capital structure solution - £404m equity issue combined with renegotiated bank agreements and pensions framework agreement

	Year ended 31 December 2008 £m	**Year ended 31 December 2007 £m**	**Change**
Turnover[1]	**2,603.6**	2,125.2	22.5%
Trading profit[2]			
Including operations discontinued in 2008[3]	**320.2**	280.2	14.3%
Continuing operations	**310.2**	271.9	14.1%
Operating profit before exceptional items[1]	**256.0**	230.7	11.0%
Operating (loss)/profit[1]	**(40.5)**	72.0	-
Adjusted profit before tax[4]			
Including operations discontinued in 2008[3]	**193.8**	170.8	13.5%
Continuing operations	**183.6**	162.5	13.0%
Loss after tax[1,5]	**(373.3)**	(37.8)	
Basic (loss)/ earnings per share	**(52.5p)**	(8.2p)	
Adjusted earnings per share[4]			
Including operations discontinued in 2008[3]	**16.4p**	15.5p	5.8%
Continuing operations	**15.5p**	14.7p	5.4%
Dividend per share	**-**	6.5p	-

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H2 Group turnover for continuing operations up 10.0%

  - Grocery division in good volume growth for last four months of the year
  - Hovis brand relaunch increased market share by 2.4pp to 24.7%

- H2 Trading profit for continuing operations up 11.7%[2]
- Annual cost synergies remain on track for the full £113m
  - £53m delivered in 2008
  - Run rate at 31 December 2008 of £89m
- Manufacturing rationalisation programme completed - 9 factories closed over 12 months
- Disposal of Le Pain Croustillant, Sofrapain[3] and Martine[3] for £47m
- Capital structure solution: equity issue raising approximately £404m of gross proceeds announced today combined with amended bank agreement and pensions framework agreement (Please see the separate announcement released today for further details.)
- Impairment of goodwill in relation to Hovis division of £194m due to increased cost of capital
- Non-cash charge of £219m on mark-to-market of interest rate swaps due to unprecedented fall in market expectations for LIBOR

Robert Schofield, Chief Executive of Premier Foods plc ("Premier") said,

"The Group made significant progress over the course of 2008. We completed our manufacturing rationalisation programme, closing 9 factories over a 12 month period, implemented SAP in our Grocery division and successfully relaunched *Hovis,* our biggest brand. Additionally, we are pleased by the trading performance of the business which has demonstrated resilience against the backdrop of a challenging economic environment. It is a great credit to all of Premier's employees that, despite the turbulence in the financial markets, they have remained focussed and delivered on the commercial priorities that we set ourselves at the start of the year.

"We recognised soon after the acquisition of RHM that *Hovis* required a new strategy. We have invested £16m on recipe improvements, we introduced redesigned packaging and the "Come on lad" advertising campaign won the 2008 'Advertising Campaign of the Year' award. Most importantly though, the consumer has responded positively to the relaunch and *Hovis'* market share has risen by 2.4 percentage points to 24.7% since August 2008.

"We have now completed our capital structure review and have proposed raising approximately £404m gross equity proceeds, which we believe, combined with the amended lending agreement and new pensions framework agreement we have announced today, will put in place a more appropriate capital structure for the business going forward and provide a solid platform for Premier's future development.

"One of the most pleasing aspects of the business in 2008 is how robust trading has been during a tough period for consumer-facing businesses. We believe that with the momentum developed in our Grocery business over the last four months of 2008, combined with the successful relaunch of *Hovis* and the remaining integration synergies, we are well positioned for further progress in 2009."

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(1) Continuing operations.
(2) Trading profit is defined as operating profit before exceptional items, amortisation of intangible assets, the revaluation of foreign exchange and other derivative contracts under IAS39 and pension credits or charges in relation to the difference between the expected return on pension assets and interest costs on pension liabilities.
(3) Operations discontinued in 2008 comprise Le Pain Croustillant ("LPC"), Martine Spécialités SAS ("Martine") and Sofrapain SAS ("Sofrapain"), businesses in our Speciality Bakery Group, part of the Hovis division. The sales of LPC and Martine completed on 2 March 2009. A contract for the sale of Sofrapain was signed on 6 February 2009 and completion is expected during April 2009.
(4) Adjusted profit before tax and Adjusted earnings per share are calculated as set out below:

Continuing operations	**2008 £m**	2007 £m
Trading profit	**310.2**	271.9
Less net regular interest	**(126.6)**	(109.4)
Adjusted profit before tax	**183.6**	162.5
Less notional tax calculated at 28.5%/30.0%	**(52.3)**	(48.7)
Adjusted profit after tax	**131.3**	113.8
Divided by:		
Average shares in issue (millions)	**844.6**	772.6
Adjusted earnings per share	**15.5p**	14.7p

Including operations discontinued in 2008	**2008 £m**	2007 £m
Trading profit	**320.2**	280.2
Less net regular interest	**(126.4)**	(109.4)
Adjusted profit before tax	**193.8**	170.8
Less notional tax calculated at 28.5%/30.0%	**(55.2)**	(51.2)
Adjusted profit after tax	**138.6**	119.6
Divided by:		
Average shares in issue (millions)	**844.6**	772.6
Adjusted earnings per share	**16.4p**	15.5p

Net regular interest		
Net interest payable and other financial charges	**(186.1)**	(145.4)
Net interest receivable and other financial income	**41.6**	26.8
Add exceptional write off of financing costs	**17.0**	-
Add accelerated amortisation of debt issuance costs	**-**	8.4
Add unwind of discount on provisions	**0.9**	0.8
Net regular interest payable – continuing operations	**(126.6)**	(109.4)
Net interest payable – operations discontinued in 2008	**0.2**	-
Net regular interest payable including operations discontinued in 2008	**(126.4)**	(109.4)

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(5) Reconciliation for continuing operation of adjusted profit before tax to loss after tax

	2008 £m	2007 £m
Adjusted profit before tax	**183.6**	162.5
Less impairment of goodwill	**(194.4)**	-
Less other exceptional items	**(102.1)**	(158.7)
Less Amortisation of intangible assets	**(76.7)**	(62.0)
Add pension financing credit	**15.6**	16.1
Add foreign exchange and other derivative contracts	**6.9**	4.7
Less fair value adjustments on interest rate swaps	**(218.9)**	(31.0)
Less exceptional write off of financing costs	**(17.0)**	-
Less accelerated amortisation of debt issuance costs	**-**	(8.4)
Less unwind of discount on provisions	**(0.9)**	(0.8)
Loss before tax	**(403.9)**	(77.6)
Taxation credit	**30.6**	39.8
Loss after tax	**(373.3)**	(37.8)

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A presentation to analysts and investors will take place on Thursday, 5th March 2009 at 9.30am at Goldman Sachs, River Court, 120 Fleet Street, London, EC4A 2QQ. Anyone wishing to attend the presentation should contact:

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Premier Foods plc 2008 Annual Results

Operating review

£m	**2008**	2007[2]
Turnover		
Grocery	**1,419.0**	1,232.9
Hovis	**756.3**	534.9
Chilled & Ireland	**428.3**	357.4
Turnover for continuing operations	**2,603.6**	2,125.2
Trading profit[1] for continuing operations	**310.2**	271.9
Trading profit margin – continuing operations	***11.9%***	*12.8%*
Amortisation of intangibles	**(76.7)**	(62.0)
Foreign exchange valuation items credit	**6.9**	4.7
Pension financing credit	**15.6**	16.1
Operating profit before exceptional items	**256.0**	230.7
Exceptional items	**(296.5)**	(158.7)
Operating (loss)/profit	**(40.5)**	72.0
Operations discontinued in 2008		
Turnover	**173.0**	122.4
Trading profit[1]	**10.0**	8.3

(1) Trading profit is defined as operating profit from continuing operations before exceptional items, amortisation of intangible assets, the revaluation of foreign exchange and other derivative contracts under IAS39 and pension credits or charges in relation to the difference between the expected return on pension assets and interest costs on pension liabilities. Trading profit for discontinued operations excludes any allocation of central overhead costs.

(2) The results for 2007 include only 41 weeks trading for RHM which was acquired in March 2007. As such the results for 2008 and 2007 are not directly comparable.

Introduction
At the time of our preliminary results for 2007, we set out our priorities for 2008. These were: cost inflation recovery; synergy delivery from the integration of RHM and Campbell's; the re-launch of *Hovis*; the implementation of certain key modules of the enterprise software system, SAP; and to progress our factory rationalisation plans. We have achieved all of these commercial priorities despite the backdrop of an exceptionally challenging trading and financial environment.

2008 performance
The first and second halves of 2008 showed marked differences in the economic environment and also the trading patterns of the Group.

The first half of 2008 was dominated by the need to increase prices to recover significant commodity cost inflation whilst capacity was constrained in the Grocery division by the manufacturing rationalisation programme and the implementation of core modules of SAP. In *Hovis*, whilst we stabilised our market share, the performance reflected lower year on year volumes. In the Chilled & Ireland division, meat-free continued to grow strongly and our business in Ireland focussed on delivering its integration synergies. The chilled retailer brand business experienced tough underlying trading conditions but was successful in winning new contracts which commenced in August.

In the second half, from September we began to see good sales volume growth in our Grocery division as we were able to return promotional activity to more normal levels having completed the manufacturing rationalisation programme. As the economic downturn became more apparent, many of our Grocery categories began to show volume growth as consumers looked for brands and products they could trust and which offer good value for money. Following the relaunch of *Hovis* we saw improvements in brand equity measures, followed by increases in market share. The meat-free business continued to show strong growth, assisted in its export markets by the weakening of sterling whilst profit development in our Irish business continued to be driven by integration synergies. The benefit of the new contracts in the chilled retailer brand business was partly offset by the weakening of demand for its premium quality products due to the economic downturn.

Trading profit growth in the second half for the Group was primarily due to integration synergies. The synergies were, however, partly offset by increased manufacturing costs in the Grocery division, an under-recovery of cost inflation in the Chilled & Ireland division and a small year on year decline in volumes in the Hovis division in the third quarter.

We believe that the Group finished 2008 with significant momentum, with year on year volume growth in its two largest divisions, Grocery and Hovis. In spite of concerns that the economic downturn might lead to consumers trading down to retailer-branded products, in the majority of our categories, branded products have seen greater volume growth than retailer-branded products.

Integration

In April 2008, we implemented some core elements of the SAP information system in our Grocery division, following which we continued with the manufacturing rationalisation programme. We have closed 9 factories across our Grocery division in the space of twelve months, a considerable accomplishment which has significantly increased the scale and efficiency of the remaining factories.

We remain on track to deliver the full £113m of annual cost synergies identified at the time of the acquisition of RHM with an annualised run rate as we enter 2009 of £89m. With the major administration integration and manufacturing rationalisation programmes complete, the remaining elements of the integration programme in 2009 include the opening of a Group wide shared service centre in Manchester, rationalising the Grocery division logistics network and realising further procurement synergies. The shared service centre, envisaged to employ approximately 300 people, will provide the ideal platform upon which the full benefits of the SAP systems and processes can be realised. The logistics programme will result in the operation of a 3 hub strategy across the UK with key distribution centres in East Anglia, the North West and the Midlands.

In January 2009, we announced that we had received firm offers for the businesses of Le Pain Croustillant ("LPC"), Sofrapain SAS ("Sofrapain") and Martine Spécialitiés SAS ("Martine") for a net consideration totalling approximately £47m. The sales of LPC and Martine completed on 2 March 2009 and we expect the sale of Sofrapain to complete in April 2009. These businesses are principally own label businesses outside the UK and Ireland and are therefore not core to Premier's stated strategy.

Capital Structure

We have now completed our capital structure review and have proposed raising approximately £404m gross equity proceeds, which we believe, combined with the amended lending agreement and new pensions framework agreement, will enable us to put in place a more appropriate capital structure for the business going forward and in turn, provide a solid platform for future development. Please see the separate announcement released today for further details.

Grocery

£m	**2008**	2007
Turnover	**1,419.0**	1,232.9
Trading profit	**239.2**	214.1

The Grocery division comprises the original Premier business with the exception of the meat-free business, the Campbell's business, RHM's Culinary Brands division, Ledbury Preserves from RHM's Customer Partnerships division and Manor Bakeries from the RHM Cakes division.

Turnover from the Grocery segment was £1,419.0m for 2008, an increase of £186.1m, or 15.1%, as compared to £1,232.9m for 2007. The increase in turnover was principally due to the acquisition of RHM. The increase in trading profit was primarily due to the inclusion of a full year of RHM trading and the integration synergies partly offset by unrecovered cost inflation during the first half of the year.

Of the three divisions, the Grocery division has experienced the greatest change from the integration of the RHM and Campbell's businesses. Following the completion of the initial integration of the administration functions in 2007, our focus in 2008 turned to our manufacturing rationalisation programme and the implementation of SAP. These two projects required a more stable sales profile, particularly during the first half of the year. This limited the division's level of promotional activity, leading to reduced sales volumes.

On preparing the detailed plans for the manufacturing rationalisation programme during early 2008, we identified an opportunity to accelerate the programme and in so doing, complete the closure of all 9 factories by the end of November 2008, earlier than originally envisaged. We deemed the acceleration of the programme would reduce the risk to the business by removing capacity constraints more quickly and so enable it to return its focus to organic growth sooner. The rationalisation programme was successfully completed in line with this accelerated timetable.

In the second half, the impact of the economic downturn which led to increased volumes in our categories, together with the newly improved capacity across our manufacturing network led to a noticeable increase in our sales volumes over the last four months of the year. This combined with price increases to recover raw material cost inflation, resulted in an increase in turnover of 10.8% against the same period in 2007.

We believe that the outlook for the division in 2009 is good. The evidence to date suggests that the economic backdrop is positive for many of the categories we operate in as consumers look for brands and products that they can trust and which offer good value for money. Following the completion of the manufacturing rationalisation programme, we are now shifting our attention to delivering branded sales growth through product innovation.

Hovis

£m	**2008**	2007
Turnover	**756.3**	534.9
Trading profit	**20.9**	17.4

The Hovis division comprises the RHM Bread Bakeries division.

Turnover from the Hovis segment was £756.3m for 2008, an increase of £221.4m, or 41.4%, as compared to £534.9m for 2007. The increase in turnover was primarily due to the acquisition of RHM and increases in prices primarily as a result of increased wheat and energy costs. The increase in trading profit is primarily due to the inclusion of a full year of RHM trading partly offset by lower volumes in the second and third quarters of 2008 and the additional investment behind the *Hovis* brand.

As announced in our preliminary results for 2007, we embarked on a new strategy for our Hovis division. The principal elements of this strategy, which we have rolled out through the year, were: improved quality, redesigned packaging, new advertising and an extended range, including new 400g loaves. We commenced the implementation of the new strategy with an improved recipe and new packaging for *Hovis* white bread in the spring, returning it to sales volume growth. We then rolled out improved recipes, manufacturing processes and consistent packaging across the whole range during the second half. In September we aired our award winning new TV advert "Go on lad". We were delighted by the consumer response to the relaunch and *Hovis'* market share has improved by 2.4 percentage points from August 2008 to January 2009 to reach 24.7%, its highest level for 16 months. We have also seen a significant improvement in brand equity measures, particularly quality, health, and "willing to pay more for". Turnover for the division in the second half of the year was 10.0% higher than the same period in 2007, due to price increases to recover cost inflation partly offset by the lower overall volumes over the second half.

Wheat prices have remained elevated compared to historic levels for the duration of 2008, although they have decreased from the highs of late 2007 and early 2008. The 2008 UK wheat harvest saw a significant increase in tonnage of wheat harvested but, due to the wet summer, it was of poorer quality than generally used for bread making. Therefore, whilst feed wheat prices have fallen sharply, the premium required for bread making wheat has been at record levels during the second half of 2008.

Chilled & Ireland

£m	2008	2007
Turnover	**428.3**	357.4
Trading profit	**50.1**	40.4

The Chilled & Ireland division comprises the RF Brookes and Charnwood chilled foods and pizza base businesses from RHM's Customer Partnerships division, Avana Bakeries from RHM's Cakes division, Premier's Meat-free business and all of our operations in the Republic of Ireland.

Turnover from the Chilled & Ireland division was £428.3m for 2008, an increase of £70.9m, or 19.8%, as compared to £357.4m for 2007. The increase in turnover was primarily due to the acquisition of RHM though we also saw strong sales volume and value growth in meat-free operations. The increase in trading profit was primarily due to integration synergies and the inclusion of a full year of RHM trading.

Quorn, our category leading meat-free brand, experienced another year of strong sales growth with progress both in UK and overseas markets. Internationally, there was good volume growth in Sweden, Belgium and the USA, whilst the brand was launched for the first time in Norway. We have recently launched a significant new advertising campaign for the first half of 2009 which focuses on the health benefits and versatility of *Quorn*. This will be supported by continued strong new product development.

The chilled ready meals business won a number of new contracts in August 2008 and this helped to offset Christmas trading, which was softer than expected in the ready meals and own label cake business units. This reflected the impact of the economic downturn on the premium products these business units supply.

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The Irish business unit has undergone a year of bedding down the new integrated structure for the combined RHM, Campbell's and Chivers Ireland businesses. Following the integration, products for the Irish market are now predominantly produced at the Group's factories in the UK. The resultant synergy benefits are flowing through, ensuring profit progression despite the background of the tough economic environment in Ireland which we are seeing at the current time.

Current trading

Current trading is in line with our expectations and we believe that our brands will continue to be resilient in the difficult economic environment. Food inflation, although at lower levels than in 2007 and 2008 remains a concern, particularly due to the effect of the weakening of sterling.

The integration programme continues to progress well. The Group's new shared service centre was opened in February 2009 and the implementation of SAP in the Group's ambient cake business is on track for April 2009.

We believe that with the momentum developed by its Grocery division and the success of the Hovis relaunch, combined with the remaining integration synergies, we are well positioned for further progress in 2009.

Robert Schofield
Chief Executive

Financial review

Due to legal restrictions associated with the issue of new equity, all figures referred to in this review are only on a statutory basis, rather than a pro forma basis which treats acquired businesses as if they had been owned for the whole of the current and prior reporting periods.

The equity issue is dependent on shareholder approval. Further details are set out within the Basis of Preparation note to the financial statements contained within this results announcement. The audit opinion on the 2008 Annual report and accounts contains an emphasis of matter in relation to the material uncertainty relating to the equity fund-raising referred to in the Basis of Preparation note.

Group structure

As previously announced, following the acquisition and integration of Campbell's and RHM, the Group implemented a new divisional structure with effect from 1 January 2008. It has defined three segments being "Grocery", "Hovis" and "Chilled & Ireland" with the primary drivers of the structure being the commonality of the categories it operates in and the supply chain used to serve them.

In January, the Group announced firm offers for the purchase of its speciality bakery businesses, Martine, LPC and Sofrapain. The sales of LPC and Martine completed on 2 March 2009. The contract for the sale of Sofrapain was signed and control of the business passed to the purchaser on 6 February, with legal completion expected during April 2009. The results of these businesses have been classified as discontinued operations and are set out in note 10 to the financial statements. The income statement for 2007 has been restated to reflect these businesses as discontinued operations. All discussion of the numbers included below refers to the continuing business unless otherwise stated. The assets and liabilities relating to the speciality bakery businesses as at 31 December 2008 have been presented as held for sale on the balance sheet. Full details of this are set out in note 17 to the financial statements.

Income statement

Turnover from continuing operations was £2,603.6m for 2008, an increase of £478.4m, or 22.5% as compared to 2007. The primary reason for the increase is the inclusion of a full year of RHM trading in 2008 (compared to 41 weeks post-acquisition trading in 2007). In addition, the Group had to increase prices significantly in order to recover the high levels of input cost inflation experienced since the second half of 2007.

Operating profit / (loss)

Operating profit for the continuing business before exceptional items was £256.0m, an 11.0% increase on last year. This increase was largely due to the inclusion of a full year of RHM trading in 2008 and the synergies arising on the integration of Campbell's and RHM, partly offset by lower volumes in the Grocery division in the first half of the year as the Group implemented SAP and integrated the manufacturing operations and lower volumes in the Hovis division during the first three quarters of the year.

Trading profit for the continuing business and the speciality bakery businesses combined was £320.2m, an increase of 14.3% in comparison to 2007, due to the inclusion of a full year of RHM trading in 2008 and the cost savings and volume referred to above.

Operating profit after exceptional items fell from a profit of £72.0m in 2007 to a loss of £40.5m in 2008 after recognising an impairment charge against the goodwill attributable to the Hovis division of £194.4m (2007: £nil) and £102.1m (2007: £158.7m) of other exceptional items, primarily related to the integration programme.

Exceptional items – restructuring costs

Consistent with its ongoing approach to financial reporting, the Group has classified all non-recurring integration costs as exceptional items, the full impact of which is set out in note 5 to the financial statements.

In the current and prior years these items have primarily related to the significant integration programmes undertaken to achieve the cost savings and reshaping of the business following the Campbell's and RHM acquisitions. These integration programmes are now largely complete.

Overall exceptional items associated with restructuring for the year resulted in a net charge of £102.1m (2007: £158.7m). Total cash outflow on exceptional items in the year was £121.8m (2007: £105.5m).

The integration of the Campbell's business continued with the closure of manufacturing operations and warehousing facilities at King's Lynn, incurring costs of £6.3m.

The Group incurred £60.6m of expenses in the year in relation to the integration of RHM's UK operations, primarily due to the closure of certain RHM sites and the resulting transfer of production from those factories to other Group facilities, the integration of certain warehousing facilities into other Group warehouses and the creation of a Group-wide shared service centre in Manchester.

The completion of the restructuring of our Meat-free business and the commissioning of a new chilled facility at Methwold to enable the manufacture of chilled products for *Quorn* and *Cauldron* products on a single site has resulted in costs of £3.5m.

Costs associated with the integration of our Irish operations into a single operating business were £6.0m.

The Group also incurred £21.1m of costs relating to a number of restructuring projects that have taken place across our Hovis division implementing new business processes and preparing for the roll-out of SAP into this division. The 2008 exceptional charge also includes an impairment of assets and redundancy costs relating to the closure of its Rotherham mill, onerous lease costs for properties and impairment recognised against certain plant and machinery relating to discontinued production lines.

Other exceptional costs of £6.7m include costs associated with the roll-out of a new SAP software package, various cost reduction and supply chain initiatives and also re-financing project fees.

The integration programme has resulted in a number of sites becoming available for sale and, during the year, the Group sold properties in Bristol, Droylsden, Middlewich, Wythenshawe and Stoke in the UK, and Thurles in the Republic of Ireland. Total proceeds from the sale of fixed assets were £26.4m. A net profit of £2.1m was recognised on these disposals.

Exceptional items – impairment charge

During the year the Group has recognised an impairment charge of £194.4m against the goodwill allocated to the Hovis Cash Generating Unit ("CGU"). This impairment charge has arisen as a result of the significant increase in the discount rate used to calculate the recoverable amount of the CGU which increased from 8.4% in 2007 to 11.1% in 2008.

The increase in discount rate is a result of the deterioration in the economic climate, resulting in increased costs of debt and increased levels of return expected by equity investors. Had discount rates remained at 2007 levels, no impairment charge would have been recognised.

The Group has also recognised an impairment charge of £68.5m to write down the net assets attributable to the speciality bakery businesses (LPC, Sofrapain and Martine) to their recoverable amounts.

Financing

On 29 February 2008, the Group amended certain terms of its Term and Revolving Credit Facilities by agreement with its lending banks to provide greater covenant headroom for the remainder of its financing period. The Group also converted its £100m Acquisition line to a Working Capital line and renegotiated a further £125m of short term facilities with three of its leading banks.

Subsequent to 31 December 2008 an additional £60m of short term financing maturing on 31 March 2009 was agreed to cover working capital requirements in this period.

As part of its capital structure review and subsequent to the year end, the Group agreed amendments to its Term and Revolving Credit Facilities. These amendments include a rephasing of the amortisation of these facilities to an extended maturity date of December 2013 and the reset of the covenant schedule. Further details are provided in note 34 to the financial statements.

Net interest payable and other financial charges and income

Net interest payable and other financial charges and income for the continuing business was £144.5m, compared with £118.6m in 2007. Net cash interest costs are £119.0m, an increase of £13.8m, reflecting a higher level of borrowings carried for the full year in 2008 compared with only the post-acquisition period in 2007, and also an increased level of average borrowing in the year.

Movement on fair valuation of interest rate swaps

Marking to market our portfolio of interest rate swaps resulted in a charge in 2008 of £218.9m (2007: a charge of £31.0m). These are non cash interest costs and reflect the difference between the actual fixed rate interest cost and the theoretical interest cost on a floating rate basis over the life of the swaps. Refer to note 8 of the financial statements for further details.

The Group has interest rate hedging in place for the majority of its borrowing. At the end of the year a total of £1,650m was hedged of which £465m was swapped into short-dated fixed rate instruments, £600m into long-dated callable swaps. £350m was hedged by swaps with a cap and floor structure, and £235m was hedged by other callable swaps. Further details are given in note 22. Based on LIBOR as at 31 December 2008, the average hedge rate for the first quarter of 2009 was 4.7%. Based on LIBOR at the current date, the average hedge rate would increase to 5.1%.

Taxation

The taxation credit on continuing activities for the year was £30.6m (2007: £39.8m). This is made up of a current tax charge of £2.8m, and a deferred tax charge of £0.9m on overseas activities; a deferred tax credit of £4.6m on underlying continuing UK operations; a current year credit of £20.6m on allowable exceptional items and a credit of £9.1m from the release of prior year provisions as a result of the favourable resolution of outstanding issues with HMRC and adjustments to deferred tax balances.

The £4.6m credit on UK operations is made up of a credit on underlying activities of £32.2m, at an effective rate of 26.8%, reduced by charges of £25.4m as a result of the enactment in the 2008 Finance Act of provisions to abolish taxation relief for investment in industrial buildings and £2.2m relating to share based payments to reduce the deferred tax asset thereon to their fair value.

The credit relating to exceptional items was adversely affected by items not allowable for tax, being primarily the write down of goodwill, which reduced the tax credit by £55.4m and other amounts totalling £8.2m.

Dividends

As announced on 18 November 2008, the Board considered it appropriate to suspend dividend payments. The Board is committed to resuming dividend payments when possible but the future payment of dividends will be dependent upon the Group's ability to reduce its level of debt, the limitations on dividends imposed by the Group's proposed amended debt agreements and the condition of the credit markets at the relevant time, with any final dividend being subject to the approval of the Group's Shareholders at a general meeting. The proposed amended debt agreements impose restrictions on the ability to announce dividends which are subject to a leverage test and an interest cover test, with the payment being restricted to no more than 50% of consolidated profits attributable to shareholders for the previous financial year.

Earnings per share

Basic loss per share of 44.2 pence (2007: 4.9 pence) on continuing operations has been calculated by dividing the loss attributed to ordinary shareholders of £373.3m (2007: £37.8m) by the weighted average number of shares in issue during the year.

Adjusted earnings per share for continuing operations is 15.5 pence (2007: 14.7 pence). Adjusted earnings per share for continuing operations has been calculated by dividing the adjusted earnings (defined as operating profit before exceptional items, amortisation of intangible assets, the movement in the IAS 39 valuation of forward foreign exchange contracts and other derivative contracts and the pension financing credit in relation to the difference between the expected return on assets and interest costs on pension liabilities less net regular interest payable and notional taxation) attributed to ordinary shareholders of £131.3m (2007: £113.8m) by the weighted average number of ordinary shares in issue during each year. These earnings have been calculated by reflecting tax at a notional rate of 28.5% (2007: 30%). Adjusted earnings per share for continuing operations and the speciality bakery businesses combined is 16.4 pence (2007: 15.5 pence).

Cash flow and borrowings

During the year, the net borrowings of the Group increased from £1,618.5m at 1 January 2008 to £1,766.8m, an increase of £148.3m. Of this movement, the cash and non-cash elements were £122.2m and £26.1m respectively. The non-cash movement related to foreign exchange differences and debt issuance costs.

The cash inflow from operating activities was £84.1m (2007: £270.9m). This comprises cash from operations of £189.4m (2007: £360.2m). Despite the increase in the interest charge for the year, net cash interest paid of £105.4m was only £7.4m up on the 2007 payment of £98.0m. This is due to the timing of interest payments around the respective year ends and reflects an increase in accrued interest payable of approximately £10m.

The fall in cash generated from operating activities from £360.2m in 2007 to £189.4m is primarily due to the non-recurrence of the working capital movements arising from the mid-period acquisition of RHM during March 2007.

During the year the Group continued to take advantage of the £100m non-recourse securitisation programme on certain trade receivables, £90m of which, being the maximum allowable, was drawn at the end of the year. The programme provided the Group with a saving in interest costs of around 40bps compared to the cost of drawing the amounts under the Revolvong Credit Facility.

Capital expenditure in the year was £129.8m on tangible fixed assets and £31.2m on intangible assets (2007: £115.9m on tangible fixed assets and £8.7m on intangible assets), due to the completion of the final year of integration and rationalisation of its manufacturing operations. Proceeds received in respect of disposal of fixed assets were £26.4m in 2008 (2007: £48.9m). The Group also paid dividends of £54.7m (2007: £61.1m)

Pension schemes

At 31 December 2008 the Group's defined benefit pension schemes showed a net deficit of £11.5m (2007: deficit of £123.2m). This comprises a £172.3m net deficit in relation to Premier schemes and a net surplus of £160.8m in relation to the schemes associated with RHM.

This improvement in the IAS 19 pension valuation is primarily the result of two factors. Firstly scheme liabilities are valued using a discount rate derived from the yield on AA rated corporate bonds. As a result of recent economic turbulence, these yields and the associated discount rates, have increased from 5.9% as at 31 December 2007 to 6.3% as at 31 December 2008. This has had the effect of reducing the present value of the liabilities of each of our schemes. Secondly, the RHM scheme invests in interest rate and inflation swaps that increase or decrease in value as these two variable assumptions change. These helped to reduce the impact of the current economic conditions on the assets of the scheme and, combined with the movement on yields referred to above, resulted in the movement of the RHM scheme to a surplus of £160.8m as at 31 December 2008. These factors are partly offset by changing the mortality assumption from short cohort to medium cohort for the Premier schemes.

CAUTIONARY NOTE REGARDING FORWARD LOOKING STATEMENTS:

Certain statements made in this press release constitute "forward-looking statements" within the meaning of the US Private Securities Litigation Reform Act of 1995. These forward-looking statements can be identified by the use of forward-looking terminology, including the terms "believes", "estimates", "plans", "anticipates", "targets", "aims", "continues", "expects", "intends", "hopes", "may", "will", "would", "could" or "should" or, in each case, their negative or other variations or comparable terminology. These forward-looking statements include matters that are not facts. They appear in a number of places throughout this press release and include statements regarding the Group's intentions, beliefs or current expectations concerning, amongst other things, the Group's results of operations, financial condition, liquidity, financial covenants, prospects, growth, strategies and the industries in which the Group operates. By their nature, forward-looking statements involve risk and uncertainty because they relate to future events and circumstances. A number of factors could cause actual results and developments to differ materially from those expressed or implied by the forward-looking statements including, without limitation: the Company's ability successfully to combine the business of the Group and to realise expected synergies from that combination; conditions in the markets; the market position of the Company or its subsidiaries; earnings, financial position, cash flows, liquidity, financial covenants, return on capital and operating margins of the Company; anticipated investments and capital expenditures of the Company; changing business or other market conditions; and general economic conditions. These and other factors could adversely affect the outcome and financial effects of the plans and events described herein. Forward-looking statements contained in this press release based on past trends or activities should not be taken as a representation that such trends or activities will continue in the future. Save as required by law or by the Listing Rules, the Prospectus Rules or the Disclosure and Transparency Rules, Premier does not undertake any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. You should not place undue reliance on forward-looking statements, which are applicable only as at the date of this press release.

Consolidated income statement

	Note	Year ended 31 Dec 2008 £m	Year ended 31 Dec 2007 (Restated)* £m
Continuing operations			
Turnover	4	2,603.6	2,125.2
Cost of sales		(1,819.5)	(1,476.6)
Gross profit		784.1	648.6
Selling, marketing and distribution costs		(351.0)	(299.9)
Administrative costs		(478.2)	(279.2)
Net other operating income		4.6	2.5
Operating (loss)/profit	6	(40.5)	72.0
Before exceptional items		256.0	230.7
Impairment of goodwill	5	(194.4)	-
Other exceptional items	5	(102.1)	(158.7)
Interest payable and other financial charges	8	(186.1)	(145.4)
Interest receivable and other financial income	8	41.6	26.8
Movement on fair valuation of interest rate swaps	8	(218.9)	(31.0)
Loss before taxation for continuing operations		(403.9)	(77.6)
Taxation credit	9	30.6	39.8
Loss after taxation for continuing operations		(373.3)	(37.8)
Loss from discontinued operations	10	(70.5)	(25.5)
Loss for the year attributable to equity shareholders		(443.8)	(63.3)
Basic and diluted loss per share (pence)	11	(52.5)	(8.2)
Basic and diluted loss per share (pence) - continuing	11	(44.2)	(4.9)
Basic and diluted loss per share (pence) - discontinued	11	(8.3)	(3.3)
Adjusted earnings per share (pence)	11	16.3	15.4

* Comparatives have been restated to reflect the classification of Martine Spécialités S.A.S., Le Pain Croustillant and Sofrapain S.A.S. as discontinued operations.

The notes form an integral part of the consolidated financial statements.

Consolidated balance sheet

	Note	As at 31 Dec 2008 £m	As at 31 Dec 2007 (Restated)* £m
ASSETS:			
Non-current assets			
Property, plant and equipment	13	638.9	607.1
Goodwill	14	1,371.3	1,649.5
Other intangible assets	15	1,159.5	1,237.8
Retirement benefit assets	25	163.7	-
Total non-current assets		3,333.4	3,494.4
Current assets			
Assets held for sale	17	124.4	30.6
Inventories	18	238.8	208.4
Trade and other receivables	19	337.0	328.9
Financial assets – derivative financial instruments	22	21.2	8.5
Cash and cash equivalents	29	40.6	23.9
Total current assets		762.0	600.3
Total assets		4,095.4	4,094.7
LIABILITIES:			
Current liabilities			
Trade and other payables	20	(539.8)	(538.5)
Financial liabilities			
– short term borrowings	21	(174.8)	(112.7)
– derivative financial instruments	22	(250.3)	(25.6)
Accrued interest payable		(22.8)	(12.9)
Provisions	24	(23.6)	(56.6)
Current income tax liabilities		(4.1)	(8.1)
Liabilities held for sale	17	(56.5)	-
Total current liabilities		(1,071.9)	(754.4)
Non-current liabilities			
Financial liabilities – long term borrowings	21	(1,632.6)	(1,529.7)
Retirement benefit obligations	25	(175.2)	(123.2)
Provisions	24	(28.1)	(18.4)
Other liabilities		(2.7)	(1.1)
Deferred tax liabilities	23	(193.1)	(207.6)
Total non-current liabilities		(2,031.7)	(1,880.0)
Total liabilities		(3,103.6)	(2,634.4)
Net assets		991.8	1,460.3
EQUITY:			
Capital and reserves			
Share capital	26	8.5	8.5
Share premium	27	760.6	760.6
Merger reserve	27	890.7	890.7
Other reserves	27	(23.0)	(3.1)
Profit and loss reserve	27	(645.1)	(196.5)
Capital and reserves attributable to the Company's equity shareholders		991.7	1,460.2
Minority interest	27	0.1	0.1
Total shareholders' funds		991.8	1,460.3

* The 31 Dec 2007 comparatives have been restated for IFRS 3 fair value adjustments on the acquisition of RHM plc.

The notes form an integral part of the consolidated financial statements.

Signed on behalf of the Board of Directors, who approved the financial statements on 5 March 2009.

Robert Schofield
Director and Chief Executive

Paul Thomas
Finance Director

Consolidated statement of recognised income and expense

	Note	Year ended 31 Dec 2008 £m	Year ended 31 Dec 2007 £m
Actuarial gain on pensions	25	56.2	135.3
Tax charge on actuarial gain on pensions	23	(18.8)	(39.5)
Exchange differences on translation	27	10.8	0.1
Fair value movement on net investment hedge	27	(19.9)	(3.1)
Deferred tax charge on share options	23	(0.5)	(1.1)
Net income recognised directly in equity		27.8	91.7
Loss for the year		(443.8)	(63.3)
Total recognised (expense)/income in the year attributable to equity shareholders		**(416.0)**	**28.4**

The notes form an integral part of the consolidated financial statements.

Consolidated cash flow statement

	Note	Year ended 31 Dec 2008 £m	Year ended 31 Dec 2007 £m
Cash generated from operating activities	29	189.4	360.2
Interest paid		(150.4)	(122.8)
Interest received		45.0	24.8
Taxation received		0.1	8.7
Cash inflow from operating activities		84.1	270.9
Acquisition of RHM		-	(306.1)
Acquisition of Chivers Ireland		-	(18.4)
Acquisition of Campbell's		-	(0.3)
Sale of subsidiaries		-	22.0
Purchase of property, plant and equipment		(129.8)	(115.9)
Purchase of intangible assets		(31.2)	(8.7)
Sale of property, plant and equipment		26.4	47.8
Sale of intangible assets		-	1.1
Cash outflow from investing activities		(134.6)	(378.5)
Repayment of borrowings		(178.7)	(962.9)
Proceeds from borrowings		291.6	1,901.5
Proceeds from securitisation programme		22.4	67.6
Financing costs		(20.2)	(18.8)
Proceeds from share issue		-	1.3
Share issue costs		-	(2.2)
Purchase of own shares		-	(3.0)
Repayment of debt and interest acquired with RHM		-	(793.5)
Dividends paid		(54.7)	(61.1)
Cash inflow from financing activities		60.4	128.9
Net inflow of cash and cash equivalents		**9.9**	**21.3**
Cash and cash equivalents at beginning of year		23.8	2.5
Cash and cash equivalents at end of year	29	**33.7**	**23.8**

The notes form an integral part of the consolidated financial statements.

1. General information

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

These Group consolidated financial statements were authorised for issue by the Board of Directors on 5 March 2009.

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 Group consolidated financial statements have been prepared on the 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.

Following the acquisition of RHM plc in March 2007, the Group has undertaken an extensive integration and restructuring programme, which has been delivered against a substantially more challenging trading, economic and credit environment. In view of the volatile operating conditions and the Group's significant level of leverage following the acquisitions of Campbell's and RHM plc, the Board and its advisors have spent recent months examining ways of accelerating the reduction of Group debt in order to establish additional financial headroom and a more appropriate long-term capital structure.

Following discussions with the Group's lending banks and considering the potential for the credit environment to remain difficult, the Board has concluded that raising additional equity combined with a renegotiated agreement with the Group's lending banks and an agreement with the Trustees of the Group's UK Defined Benefit Plans would provide a more appropriate capital structure, and achieve an increase in financial headroom given the more challenging trading environment. Further details on the equity raising, amended agreement with the lending banks and the agreement reached with the Trustees are shown in note 34.

This approach aims to minimise the quantum of new equity capital that needs to be raised whilst providing the Group with the appropriate comfort regarding its future liquidity and covenant headroom.

The amended agreement with the lending banks and the agreement with the Trustees are both conditional on the equity raising. The proposed equity raising requires that a resolution be passed by Shareholders at an Extraordinary General Meeting in order to proceed and in order for the amended terms under the Group's Term and Revolving Credit Facilities to take effect.

In the event that the resolution is not passed, the amended Term and Revolving Credit Facilities Agreement will not become effective. The Group would be required to re-enter negotiations with its lending banks. Should these further negotiations prove unsuccessful then the Group may have insufficient liquidity shortly thereafter in April or May 2009 and/or would face being unable to meet its financial covenants.

The Board has concluded that the resolution to be passed by Shareholders at the General Meeting in order for the placing and open offer and the firm placing to proceed such that the equity proceeds are received on 27 March 2009 in line with the timetable set out in the Prospectus for the Placing and Open Offer and Firm Placing represents a material uncertainty that casts significant doubt upon the Group's ability to continue as a going concern. However, after considering the uncertainties described above the Board has a reasonable expectation that the Group will be successful in obtaining the necessary resolution and for this reason believes it is appropriate to continue to adopt the going concern basis in preparing the annual report and accounts. The financial statements do not include the adjustments that would result if the Group was unable to continue as a going concern.

The financial information in this announcement does not constitute the Group's statutory accounts for the years ended 31 December 2008 or 2007. The preliminary results for the year ended 31 December 2008 have been extracted from audited consolidated financial statements which have not yet been delivered to the Registrar of Companies. The auditors have reported on the Group's statutory accounts for the year ended 31 December 2008. The report was unqualified but includes a matter of emphasis in respect of going concern. The report does not contain a statement under Section 237 (2) or (3) of the Companies Act 1985. The financial information for the year ended 31 December 2007 is derived from the statutory accounts for that year except for restatements relating to discontinued operations and the finalisation of provisional fair values on acquisitions in 2007.

The consolidated financial statements of Premier Foods plc have been prepared in accordance with International Financial Reporting Standards ("IFRS's") as endorsed by the European Union ("EU"), International Financial Reporting Interpretation Committee ("IFRIC") interpretations, and the Companies Act 1985 applicable to companies reporting under IFRS, and on the historical cost basis with the exception of derivative financial instruments, defined benefit pension schemes and share based payments which are incorporated using fair value. The principal accounting policies adopted are set out below.

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

The following accounting standards and interpretations, issued by the International Accounting Standards Board (IASB) or IFRIC, are effective for the first time in the current financial year and have been adopted by the Group with no significant impact on its consolidated results or financial position:

IFRIC 12 – Service concession agreements

New standards and interpretations not applied

Up to and during the year ended 31 December 2008, the IASB and the IFRIC have issued the following standards and interpretations with an effective date after the date of these financial statements:

International Financial Reporting Standards		**Effective for accounting periods beginning on or after:**
IFRS 8	Operating segments	1 January 2009
IFRS 2	Amendment – Vesting conditions and cancellations	1 January 2009
IAS 1 (Revised)	Presentation of financial statements	1 January 2009
IAS 23 (Revised)	Borrowing costs	1 January 2009
IFRS 1/IAS 27	Cost of an investment in a subsidiary, jointly controlled entity or associate	1 January 2009
International Financial Reporting Interpretations Committee		
IFRIC 13	Customer Loyalty Programmes	1 July 2008
IFRIC 14	IAS 19 – the limit on a defined benefit asset, minimum funding requirements and their interaction	1 January 2009

These standards will be adopted by the Group in future accounting periods.

The Directors do not anticipate that the adoption of any of these standards and interpretations will have a material impact on the Group's financial statements except for IFRS 8 "Operating segments" which will require additional disclosures and may result in a change to the number of operating segments reported.

The following standards and amendments to published standards have not been endorsed by the EU.

International Financial Reporting Standards

IFRS 3 (Revised)	Business combinations
IAS 1/IAS 32 (Amendment)	Puttable financial instruments and obligations arising on a liquidation
IAS 27 (Revised)	Consolidated and separate financial statements
IAS 39 (Amendment)	Financial instruments: recognition and measurement on eligible hedged items

International Financial Reporting Interpretations Committee

IFRIC 15	Agreements for the construction of real estate
IFRIC 16	Hedges of a net investment in a foreign operation
IFRIC 17	Distributions of non-cash assets to owners
IFRIC 18	Transfers of assets from customers

2.2 Basis of consolidation

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

The purchase method of accounting is used for all acquisitions.

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

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. Upon completion of the Group's fair value exercise in accordance with IFRS 3: "Business Combinations" ("IFRS 3") in the 12 months following acquisition, comparatives are restated for the final fair value adjustments. In addition, comparatives are also restated to reclassify disposed businesses into discontinued operations.

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

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

2.3 Turnover

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

(i) Sale of goods

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

(ii) Interest income

Interest 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.

(iii) Sales rebates and discounts

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

2.4 Segmental reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that is subject to risks and returns that are different from those segments operating in other economic environments. Income and expenses that are not directly attributable to a particular segment are allocated to each segment based on various cost drivers, including headcount.

2.5 Share-based payments

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

2.6 Foreign currency translation

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Assets and liabilities denominated in foreign currencies are translated into sterling, the Group’s presentational currency, at rates of exchange ruling at the end of the financial year.

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

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

All other exchange gains or losses are recorded in the income statement.

2.7 Dividends

Dividend distribution to the Group’s shareholders is recognised as a liability in the Group’s financial statements in the period in which the dividends are approved by the Group’s shareholders, and for interim dividends, in the period in which they are paid.

2.8 Property, plant and equipment (“PPE”)

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

Differences between the cost of each item of PPE and its residual value are written off over the estimated useful life of the asset using the straight-line method. Reviews of the estimated remaining useful lives and residual values of individual productive assets are performed annually, taking account of commercial and technological obsolescence as well as normal wear and tear. Freehold land is not depreciated. The useful 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.

2.9 Business combinations and goodwill

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

Items of PPE acquired as part of a business acquisition are stated at fair value at the date of acquisition using a market value or depreciated replacement cost model.

On acquisition, the Group undertakes a review of the accounting policies of the business acquired to ensure compliance both with IFRS's and the accounting policies of the Group.

2.10 Intangible assets

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

Acquired intangibles

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

Research and development

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

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

Software development costs

Assets acquired or internally developed, such as software, are capitalised when the future economic benefit is reasonably assured and the criteria within IAS 38 are met. Software development costs are capitalised and amortised over their estimated useful lives on a straight-line basis over a range of 3 to 10 years.

2.11 Impairment

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.

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

Intangible assets with finite lives are subject to impairment testing on indication of impairment. Goodwill is tested annually for impairment. Any impairment losses are written off immediately.

2.12 Interest

Borrowing costs are accounted for on an accruals basis in the income statement using the effective interest method.

2.13 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 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.

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

2.14 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 International Accounting Standard 2 "Inventories" ("IAS 2"). Cost is calculated on a first-in-first-out basis by reference to the invoiced value of supplies and attributable costs of bringing the inventory to its present location and condition.

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

2.15 Taxation

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

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

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

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

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

2.16 Employee benefits

Group companies provide a number of long-term employee benefit arrangements, primarily through pension schemes. The schemes are generally funded through payments to insurance companies or trustee-administered funds determined by periodic independent actuarial calculations. The Group has both defined benefit and defined contribution plans.

Defined benefit plans

A defined benefit plan is a pension plan that defines the amount of pension benefit that an employee will receive on retirement, usually dependent on factors such as age, years of service and compensation.

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for actuarial gains or losses and past service costs. Defined benefit obligations are calculated annually by independent actuaries using the projected unit credit method. The present value of the defined

benefit obligation is determined by discounting the estimated future cash outflows using yields of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

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

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

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, hence the Group has no legal or constructive obligations to pay further contributions.

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

2.17 Provisions

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

2.18 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.

2.19 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. Amounts received from customers for receivables in respect of which title has

transferred, for example under the debtors securitisation programme, represent amounts owed to the transferee and are recorded as short term borrowings.

Cash and cash equivalents

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

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

Financial liabilities and equity

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

Bank borrowings

Interest-bearing bank loans and overdrafts are measured initially at fair value and subsequently at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs and inclusive of debt issuance costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the Group’s accounting policy for borrowing costs.

Trade and other payables

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

Equity instruments

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

Derivative financial instruments

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risk and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value, with unrealised gains or losses reported in the income statement. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently 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 in interest payable and other financial charges or interest receivable and other financial income.

Net investment hedge

Any gain or loss on the hedging instrument relating to the effective portion of changes in the fair value of derivatives that are designated and qualify as net investment hedges is recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement within other operating income and expenditure.

2.20 Investment in own shares

Investments in own shares are shown as a deduction in shareholders' funds.

3. Critical accounting policies, estimates and judgements

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

3.1 Pensions

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

At each reporting date, and on a continuous basis, the Group reviews the macro-economic and Company 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 IFRS. One such assumption is the assumption of mortality rates and how these are expected to change in the future. If the Group's assumption on the mortality of its members was amended to assume an increase of a further one year improvement in mortality, total liabilities would increase by approximately 3.4%.

The Group is aware of, and alert to, the need to inform the Pensions Regulator to the extent that the Group is involved in any corporate activity that affects the rights of pension scheme members and the carrying value of the pension schemes.

Each of the underlying assumptions is set out in more detail in note 25.
Negotiations of the timing of deficit payments in relation to the pension schemes was concluded subsequent to the year end, further detail is included in note 34.

3.2 Goodwill and other intangible assets

Impairment reviews in respect of goodwill are performed annually unless an event indicates that an impairment review is necessary. Impairment reviews in respect of intangible assets are performed when an event indicates that an impairment review is necessary. Examples of such triggering events include a significant planned restructuring, a major change in market conditions or technology, expectations of future operating losses, or a significant reduction in cash flows. The recoverable amounts of cash-generating units ("CGU's") are determined based on the higher of realisable value and value-in-use calculations. These calculations require the use of estimates.

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

Acquired trademarks, brands, customer relationships, recipes and similar assets are considered to have finite lives that range from 7 to 40 years. The determination of the useful lives takes into account certain quantitative factors such as sales expectations and growth prospects, and also many qualitative factors such as history and heritage, and market positioning, hence the determination of useful lives are subject to estimates and judgement. For further details see note 15.

3.3 Advertising and promotion costs

Trade spend and promotional activity is dependent on market conditions and negotiations with customers. Trade spend is charged to the income statement according to the substance of the agreements with customers and the terms of any contractual relationship. Promotional support is generally charged to the income statement at the time of the relevant promotion. These costs are accrued on best estimates. The actual costs may not be known until subsequent years when negotiations with customers are concluded. Such adjustments are recognised in the year when final agreement is reached.

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

3.4 Exceptional items

Exceptional items are not explicitly addressed under IFRS. Accordingly, the Group has defined exceptional items as those items of sufficient financial significance to be disclosed separately in order to assist in understanding the financial performance achieved and in making projections of future results. Each of these items relate to events or circumstances that are material and non-recurring in nature, such as a major restructuring, disposal of a business or asset, or integration of an acquisition. See note 5 for further details.

3.5 Securitisation

The Group has sold the rights and obligations relating to certain of its trade receivable balances under a receivables purchasing agreement in order to achieve an overall lower cost of funding and permanently accelerate the generation of cash from working capital. Accounting for a sale of this nature is judgmental and dependent on evidence of the substantive transfer of risk and reward from the Group to a third party. In this instance, transference of the two primary risks, those of late payment and credit default was achieved at the balance sheet date. The Group anticipates that the receivables purchasing agreement will remain in place over the medium term and that de-recognition of the receivables subject to it will continue to be achieved, dependent upon ongoing review of the assessment of risk and reward transfer.

3.6 Financial instruments

The Group uses a variety of derivative financial instruments to manage the risks arising from adverse movements in interest rates, commodity prices, and foreign currency.

The Group has a policy of not applying hedge accounting to these derivatives (other than in the case of a Net Investment Hedge against Euro denominated assets) and taking any gain or loss on the movement of the fair values of derivatives to the income statement.

4. Segmental analysis

As previously announced, the Group implemented the new segmental structure, effective from 1 January 2008, following the acquisition and integration of the Campbell's and RHM businesses. The Group has defined three segments namely "Grocery", "Hovis" and "Chilled & Ireland" with the primary drivers of the structure being the commonality of the categories operated in and the supply chain to service them.

The Grocery segment comprises the original Premier business with the exception of the Meat-free business, the Campbell's business, RHM's Culinary Brands segment, Ledbury Preserves from RHM's Customer Partnerships segment and Manor Bakeries from the RHM Cakes segment. The Hovis segment comprises the RHM Bread Bakeries segment. It was initially named the "Bread & Milling" segment but has been renamed as the "Hovis" segment reflecting the segment's principal brand. The Chilled & Ireland segment comprises the RF Brookes and Charnwood chilled foods and pizza base businesses from RHM's Customer Partnerships segment, Avana Bakeries from RHM's Cakes segment, Premier's Meat-free business and all operations in the Republic of Ireland.

Results for Martine Spécialités S.A.S., Sofrapain S.A.S. and Le Pain Croustillant are presented as discontinued operations in both the current year and the comparative results.

Each of the segments below primarily supplies the United Kingdom market, although the Group also supplies certain products to other parts of Europe and also the United States. Inter-segment transfers or transactions are entered into under the same terms and conditions that would be available to unrelated third parties. These segments are the basis on which the Group reports its primary segment information.

As a consequence of the extensive integration of the business, certain operating costs have been incurred centrally. These costs have been allocated, using various cost drivers including headcount, between the Group's operating segments and are reflected in the analysis below.

Trading profit is defined as operating profit before exceptional items, amortisation of intangible assets, the revaluation of foreign exchange and other derivative contracts under IAS 39 and pension credits or charges in relation to the difference between the expected return on pension assets and interest costs on pension liabilities. The definition of trading profit has changed in comparison to the prior year to exclude the revaluation on other derivative contracts under IAS 39.

Trading profit has been reported in addition to operating profit as the directors believe it provides an alternative measure with which the shareholders can assess the Group's underlying trading performance.

Premier Foods plc 2008 Annual Results
Notes to the financial statements

The segment results for the years ended 31 December 2008 and 2007 are as follows:

	Year ended 31 December 2008				
	Grocery	**Hovis**	**Chilled & Ireland**	**Un-allocated**	**Total for Group**
	£m	**£m**	**£m**	**£m**	**£m**
Total turnover from continuing operations	1,419.0	756.3	428.3	-	2,603.6
Result					
Trading profit	**239.2**	**20.9**	**50.1**	**-**	**310.2**
Amortisation	(40.6)	(17.2)	(18.9)	-	(76.7)
Fair value movements on foreign exchange and other derivative contracts	3.1	2.3	1.5	-	6.9
Pension financing credit	6.7	5.3	3.6	-	15.6
Operating profit before exceptional items	**208.4**	**11.3**	**36.3**	**-**	**256.0**
Exceptional items	(69.4)	(216.7)	(6.4)	(4.0)	(296.5)
Operating profit/(loss)	**139.0**	**(205.4)**	**29.9**	**(4.0)**	**(40.5)**
Interest payable & other financial charges	-	-	-	(405.0)	(405.0)
Interest receivable & other financial income	-	-	-	41.6	41.6
Profit/(loss) before taxation for continuing operations	**139.0**	**(205.4)**	**29.9**	**(367.4)**	**(403.9)**
Taxation credit	-	-	-	30.6	30.6
Profit/(loss) after taxation for continuing operations	**139.0**	**(205.4)**	**29.9**	**(336.8)**	**(373.3)**
Discontinued operations	-	(72.4)	-	1.9	(70.5)
Profit/(loss) for the year	**139.0**	**(277.8)**	**29.9**	**(334.9)**	**(443.8)**
Balance sheet					
Segment assets	2,391.7	895.4	740.8	-	**4,027.9**
Unallocated assets	-	-	-	67.5	**67.5**
Consolidated total assets	**2,391.7**	**895.4**	**740.8**	**67.5**	**4,095.4**
Segment liabilities	(494.8)	(229.5)	(127.7)	-	**(852.0)**
Unallocated liabilities	-	-	-	(2,251.6)	**(2,251.6)**
Consolidated total liabilities	**(494.8)**	**(229.5)**	**(127.7)**	**(2,251.6)**	**(3,103.6)**

Other information	**Grocery**	**Hovis**	**Chilled & Ireland**	**Speciality bakery businesses**	**Other dis-continued**	**Total**
PPE expenditure	82.9	24.0	23.3	3.8	-	**134.0**
Intangible asset expenditure	31.0	0.2	-	-	-	**31.2**
Depreciation	26.6	15.8	8.3	5.8	-	**56.5**
Amortisation	40.6	17.2	18.9	5.3	-	**82.0**
Impairment of PPE	0.1	11.3	-	-	-	**11.4**
Impairment of goodwill	-	194.4	-	68.5	-	**262.9**

				Year ended 31 December 2007 (Restated)*	
	Grocery	**Hovis**	**Chilled & Ireland**	**Un-allocated**	**Total for Group**
	£m	**£m**	**£m**	**£m**	**£m**
Total turnover from continuing operations	1,232.9	534.9	357.4	-	2,125.2
Result					
Trading profit	**214.1**	**17.4**	**40.4**	**-**	**271.9**
Amortisation	(32.7)	(13.3)	(16.0)	-	(62.0)
Fair value movements on foreign exchange and other derivative contracts	3.3	0.6	0.8	-	4.7
Pension financing credit	6.5	6.7	2.9	-	16.1
Operating profit before exceptional items	**191.2**	**11.4**	**28.1**	**-**	**230.7**
Exceptional items	(94.6)	(25.3)	(38.8)	-	(158.7)
Operating profit/(loss)	**96.6**	**(13.9)**	**(10.7)**	**-**	**72.0**
Interest payable & other financial charges	-	-	-	(176.4)	(176.4)
Interest receivable & other financial income	-	-	-	26.8	26.8
Profit/(loss) before taxation for continuing operations	**96.6**	**(13.9)**	**(10.7)**	**(149.6)**	**(77.6)**
Taxation credit	-	-	-	39.8	39.8
Profit/(loss) after taxation for continuing operations	**96.6**	**(13.9)**	**(10.7)**	**(109.8)**	**(37.8)**
Discontinued operations	3.5	2.0	(12.5)	(18.5)	(25.5)
Profit/(loss) for the year	**100.1**	**(11.9)**	**(23.2)**	**(128.3)**	**(63.3)**

* Comparatives have been restated to reflect the classification of Martine Spécialités S.A.S., Le Pain Croustillant and Sofrapain S.A.S. as discontinued operations.

Balance sheet					
Segment assets	2,206.4	1,074.5	747.2	-	**4,028.1**
Unallocated assets	-	-	-	66.6	**66.6**
Consolidated total assets	**2,206.4**	**1,074.5**	**747.2**	**66.6**	**4,094.7**
Segment liabilities	(407.0)	(201.6)	(104.4)	-	**(713.0)**
Unallocated liabilities	-	-	-	(1,921.4)	**(1,921.4)**
Consolidated total liabilities	**(407.0)**	**(201.6)**	**(104.4)**	**(1,921.4)**	**(2,634.4)**

Other information	**Grocery**	**Hovis**	**Chilled & Ireland**	**Speciality bakery businesses**	**Other dis-continued**	**Total**
PPE expenditure	194.0	205.3	76.4	35.1	3.3	**514.1**
Intangible asset expenditure	1,047.9	617.3	303.6	121.1	-	**2,089.9**
Depreciation	23.8	9.8	11.3	3.9	1.2	**50.0**
Amortisation	32.7	13.3	16.0	4.2	0.1	**66.3**
Impairment of PPE	12.3	-	3.6	-	-	**15.9**
Impairment of other intangibles	-	0.6	-	-	-	**0.6**

* Balance sheet comparatives at 31 Dec 2007 have been restated for IFRS 3 fair value adjustments on the acquisition of RHM plc.

Unallocated assets and liabilities comprise cash and cash equivalents, net borrowings, taxation balances and derivative financial assets and liabilities and head office assets.

Segmental analysis - secondary

The following table provides an analysis of the Group's turnover allocated on the basis of geographical market destination. The table also contains an analysis of segmental assets and additions to property, plant and equipment and intangible assets allocated by geographical location.

	United Kingdom £m	Other Europe £m	Rest of world £m	Total for Group £m
Turnover by destination				
2008	2,433.5	144.6	25.5	2,603.6
2007 (Restated)*	1,991.6	107.8	25.8	2,125.2
Carrying value of segmental assets by location				
2008	3,904.6	190.8	-	4,095.4
2007 (Restated)**	3,905.7	189.0	-	4,094.7
Total capital expenditure by location				
2008	161.6	3.6	-	165.2
2007 (Restated)**	2,471.1	132.9	-	2,604.0

* Turnover comparatives have been restated to reflect the classification of Martine Spécialités S.A.S., Le Pain Croustillant and Sofrapain S.A.S. as discontinued operations.

** Balance sheet comparatives at 31 Dec 2007 have been restated for IFRS 3 fair value adjustments on the acquisition of RHM plc.

Capital expenditure for 2007 includes assets purchased as part of the acquisition of RHM plc.

5. Exceptional items

During the year the Group continued with its investment and restructuring programme in order to capture the cost and operational synergies available to the enlarged Group following the acquisition of RHM plc and the Campbell's business. This is the primary factor behind total non-recurring integration and restructuring exceptional costs in the year.

Exceptional costs were as follows:

		Year ended 31 Dec 2008 £m	Year ended 31 Dec 2007 £m
Exceptional items – continuing operations			
Integration of RHM UK operations	(a)	60.6	88.1
Integration of Campbell's UK operations	(b)	6.3	12.4
Integration of Irish operations	(c)	6.0	21.5
Restructure of Meat-free operations	(d)	3.5	15.3
Hovis restructuring and other costs	(e)	21.1	9.6
Other restructuring and other costs	(f)	6.7	12.2
Gain on property disposals	(g)	(2.1)	(0.4)
Goodwill impairment	(h)	194.4	-
Total		296.5	158.7

(a) Integration of RHM UK operations

On 16 March 2007, the Group acquired RHM plc. In order to achieve the planned synergy benefits from the acquisition, the Group continued to incur a significant level of restructuring expenditure and investment during the year on the integration of RHM plc. The integration costs incurred relate to the following key initiatives:

- On 2 July 2007, the Group announced the results of a review of its combined manufacturing facilities which identified six ex-RHM sites that were to close. The closure programme was completed during 2008, resulting in restructuring and redundancy costs and costs relating to the transfer of production to the remaining Group manufacturing sites.
- The Group has also commenced the restructure and integration of certain warehousing facilities which also resulted in restructuring and redundancy costs being incurred during the year.
- Redundancy and restructuring costs relating to the move of existing administrative functions to a group-wide shared service centre in Manchester.

(b) Integration of Campbell's UK operations

On 14 August 2006, the Group acquired Campbell's Grocery Products Limited. The closure and subsequent integration of the Kings Lynn manufacturing operations and warehousing facilities into the existing operations of the Group was completed in the year resulting in £6.3m of restructuring and redundancy costs.

(c) Integration of Irish operations

Following the acquisitions of Campbell's Grocery Products Ireland Limited in August 2006, Chivers Ireland Limited in January 2007 and the RHM Ireland business in March 2007, the Group has significantly increased its commercial presence in Ireland. In the year, the Group completed the principal phases of integrating these companies and has created a single operating business, a key step in generating future cost and operating synergy benefits in Ireland. As part of this exercise, the Group has closed two factories (Thurles and Coolock) and implemented a centralised distribution operation.

(d) Restructure of Meat-free operations

During 2006, the Group announced plans for the closure of its factory at Portishead and the purchase and development of a new chilled facility at Methwold to enable the integration of chilled production for Quorn and Cauldron products on a single site. The Methwold facility is now fully operational and commissioning costs relating to the new plant have now ceased.

(e) Hovis restructuring and other costs

The Hovis business has undertaken a number of restructuring projects in 2007 and 2008 in order to align the business with new ways of working and for the preparation of the ERP roll out. These projects involved headcount reductions through organisational and structural changes, new warehouse technology and operating methods and supply chain management restructuring initiatives. The current year exceptional charges also includes an impairment of assets and redundancy costs relating to the closure of our Rotherham mill, onerous lease costs for properties and impairment recognised against certain plant and machinery relating to discontinued production lines.

(f) Other restructuring and other costs

This category incorporates cost reduction initiatives associated with our warehousing network, factory transformation programme and other supply chain initiatives.

Prior year exceptional charges relate to costs associated with general business restructuring, the restructuring of our warehousing network, training and a number of compliance related initiatives.

(g) Gain on property disposals

The net disposal gain of £2.1m in the year includes the disposal of sites and plant and machinery in Bristol, Droylsden, Middlewich, Wythenshawe and Stoke in the UK and Thurles in the Republic of Ireland.

(h) Goodwill impairment

An impairment charge of £194.4m has been recognised against the goodwill allocated to the Hovis CGU (see note 14).

6. Operating (loss)/profit for continuing operations

6a. Analysis of costs by nature	**Year ended 31 Dec 2008**	**Year ended 31 Dec 2007 (Restated)***
	£m	**£m**
Cost of inventories sold	**1,463.3**	1,208.8
Employee benefits expense (note 7)	**503.6**	499.0
Depreciation of property, plant and equipment:		
- owned assets	**50.5**	44.3
- under finance leases	**0.2**	0.6
Amortisation of intangible assets:		
- software and licences	**7.7**	4.4
- brands and trademarks	**34.3**	30.1
- customer relationships	**34.7**	27.5
Impairment of inventory	**5.6**	0.8
Impairment of property, plant and equipment	**11.4**	15.9
Impairment of intangible assets	**-**	0.6
Impairment of goodwill	**194.4**	-
Operating lease rental payments:		
- plant and machinery	**21.2**	6.4
- land and buildings	**8.8**	8.2
Repairs and maintenance expenditure	**54.5**	39.3
Research and development costs	**5.1**	3.9
(Gain)/loss on disposal of property, plant and equipment/intangible assets	**(0.8)**	1.2
Net foreign exchange (gains)/losses	**(5.1)**	3.8
Auditor remuneration	**2.2**	2.0

* Comparatives have been restated to reflect the classification of Martine Spécialités S.A.S., Le Pain Croustillant and Sofrapain S.A.S. as discontinued operations.

Operating lease obligations are further disclosed in note 30.

6b. Auditor remuneration	**Year Ended 31 Dec 2008 £m**	**Year Ended 31 Dec 2007 £m**
Fees payable to the Company's auditor for the audit of the Parent Company and consolidated financial statements	**0.6**	0.6
Fees payable to the Company's auditor and its associates for other services:		
- The audit of the Company's subsidiaries, pursuant to legislation	**0.7**	0.8
- Other services relating to taxation	**0.2**	0.1
- Other services pursuant to legislation	**0.1**	0.1
- Services relating to corporate finance transactions	**3.1**	0.1
- Other services	**-**	0.3
Total auditor remuneration	**4.7**	2.0

Fees of £48,855 were paid to the Company's auditors in respect of the audit and services in relation to one of the Group's pension schemes.

Included within total fees paid to the auditors of £4.7m (2007: £2.0m) are £2.5m (2007: £nil) of costs which are directly attributable to the financing negotiations and proposed equity raising detailed in note 34. These costs are therefore held on the balance sheet.

7. Employees

	Year ended 31 Dec 2008 £m	**Year ended 31 Dec 2007 (Restated)* £m**
Staff costs for the Group during the year for continuing operations		
Wages and salaries	**429.2**	361.6
Social security costs	**38.4**	35.5
Termination benefits	**15.6**	79.6
Share options granted to directors and employees	**2.2**	3.9
Pension costs – defined contribution plans (note 25)	**1.1**	1.2
Pension costs – defined benefit plans (note 25)	**17.1**	17.2
Total staff costs	**503.6**	499.0

* Comparatives have been restated to reflect the classification of Martine Spécialités S.A.S., Le Pain Croustillant and Sofrapain S.A.S. as discontinued operations.

Average monthly number of people employed (including executive directors)

	Number	**Number***
Management	**583**	984
Administration	**1,857**	1,757
Production, distribution and other	**13,473**	13,906
Total employees	**15,913**	16,647

* Comparatives have been restated to reflect the classification of Martine Spécialités S.A.S., Le Pain Croustillant and Sofrapain S.A.S. as discontinued operations.

In 2008 the Group standardised the definitions of the classifications shown in the table above. As a result there has been a reallocation between the Management and Administration categories in 2008 when compared to 2007.

Directors' remuneration (including retirement benefits accruing to the directors under defined benefit schemes) is disclosed in the audited sections of the directors' remuneration report, which form part of these financial statements.

8. Interest payable and receivable

On 28 February 2008 the Group entered into a supplemental agreement with its banks amending certain terms of its Senior Term Credit Facility and Revolving Credit Facility Arrangement of 16 March 2007. The Senior Term Facility now comprises £1,332m of Term facilities. The Revolving Credit Facility is a multi-currency revolving credit facility of £500m. The final maturity date of the above arrangements is 16 March 2012. The Group also converted the Acquisition line of the Secured Senior Working Capital Credit Facility into a £100m Working Capital line and agreed an additional £125m of short-term facilities with three of its banks.

In respect of these amendments to the existing facilities and arrangement of the new facilities, the Group incurred costs of £15.3m, £12.1m of which were immediately charged to the income statement.

On 18 November 2008 the Group announced an agreement with its lending banks to defer its 31 December 2008 covenant test to 31 March 2009, pending a review of its capital structure. Fees of £4.9m incurred in relation to this have been expensed in the year to 31 December 2008.

	Year ended 31 Dec 2008	Year ended 31 Dec 2007 (Restated)*
	£m	£m
Interest payable on bank loans, senior notes and overdrafts **	**35.0**	19.5
Interest payable on term facility **	**96.0**	84.5
Interest payable on revolving facility **	**29.6**	28.0
Unwind of discount on provisions	**0.9**	0.8
Amortisation of debt issuance costs	**7.6**	4.2
	169.1	137.0
Exceptional write-off of financing costs	**17.0**	-
Accelerated amortisation of debt issuance costs	**-**	8.4
Movement on fair valuation of interest rate swaps	**218.9**	31.0
Total interest payable and other financial charges	**405.0**	176.4
Interest receivable on bank deposits **	**(41.6)**	(26.8)
Total interest receivable and other financial income	**(41.6)**	(26.8)
Net interest	**363.4**	149.6

* Comparatives have been restated to reflect the classification of Martine Spécialités S.A.S., Le Pain Croustillant and Sofrapain S.A.S. as discontinued operations.

** Interest payable and receivable include the interest element of derivatives.

The fair value of interest rate swaps has risen from an £18.5m liability at 31 December 2007 to a £237.4m liability at 31 December 2008 resulting in a negative movement of £218.9m for the year due to a decrease in the LIBOR rates to unprecedented levels combined with the nature of the Group's interest rate swaps (refer to note 22). The liability at 31 December 2008 represents the net present value of the interest cash flows calculated using the contracted fixed rates compared to the interest cash flows that would arise if the interest was calculated on a floating basis.

Since 31 December 2008, the Group has negotiated an amendment to the break clauses in two of its interest rate swaps. Refer to note 34 for further details.

9. Tax on loss on ordinary activities

Analysis of the credit for the year:

	Continuing operations £m	Dis-continued operations £m	Total £m
2008			
Current tax			
- Current year	-	0.9	0.9
- Prior years	(7.6)	1.4	(6.2)
Overseas current tax (current year)	2.8	-	2.8
Deferred tax			
- Current year	(24.3)	0.2	(24.1)
- Prior years	(1.5)	0.6	(0.9)
Income tax (credit)/charge for the year	**(30.6)**	**3.1**	**(27.5)**
2007 (Restated)*			
Current tax			
- Current year	-	-	-
- Prior years	(10.2)	-	(10.2)
Overseas current tax (current year)	-	2.1	2.1
Deferred tax			
- Current year	(15.3)	-	(15.3)
- Current year restatement of acquired balances	(11.6)	-	(11.6)
- Prior years	1.0	-	1.0
- Prior years restatement of opening balances	(3.7)	-	(3.7)
Income tax (credit)/charge for the year	**(39.8)**	**2.1**	**(37.7)**

* Comparatives have been restated to reflect the classification of Martine Spécialités S.A.S., Le Pain Croustillant and Sofrapain S.A.S. as discontinued operations.

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

	2008 £m	2007 £m
Deferred tax charge on share options	0.5	1.1
Deferred tax charge on pension movements	19.2	39.5
Current tax credit on pension movements	(0.4)	-
	19.3	40.6

The tax credit from continuing operations for the year differs from the standard rate of corporation tax in the United Kingdom of 28.5% for the year ended 31 December 2008, and 30% for the year ended 31 December 2007. The reasons for this are explained below:

	Year ended 31 Dec 2008 £m	Year ended 31 Dec 2007 (Restated)* £m
Loss before taxation for continuing operations	(403.9)	(77.6)
Tax credit at the domestic income tax rate of 28.5% (2007: 30%)	(115.1)	(23.3)
Tax effect of:		
Non deductible exceptional items	63.6	5.9
Other disallowable items	1.2	0.7
Adjustment to reflect the abolition of tax relief for industrial buildings	25.4	-
Adjustments to capital allowances that do not give rise to temporary differences	-	0.1
Adjustment to deferred tax asset for share based pay adjusted from equity	2.2	-
Adjustment due to current year deferred tax being provided at 28%	1.2	1.3
Adjustment to restate acquired deferred tax balance at 28%	-	(11.6)
Adjustments to prior years	(9.1)	(12.9)
Income tax credit	(30.6)	(39.8)

* Comparatives have been restated to reflect the classification of Martine Spécialités S.A.S., Le Pain Croustillant and Sofrapain S.A.S. as discontinued operations.

10. Discontinued operations

The Group has received firm offers for its speciality bakery businesses, Martine Spécialités S.A.S., Le Pain Croustillant and Sofrapain S.A.S. Subsequent to year end the Group completed the employee consultation process required under French labour law and binding offer agreements were signed in relation to the disposal of the three businesses (refer to note 34).

The assets and liabilities relating to the speciality bakery businesses as at 31 December 2008 have been presented as a held for sale disposal group in the balance sheet (refer to note 17).

Discontinued operations also include items relating to the disposal of MBMG, Erin Foods and RHM Frozen Foods in 2007, and a receipt relating to a property disposed of with our subsidiary Jonker Fris, which was disposed of in 2005.

The results of the discontinued operations for the year are as follows:

	Year ended 31 December 2008			Year ended 31 December 2007 (Restated)*		
	Speciality bakery businesses	Other dis- continued	Total dis- continued	Speciality bakery businesses	Other dis- continued	Total dis- continued
	£m	£m	£m	£m	£m	£m
Turnover	173.0	-	173.0	122.4	65.1	187.5
Cost of sales	(131.9)	-	(131.9)	(93.0)	(58.5)	(151.5)
Gross profit	41.1	-	41.1	29.4	6.6	36.0
Selling, marketing and distribution costs	(26.1)	-	(26.1)	(18.4)	(5.0)	(23.4)
Administrative costs	(85.4)	(0.2)	(85.6)	(6.9)	(29.5)	(36.4)
Net other operating income	0.9	1.6	2.5	-	-	-
Operating (loss)/profit	(69.5)	1.4	(68.1)	4.1	(27.9)	(23.8)
Before exceptional items	4.7	(0.9)	3.8	4.1	(1.5)	2.6
Exceptional items	(74.2)	2.3	(71.9)	-	(26.4)	(26.4)
Interest payable	(0.2)	(0.1)	(0.3)	-	-	-
Interest receivable	0.4	0.6	1.0	-	0.4	0.4
(Loss)/profit before taxation	(69.3)	1.9	(67.4)	4.1	(27.5)	(23.4)
Taxation	(3.1)	-	(3.1)	(2.1)	-	(2.1)
(Loss)/profit after taxation	(72.4)	1.9	(70.5)	2.0	(27.5)	(25.5)

* Comparatives have been restated to reflect the classification of Martine Spécialités S.A.S., Le Pain Croustillant and Sofrapain S.A.S. as discontinued operations.

Included within the loss after tax for the year ended 31 December 2008 is an impairment charge of £68.5m, which has been recognised against goodwill to write down the carrying value of the net assets held for sale to their fair values after any attributable foreign exchange reserve movements.

During the year there was an operating cash inflow in relation to discontinued operations of £15.0m (2007: £3.5m outflow), an outflow of £4.0m (2007: £17.8m inflow) in respect of investing activities, and an outflow of £0.3m (2007: £1.2m outflow) in respect of financing activities.

11. Earnings per share

Basic loss per share has been calculated by dividing the loss attributable to ordinary shareholders of £443.8m (2007: £63.3m) by the weighted average number of ordinary shares of the Company.

	Year ended 31 Dec 2008			Year ended 31 Dec 2007 (Restated)*		
	Basic	**Dilutive effect of share options**	**Diluted**	**Basic**	**Dilutive effect of share options**	**Diluted**
Continuing operations						
Loss after tax (£m)	(373.3)	-	(373.3)	(37.8)	-	(37.8)
Weighted average number of shares (m)	844.6	-	844.6	772.6	-	772.6
Loss per share (pence)	(44.2)	-	(44.2)	(4.9)	-	(4.9)
Discontinued operations						
Loss after tax (£m)	(70.5)	-	(70.5)	(25.5)	-	(25.5)
Weighted average number of shares (m)	844.6	-	844.6	772.6	-	772.6
Loss per share (pence)	(8.3)	-	(8.3)	(3.3)	-	(3.3)
Total						
Loss after tax (£m)	(443.8)	-	(443.8)	(63.3)	-	(63.3)
Weighted average number of shares (m)	844.6	-	844.6	772.6	-	772.6
Loss per share (pence)	(52.5)	-	(52.5)	(8.2)	-	(8.2)

* Comparatives have been restated to reflect the classification of Martine Spécialités S.A.S., Le Pain Croustillant and Sofrapain S.A.S. as discontinued operations.

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 28.5% (2007: 30%) divided by the weighted average number of ordinary shares of the Company.

Trading profit is defined as operating profit before exceptional items, amortisation of intangible assets, the revaluation of foreign exchange and other derivative contracts under IAS 39 and pension credits or charges in relation to the difference between the expected return on pension assets and interest costs on pension liabilities. The definition of trading profit has changed in comparison to the prior year to exclude the revaluation on other derivative contracts under IAS 39.

Net regular interest payable is defined as net interest after excluding non-cash items, namely exceptional write-off of financing costs, accelerated amortisation of debt issuance costs, fair value adjustments on interest rate swaps and the unwind of the discount on provisions.

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

	Year ended 31 December 2008				
			Total		
	Continuing £m	**Discontinued Speciality bakery businesses £m**	**Continuing & Speciality bakery businesses £m**	**Dis-continued Other £m**	**Total £m**
Operating (loss)/profit	**(40.5)**	**(69.5)**	**(110.0)**	**1.4**	**(108.6)**
Exceptional items	296.5	74.2	370.7	(2.3)	368.4
Operating profit/(loss) before exceptional items	**256.0**	**4.7**	**260.7**	**(0.9)**	**259.8**
Pension financing credit	(15.6)	-	(15.6)	-	(15.6)
Foreign exchange and other derivative contracts	(6.9)	-	(6.9)	-	(6.9)
Amortisation of intangibles	76.7	5.3	82.0	-	82.0
Trading profit/(loss)	**310.2**	**10.0**	**320.2**	**(0.9)**	**319.3**
Less net regular interest payable	(126.6)	0.2	(126.4)	(0.1)	(126.5)
Adjusted profit/(loss) before tax	**183.6**	**10.2**	**193.8**	**(1.0)**	**192.8**
Notional tax at 28.5%	(52.3)	(2.9)	(55.2)	0.3	(54.9)
Adjusted profit/(loss) after tax	**131.3**	**7.3**	**138.6**	**(0.7)**	**137.9**
Average shares in issue (m)	844.6	844.6	844.6	844.6	844.6
Adjusted EPS (pence)	**15.5**	**0.9**	**16.4**	**(0.1)**	**16.3**
Net regular interest payable					
Net interest payable	363.4	(0.2)	363.2	(0.5)	362.7
Exclude exceptional write-off of financing costs	(17.0)	-	(17.0)	-	(17.0)
Exclude fair value adjustments on interest rate swaps	(218.9)	-	(218.9)	-	(218.9)
Exclude unwind of discount on provisions	(0.9)	-	(0.9)	0.6	(0.3)
Net regular interest payable	126.6	(0.2)	126.4	0.1	126.5

					Year ended 31 December 2007
	Continuing £m	Discontinued Speciality bakery businesses £m	Total Continuing & Speciality bakery businesses £m	Dis-continued Other £m	Total £m
Operating profit/(loss)	**72.0**	**4.1**	**76.1**	**(27.9)**	**48.2**
Exceptional items	158.7	-	158.7	26.4	185.1
Operating profit/(loss) before exceptional items	**230.7**	**4.1**	**234.8**	**(1.5)**	**233.3**
Pension financing credit	(16.1)	-	(16.1)	-	(16.1)
Foreign exchange and other derivative contracts	(4.7)	-	(4.7)	-	(4.7)
Amortisation of intangibles	62.0	4.2	66.2	0.1	66.3
Trading profit/(loss)	**271.9**	**8.3**	**280.2**	**(1.4)**	**278.8**
Less net regular interest payable	(109.4)	-	(109.4)	0.4	(109.0)
Adjusted profit/(loss) before tax	**162.5**	**8.3**	**170.8**	**(1.0)**	**169.8**
Notional tax at 30.0%	(48.7)	(2.5)	(51.2)	0.3	(50.9)
Adjusted profit/(loss) after tax	**113.8**	**5.8**	**119.6**	**(0.7)**	**118.9**
Average shares in issue (m)	772.6	772.6	772.6	772.6	772.6
Adjusted EPS (pence)	**14.7**	**0.8**	**15.5**	**(0.1)**	**15.4**
Net regular interest payable					
Net interest payable	149.6	-	149.6	(0.4)	149.2
Exclude accelerated amortisation of debt issuance costs	(8.4)	-	(8.4)	-	(8.4)
Exclude fair value adjustments on interest rate swaps	(31.0)	-	(31.0)	-	(31.0)
Exclude unwind of discount on provisions	(0.8)	-	(0.8)	-	(0.8)
Net regular interest payable	109.4	-	109.4	(0.4)	109.0

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 done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to the outstanding share options.

For the years ended 31 December 2008 and 31 December 2007, there is no dilutive effect as the outstanding share options that could have been acquired at fair value is less than the monetary value of the subscription rights attached to these options.

The issue of 4,731 ordinary shares during the year has been included in determining the weighted average for the current year (see note 26).

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

	2008 Number	2007 Number
Weighted average number of ordinary shares for the purpose of basic loss per share	844,604,404	772,592,139
Effect of dilutive potential ordinary shares:		
- Share options	-	-
Weighted average number of ordinary shares for the purpose of diluted loss per share	844,604,404	772,592,139

12. Dividends

	2008 pence	2007 pence
Interim dividend	-	4.30
Final dividend	-	2.20
Total dividend	-	6.50

The Board has decided that no dividend will be proposed for the year ended 31 December 2008.

As announced on 18 November 2008, the Board considered it appropriate to suspend dividend payments. The Board is committed to resuming dividend payments when possible but the future payment of dividends will be dependent upon the Company's ability to reduce its level of debt, the limitations on payment of future dividends imposed by the Company's debt agreements and the condition of the credit markets at the relevant time, with any dividend being subject to the approval of the Group's Shareholders at a general meeting. The Amended Term and Revolving Credit Facilities Agreement imposes restrictions on the ability to propose dividends which are subject to a leverage test and an interest cover test, with the payment being restricted to no more than 50 per cent of retained earnings.

13. Property, plant and equipment

	Freehold land and buildings	Long leasehold land and buildings	Short leasehold land and buildings	Vehicles, plant and equipment	Total
	£m	£m	£m	£m	£m
Cost					
At 1 January 2007	85.0	2.2	1.3	316.0	404.5
Additions	4.1	-	0.3	111.5	115.9
Acquisition of subsidiaries/businesses	116.6	11.4	32.2	238.0	398.2
Disposal of subsidiaries/businesses	(12.5)	-	(1.0)	(23.3)	(36.8)
Disposals	(10.7)	(0.7)	(0.2)	(113.3)	(124.9)
Transferred to held for sale	(37.3)	(2.2)	(1.1)	(11.7)	(52.3)
At 31 December 2007*	145.2	10.7	31.5	517.2	704.6
Additions	4.8	-	0.4	128.8	134.0
Disposals	(1.6)	-	(0.4)	(46.7)	(48.7)
Reclassifications	-	-	1.3	(1.3)	-
Transferred to held for sale	(10.4)	(3.4)	(1.6)	(32.8)	(48.2)
Foreign exchange	2.6	1.5	-	4.8	8.9
At 31 December 2008	**140.6**	**8.8**	**31.2**	**570.0**	**750.6**
Aggregate depreciation and impairment					
At 1 January 2007	11.7	2.2	0.7	135.3	149.9
Depreciation charge for the year	4.1	0.3	1.5	44.1	50.0
Disposal of subsidiaries/businesses	(3.3)	-	(0.4)	(16.6)	(20.3)
Disposals	(3.1)	(0.7)	(0.1)	(72.4)	(76.3)
Impairment	-	-	0.4	15.5	15.9
Transferred to held for sale	(8.0)	(1.2)	(0.9)	(11.6)	(21.7)
At 31 December 2007*	1.4	0.6	1.2	94.3	97.5
Depreciation charge for the year	6.8	0.8	1.0	47.9	56.5
Disposals	(0.9)	-	(0.3)	(43.7)	(44.9)
Impairment	2.3	-	1.6	7.5	11.4
Reclassifications	-	-	1.1	(1.1)	-
Transferred to held for sale	(1.7)	(1.5)	(0.3)	(6.8)	(10.3)
Foreign exchange	0.4	0.7	-	0.4	1.5
At 31 December 2008	**8.3**	**0.6**	**4.3**	**98.5**	**111.7**
Net book value					
At 31 December 2007*	143.8	10.1	30.3	422.9	607.1
At 31 December 2008	**132.3**	**8.2**	**26.9**	**471.5**	**638.9**

* The 31 Dec 2007 comparatives have been restated for IFRS 3 fair value adjustments on the acquisition of RHM plc.

The net book value of the Group's vehicles, plant and equipment includes an amount of £0.9m (2007: £1.1m) in respect of assets held under finance leases.

At 31 December 2008 the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £22.8m (2007: £42.6m).

The impairment in 2008 of £11.4m mostly relates to the closure of our mill in Rotherham and an impairment against certain plant and machinery relating to discontinued production lines. The impairment charge reflects the difference between the carrying value of assets and their expected recoverable amounts. Recoverable amounts have been determined on the basis of value in use or fair value less costs to sell. As at 31 December 2008, the rate used to discount the forecasted cash flows was 11.1% (2007: 8.4%).

The impairment in 2007 of £15.9m relates to the integration of the administrative functions of RHM's former head office at Marlow, the Culinary Brands business at Addlestone and Middlewich, the Manor Bakeries

business at Windsor, the closures of nine manufacturing sites as a result of the Group's manufacturing review, the announced closures of the bread manufacturing sites in Bradford and Plymouth, and a depot in Telford, the closure of the Kings Lynn manufacturing site as a result of the Campbell's integration and the closure of the Coolock and Thurles manufacturing sites as a result of the integration of the Irish operations.

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

14. Goodwill

	2008	2007 (Restated)*
	£m	£m
Cost		
At 1 January	1,649.5	480.2
Acquisition of subsidiaries	-	1,171.4
Impairment - continuing	(194.4)	-
Impairment - discontinuing	(68.5)	-
Transferred to held for sale	(15.3)	-
Disposal of subsidiaries/businesses (note 10)	-	(2.1)
At 31 December	1,371.3	1,649.5

* The 31 Dec 2007 comparatives have been restated for IFRS 3 fair value adjustments on the acquisition of RHM plc.

Impairment tests for goodwill

As a result of the integration programme undertaken by the Group, the previously disclosed cash-generating units ("CGU's") have been changed to more closely align them with the new divisional structure, which was effective from 1 January 2008.

This has resulted in six CGU's in which Goodwill acquired in various business combinations has been allocated. Goodwill previously allocated to Ambrosia, Bird's, Nestlé, RHM Culinary Brands and the UK business of Campbell's has been allocated to the Grocery CGU. Goodwill previously allocated to Cauldron and Marlow has been allocated into the Meat-free CGU. Goodwill previously allocated to the Irish business of Campbell's, Chivers Ireland and RHM Ireland (previously within RHM Customer Partnerships CGU) has been allocated into the Ireland CGU. Goodwill previously allocated to the RHM Customer Partnerships CGU has been allocated between the Grocery, Chilled and Ireland CGU's. Goodwill previously allocated to RHM Cakes has been allocated between the Cake and Chilled CGU's. There has been no change to the allocation of goodwill to RHM Bread Bakeries (which subsequently became the Hovis CGU).

The new CGU's are as follows:

	2008	2007 (Restated)*
	£m	£m
Cake	128.8	128.8
Chilled	170.7	170.7
Grocery	759.9	759.9
Hovis	163.0	441.2
Ireland	59.3	59.3
Meat-free	89.6	89.6
Net carrying value of goodwill	1,371.3	1,649.5

* The 31 Dec 2007 comparatives have been restated into their new CGU's and also for IFRS 3 fair value adjustments on the acquisition of RHM plc.

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.

In 2008, an impairment assessment of the carrying value of the goodwill assigned to the speciality bakery businesses, Martine Spécialités S.A.S., Le Pain Croustillant and Sofrapain S.A.S. has been undertaken by assessing their fair value less costs to sell in light of the decision to dispose of these businesses. This goodwill was previously included within the Hovis CGU and was tested for impairment prior to its classification as held for sale. The impairment test in respect of the remaining goodwill within the Hovis CGU and the other CGU's has been undertaken by assessing the CGU's value in use.

Key assumptions

Fair value less costs to sell in respect of the speciality bakery businesses has been determined by reference to the value of the firm offers received, less the expected costs of disposing the businesses.

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 five years. Assumptions regarding these future cash flows are based upon actual results in prior periods and adjusted for expected developments in the following years with reference to market conditions and reasonable management expectations for the businesses. All income and costs are taken into account and an estimate of capital expenditure required to maintain these cash flows is also made.

Long term growth rate assumptions

The five year management forecasts are extrapolated in perpetuity using growth assumptions relevant for the business sector. The growth rate applied is 2.25% (2007: 2.0%) 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 deterioration in the economic climate in determining the appropriate discount rate to use in impairment testing. Due to the increased cost of borrowing and the higher level of return expected by equity holders (due to the perceived risk in equity markets) the discount rate used has increased significantly when compared with the previous year. At 31 December 2008 the pre-tax rate used to discount the forecasted cash flows has been determined to be 11.1% (2007: 8.4%).

Impairment

A total impairment charge of £262.9m has been recognised in the year.

Included within this charge is £68.5m recognised against the goodwill allocated to the speciality bakery businesses and has been recorded within discontinued operations. The residual goodwill attributable to these businesses of £15.3m has been transferred to assets held for sale (refer to note 17).

A further charge of £194.4m has been recognised against the goodwill allocated to the Hovis CGU (which is included within the Hovis segment) and thereby reducing the carrying value of this CGU to its recoverable amount. This impairment has arisen as a result of the significant increase in discount rate (as noted above). Any favourable change in assumptions in future periods will result in additional headroom however any adverse change would result in additional impairment.

With regards to the remaining CGU's, the Directors believe no reasonable change in the key assumptions used in the impairment testing would cause the carrying value to exceed its recoverable amount.

15. Other intangible assets

	Software/ Licences £m	Brands/ Trademarks £m	Customer Relationships £m	Total £m
Cost				
At 1 January 2007	18.3	393.7	-	412.0
Additions	8.7	-	-	8.7
Acquisition of subsidiaries/businesses	31.8	598.0	280.0	909.8
Disposals	(1.5)	(2.0)	-	(3.5)
At 31 December 2007	**57.3**	**989.7**	**280.0**	**1,327.0**
Additions	31.2	-	-	31.2
Transferred to held for sale	-	-	(37.0)	(37.0)
At 31 December 2008	**88.5**	**989.7**	**243.0**	**1,321.2**
Amortisation				
At 1 January 2007	3.1	19.3	-	22.4
Charge for the year	4.4	30.2	31.7	66.3
Impairments	0.6	-	-	0.6
Disposal	-	(0.1)	-	(0.1)
At 31 December 2007	**8.1**	**49.4**	**31.7**	**89.2**
Charge for the year	7.7	34.3	40.0	82.0
Transferred to held for sale	-	-	(9.5)	(9.5)
At 31 December 2008	**15.8**	**83.7**	**62.2**	**161.7**
Net book value 31 December 2007	49.2	940.3	248.3	1,237.8
Net book value 31 December 2008	**72.7**	**906.0**	**180.8**	**1,159.5**

Brands and trademarks are considered to have finite useful lives and are amortised on a straight-line basis over their estimated useful lives of 20 to 40 years. Software is amortised on a straight-line basis over its estimated useful life of 3 to 10 years. Customer relationships are amortised on a straight-line basis over their estimated useful lives of 7 years.

Contained within brands and trademarks are values attributed to the fair value adjustment in relation to the acquisition of RHM plc in 2007. The fair values of intangible assets at acquisition for these brands were £598.0m. The remaining periods of amortisation for these assets are between 18 and 38 years for the RHM brands.

The fair value attributed to customer relationships acquired as part of the acquisition of RHM plc in 2007, was £280.0m and represents the value of own label contracts with new and existing customers.

Software and licences reflect the fair value adjustment in relation to the acquisition of RHM plc. The fair value of licences at acquisition was £29.9m, which are amortised over the remaining lives of the licence agreements.

On the acquisition of Chivers Ireland, a fair value adjustment was recognised under IFRS 3 in respect of a beneficial property lease agreement. As a result of the announcement to close the Coolock site, a £0.6m impairment was recognised in 2007.

Included in the software additions for the year above are £6.5m of internal costs (2007: £1.8m).

As at 31 December 2008, the Group's borrowings are secured on the assets of the Group including other intangible fixed assets.

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

Brand/Trademark	Carrying value at 31 December 2008 £m	Estimated useful life remaining years
Bisto	169.3	28
Hovis	152.8	38
Oxo	103.5	38
Batchelors	89.3	28
Sharwoods	80.0	28
Quorn	70.5	27
Mr Kipling	65.9	28

16. Investments

Principal subsidiaries

Name of Subsidiary	Country of incorporation or registration and principal operations	Principal activity	Effective interest in ordinary share capital at 31 December 2008	2007
Operating subsidiaries				
Chivers Hartley Limited	United Kingdom	Spreads and pickles manufacturing	100%	100%
H.L. Foods Limited	United Kingdom	Food canning and processing	100%	100%
Premier Ambient Products (UK) Limited	United Kingdom	Spreads, pickles, vinegar, jelly and desserts manufacturing	100%	100%
Premier International Foods UK Limited	United Kingdom	Hot and cold beverages manufacturing	100%	100%
Marlow Foods Limited (Quorn)	United Kingdom	Meat free manufacturing	100%	100%
Cauldron Foods Limited	United Kingdom	Meat free manufacturing	100%	100%
Premier Grocery Products Limited	United Kingdom	Manufacture and distribution of soups, meat and other food products	100%	100%
Premier Grocery Products Ireland Limited	Republic of Ireland	Manufacture and distribution of soups, meat and other food products	100%	100%
Premier Foods Group Limited	United Kingdom	Manufacture and distribution of cake, bread, own label and other food products	100%	100%
Other subsidiaries				
Premier Brands Foods Limited	United Kingdom	Intermediate holding company	100%	100%
Premier Financing Limited	United Kingdom	Intermediate holding company	100%	100%
Premier Foods (Holdings) Limited	United Kingdom	Intermediate holding company	100%	100%
Premier Foods Investments Limited	United Kingdom	Financing	100%	100%
Premier Foods Investments No. 1 Limited	United Kingdom	Intermediate holding company	100%	100%
Premier Foods Investments No. 2 Limited	United Kingdom	Intermediate holding company	100%	100%
Premier Foods Investments No. 3 Limited	United Kingdom	Intermediate holding company	100%	100%

Premier Foods Group Services Limited	United Kingdom	Intermediate holding company	100%	100%
Premier Foods Limited	United Kingdom	Intermediate holding company	100%	100%

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

Each of the principal subsidiary undertakings have 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. A full list of subsidiary undertakings is available from the Company Secretary.

17. Assets and liabilities held for sale

	2008 £m	2007 £m
Non-current assets:		
Property, plant and equipment	45.6	30.6
Goodwill	15.3	-
Other intangible assets	27.5	-
Other non-current assets	0.4	-
Current assets:		
Inventories	9.0	-
Trade and other receivables	26.6	-
Total assets held for sale	**124.4**	30.6
Current liabilities:		
Trade and other payables	(41.0)	-
Financial liabilities – short term borrowings	(0.4)	-
Current income tax liabilities	(1.0)	-
Non-current liabilities:		
Financial liabilities – long term borrowings	(1.3)	-
Provisions	(3.0)	-
Other liabilities	(0.6)	-
Deferred tax liabilities	(9.2)	-
Total liabilities held for sale	**(56.5)**	-
Net assets and liabilities held for sale	**67.9**	30.6

The Group has received firm offers for its speciality bakery businesses, Martine Spécialités S.A.S., Le Pain Croustillant and Sofrapain S.A.S. Accordingly, the results of the speciality bakery businesses for the year have been classified as discontinued operations (refer note 10).

Assets and liabilities relating to these businesses have been reclassified as held for sale in the balance sheet with effect from 31 December 2008. The value of the assets and liabilities relating to these businesses was reviewed at the date of re-classification according to IFRS principles and as a result, the carrying amounts of non-current assets were written down to their fair values.

Goodwill of £15.3m at 31 December 2008 is shown after the recognition of an impairment charge of £68.5m (refer to note 14).

Of the £30.6m of property, plant and equipment held for sale at 31 December 2007, £7.7m continues to be classified as held for sale at the balance sheet date. The disposal has taken longer than anticipated due to the adverse market conditions, however, management remain confident that they will be completed in the near future.

18. Inventories

	2008 £m	2007 (Restated)* £m
Raw materials	**88.4**	85.4
Work in progress	**5.8**	4.1
Finished goods and goods for resale	**144.6**	118.9
Inventories	**238.8**	208.4

* The 31 Dec 2007 comparatives have been restated for IFRS 3 fair value adjustments on the acquisition of RHM plc.

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

19. Trade and other receivables

	2008 £m	2007 (Restated)* £m
Trade receivables	**287.4**	279.1
Trade receivables impaired	**(6.0)**	(3.8)
Net trade receivables	**281.4**	275.3
Prepayments	**19.6**	28.9
Interest receivable	**0.6**	3.6
Other tax and social security receivable	**20.0**	13.3
Other receivables	**15.4**	7.8
Trade and other receivables	**337.0**	328.9

* The 31 Dec 2007 comparatives have been restated for IFRS 3 fair value adjustments on the acquisition of RHM plc.

The borrowings of the Group are secured against all the assets of the Group including trade and other receivables.

20. Trade and other payables

	2008 £m	2007 £m
Trade payables	**431.6**	**453.6**
Other tax and social security payable	**11.4**	**13.2**
Other payables	**56.6**	**41.1**
Accruals	**40.2**	**30.6**
Trade and other payables	**539.8**	**538.5**

21. Bank and other borrowings

	2008 £m	2007 £m
Due within one year:		
Secured Senior Credit Facility – Term A2 (note a)	**150.6**	100.0
Debt issuance costs	**(0.8)**	(0.9)
	149.8	99.1
Bank overdrafts	**6.9**	0.1
Total bank borrowings due within one year	**156.7**	99.2
Finance lease obligations (note 22)	**0.6**	1.0
Other unsecured loans (note c)	**17.5**	12.5
Total borrowings due within one year	**174.8**	112.7
Due after more than one year:		
Secured Senior Credit facility - Working Capital (note b)	**10.0**	**-**
Debt issuance costs	**-**	**-**
	10.0	-
Secured Senior Credit Facility – Revolving (note a)	**450.0**	200.5
Debt issuance costs	**(3.4)**	(4.5)
	446.6	196.0
Secured Senior Credit Facility – Term A1 (note a)	**289.9**	289.8
Debt issuance costs	**(1.5)**	(2.1)
	288.4	287.7
Secured Senior Credit Facility – Term A2 (note a)	**891.1**	1,050.0
Debt issuance costs	**(4.7)**	(7.3)
	886.4	1,042.7
Finance lease obligations (note 22)	**1.1**	3.3
Other unsecured loans	**0.1**	-
Total other	**1.2**	3.3
Total borrowings due after one year	**1,632.6**	1,529.7
Total bank and other borrowings	**1,807.4**	1,642.4

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 and the legal rights to such offset in accordance with IAS 32, "Financial Instruments: Disclosure and Presentation".

a) Senior Term Credit Facility and Revolving Credit Facility Arrangement - 2007

On 28 February 2008, the Group entered into a supplemental agreement with its banks amending certain terms of its Senior Term Credit Facility and Revolving Credit Facility Arrangement of the 16 March 2007.

This original facility was arranged by Barclays Capital, Bayerische Landesbank, BNP Paribas, Rabobank International, Lloyds TSB Bank plc and The Royal Bank of Scotland plc as lead arrangers and underwriters and Lloyds TSB Bank plc as facility agent and security trustee.

The Senior Term Credit Facility now comprises £1,332m of Term facilities. The Revolving Credit Facility is a multi-currency revolving credit facility of up to £500m (or its equivalent in other currencies). The final maturity date of the above arrangements is 16 March 2012.

b) Secured Senior Working Capital Credit Facility

On 28 February 2008, the Group converted its £100m Acquisition line into a Working Capital line and agreed an additional £125m of short-term facilities with three of its leading banks. All borrowings against the £125m of short-term facilities were fully repaid on 23 December 2008 and the facility terminated.

c) Other unsecured loans falling due within one year includes amounts owed in respect of cash receipts from debtors previously sold under the debtors securitisation programme.

On 18 November 2008 the Group announced an agreement with its lending banks to defer its 31 December 2008 covenant test to 31 March 2009.

22. Financial instruments

The Group is subject to the risks arising from adverse movements in interest rates, commodity prices, and foreign currency. The Group uses a variety of derivative financial instruments to manage these risks. The managing of these risks, along with the day-to-day managing of treasury activities is performed by the Group Treasury function. The policy framework governing the managing of these risks is defined by the Treasury Committee. 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. These contracts are part of the Group's normal purchasing activities.

a) Market Risk

i) Foreign exchange risk

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

The Group generates some of its profits in non-sterling currencies and has assets in non-sterling jurisdictions, principally the Euro. The translation exposure resulting from these Euro denominated profits and overseas net assets is hedged. This matter is reviewed regularly by the Treasury Committee.

The principal foreign currency affecting the translation of subsidiary undertakings within the Group financial statements is the Euro. The rates applicable are as follows:

Principal rate of exchange EUR/£	**Year ended 31 December 2008**	**Year ended 31 December 2007**
Year end	1.0310	1.3620
Average	1.2541	1.4600

The carrying amounts of the Group's financial assets are denominated in the following currencies:

	Cash at bank and in hand		Trade and other receivables	
	2008	**2007**	**2008**	**2007**
	£m	**£m**	**£m**	**£m**
Currency				
Sterling	22.4	12.7	267.2	243.7
Euro	13.8	8.9	27.0	43.0
US dollar	3.7	1.6	1.7	-
Other	0.7	0.7	1.5	-
	40.6	23.9	297.4	286.7

The table below shows the Group's currency exposures as at 31 December 2008 and 2007 that gave rise to net currency gains and losses recognised in the consolidated income statement. Such exposures comprise monetary assets and liabilities that are not denominated in the functional currency of the subsidiaries involved.

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

	Functional currency of subsidiaries		
	Sterling	**Euro**	**Total**
	£m	**£m**	**£m**
At 31 December 2008			
Net foreign currency monetary assets/(liabilities)			
Sterling	-	2.6	2.6
Euro	7.0	-	7.0
US dollar	5.3	-	5.3
Other currencies	0.5	-	0.5
Total	12.8	2.6	15.4
At 31 December 2007			
Net foreign currency monetary assets/(liabilities)			
Sterling	-	5.7	5.7
Euro	(0.4)	-	(0.4)
US dollar	2.7	-	2.7
Other currencies	0.5	-	0.5
Total	2.8	5.7	8.5

If the Euro were to weaken/strengthen against sterling by 10% with all other variables held constant, post tax profit would decrease by £3.0m (2007: £1.7m) or increase by £2.5m (2007: £1.4m).

If the Dollar were to weaken/strengthen against sterling by 10% with all other variables held constant, post tax profit would decrease by £5.0m (2007: £3.3m) or increase by £4.1m (2007: £2.7m).

ii) Price risk

The Group purchases a variety of commodities which can experience significant price volatility, which include, inter-alia, wheat, tinplate and energy. The price risk on these commodities is managed by the Group through the Treasury 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) Cash flow and interest rate risk

The Group borrows principally in pounds sterling at floating rates of interest and seeks to mitigate the effect of adverse movements in interest rates by entering into derivative financial instruments that reduce the level of exposure to floating rates. The Group actively monitors its interest rate exposure, since the high level of debt makes its profitability sensitive to movements in interest rates. The target of fixed/capped debt is defined in the Group Treasury policy and procedures. The Group will generally maintain a proportion of debt that is fixed or capped of no less than 30% and no more than 75%, however, this can be amended subject to agreement by the Treasury Committee. The Group currently has a higher level of its debt economically hedged. Hedge accounting is not sought for these transactions.

In addition the Group has entered into a debt securitisation programme which has the effect of reducing interest cost by a further 120 basis points on the amount advanced when compared to the borrowing costs of the Group's term facility.

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

	Floating rate £m	Other £m	Total £m
At 31 December 2008	141.6	1,650.0	1,791.6
At 31 December 2007	72.8	1,567.5	1,640.3

Included within "Other" are interest rate swaps with varying terms and conditions. Further details on the swaps used by the Group are provided below.

In addition, the Group's provisions of £51.7m as at 31 December 2008 (2007: £75.0m) for restructuring and other liabilities were considered to be floating rate financial liabilities. These cash flows are discounted where the effect is material.

Fixed rate financial liabilities

The weighted average interest rates for fixed rate liabilities are the interest rates after the effects of hedging and are as follows:

	Weighted average interest rate %
Currency Sterling	
At 31 December 2008	7.1
At 31 December 2007	5.8

The floating rates applicable to interest rate swaps are reset quarterly based on the prevailing market rate at the reset date.

The following table reflects the earliest likely contractual maturity date of the interest rate derivative contracts taking into account zero cost call features, where market rates at the balance sheet date indicate they will be triggered by the banks, as well as mutual break clauses under which either party can be required to settle the fair value of the contract for cash. Without taking into account these features, a number of these contracts would continue for up to 30 years.

	Within 1 year £m	1 and 2 years £m	2 and 3 years £m	3 and 4 years £m	4 and 5 years £m	Over 5 years £m	Total £m
2008							
Fixed rate	340.0	125.0	-	-	-	-	465.0
Cap and Floor Structure	-	-	-	350.0	-	-	350.0
Long dated callable Swaps	-	100.0	50.0	275.0	150.0	25.0	600.0
Other callable Swaps	-	-	-	-	235.0	-	235.0
	340.0	225.0	50.0	625.0	385.0	25.0	1,650.0
2007							
Fixed rate	312.5	230.0	125.0	-	-	-	667.5
Cap and Floor Structure	-	-	-	-	700.0	-	700.0
Long dated callable Swaps	-	-	200.0	-	-	-	200.0
Other callable Swaps	-	-	-	-	-	-	-
	312.5	230.0	325.0	-	700.0	-	1,567.5

The cap and floor structures have a nominal value of £350m (2007: £700m) with caps set at 6.00% to 6.25% and floor rates between 4.31% and 4.55%. In addition, when LIBOR rates are beneath the floor strike price, a digital option is triggered which results in the Group paying interest at 5.75% on all of these instruments.

Long dated swaps of £600m (2007: £200m) have callable options whereby the counterparty bank can cancel the swap at nil cost at certain specified dates. Of these contracts £400m (2007: £200m) have a stated maturity date of 2037 and the remainder have maturity dates of 2023 (£150m, 2007: £nil) and 2013 (£50m, 2007: £nil). These swaps have an average fixed rate of 4.84% (ranging between 4.52% and 4.99%) with two contracts (nominal value of £200m) having an initial discounted interest rate of circa 1.54% until 31 December 2009. Of the contracts in place, £150m are currently callable with a further £100m becoming callable from 31 December 2009, and the remainder being callable from September 2010 onwards.

The other callable swaps contain features whereby a fall in LIBOR below 3.5% and 3.25% causes the rate of interest paid by the Group to increase. Above these rates the Group pay a fixed rate of interest of an average 4.54%. These contracts are also callable at nil cost. Callable features are currently active on contracts with a nominal value of £60m with the remainder active from 31 December 2009. These instruments give rise to the increase in interest payable shown in the sensitivity analysis below.

At 31 December 2008, for every 50 basis points reduction in rates below the last floating reset rate of 2.77% (based on 3 month LIBOR), with all other variables held constant, annualised net cash interest would increase by £3.6m.

At 31 December 2008, if interest rates were 200 basis points higher than the last floating reset rate of 2.77% (based on 3 month LIBOR), with all other variables held constant, annualised net interest would decrease by £5.1m. This analysis assumes that currently applicable callable features in two contracts with nominals of £110m are not exercised.

At 31 December 2007, if interest rates were 10 basis points higher/lower, with all other variables held constant, post tax profit, excluding derivative fair value movements, would have decreased/increased by £0.6m.

At 31 December 2007, if interest rates were 50 basis points higher/lower, with all other variables held constant, post tax profit, excluding derivative fair value movements, would have decreased by £2.8m or increased by £1.5m.

Since 31 December 2008, the Group has negotiated an amendment to the break clauses in two of its interest rate swaps. Refer to note 34 for further details.

b) Credit risk

The Group's principal financial assets are cash and cash deposits, trade and other receivables and investments.

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 2008, trade and other receivables of £42.3m (2007: £32.9m) 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	Past due					Total
		1-30 days	31-60 days	61-90 days	91-120 days	120+ days	
	£m	£m	£m	£m	£m	£m	£m
Trade and other receivables							
2008	255.1	32.8	4.1	4.3	1.0	0.1	297.4
2007	253.8	11.3	7.3	3.7	10.4	0.2	286.7

At 31 December 2008, trade and other receivables of £6.0m (2007: £3.8m) were determined to be specifically impaired and provided for. The amount of the provision reflects 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:

	2008	2007 (Restated)*
	£m	£m
At 1 January	3.8	1.3
Provision for receivables - on acquisition	-	5.5
Unused provision reversed	-	(0.3)
Receivables written off during the year as uncollectable	(5.7)	(3.3)
Provision for receivables impairment disposed	-	(0.4)
Provision for receivables impairment raised	7.9	1.0
At 31 December	6.0	3.8

* The 31 Dec 2007 comparatives have been restated for IFRS 3 fair value adjustments on the acquisition of RHM plc.

The Group has benefitted from a £100m securitisation programme to allow it to transfer trade receivable balances to one of the Group's primary banks. This programme also allows the Group to de-link its own credit rating from that of the underlying assets and achieve a lower cost of funding.

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 expected undiscounted cash flows.

	Within 1 year £m	1 and 2 years £m	2 and 3 years £m	3 and 4 years £m	4 and 5 years £m	Over 5 years £m	Total £m
At 31 December 2008							
Bank Term Loan	150.6	178.3	-	1,002.7	-	-	1,331.6
Bank Revolver Facility (Drawn down)	-	-	-	450.0	-	-	450.0
Working capital facility	-	10.0	-	-	-	-	10.0
Bank overdraft	6.9	-	-	-	-	-	6.9
Finance leases	0.6	0.4	0.2	0.2	0.1	0.5	2.0
At 31 December 2007							
Bank Term Loan	100.0	150.0	180.0	-	1,009.8	-	1,439.8
Bank Revolver Facility (Drawn down)	-	-	-	-	200.5	-	200.5
Bank overdraft	0.1	-	-	-	-	-	0.1
Finance leases	1.0	1.1	0.9	0.6	0.6	0.9	5.1

The Bank Term Loan and Bank Revolver Facility are re-priced quarterly, loan notes every six months and other liabilities are not re-priced before the maturity date.

The Group has £90.0m (2007: £100.0m) of facilities available and not drawn as at 31 December 2008 expiring between 1 and 2 years, and £50.4m (2007: £400.0m), expiring between 3 and 4 years.

The un-drawn facilities form part of the Group's overall working capital lines, the drawn down amounts of which bear interest at floating rates, subject to any hedge overlay, and are committed for £90m until March 2010, and the remaining £50.4m until March 2012.

The borrowings are secured by a floating charge over all the assets of the Group.

Subsequent to the year end, the Group has put in place a £60m short term liquidity facility with three of its lead banks. This facility will mature on 31 March 2009. The Group has also agreed amendments to its Term and Revolving Credit Facilities with its lending banks. Refer to note 34 for further detail.

The following table analyses the expected undiscounted cash flows of interest on the floating rate debt to maturity (based on the last fixed rate refix of 2.77% (2007: 5.99%)).

	Within 1 year £m	1 and 2 years £m	2 and 3 years £m	3 and 4 years £m	4 and 5 years £m	Over 5 years £m	Total £m
Interest							
2008	**49.6**	**45.5**	**40.5**	**8.4**	-	-	**144.0**
2007	98.3	92.3	83.3	72.5	15.1	-	361.5

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. Where it relates to options the mark to market value is used.

	Within 1 year	1 and 2 years	2 and 3 years	3 and 4 years	4 and 5 years	Over 5 years	Total
	£m	£m	£m	£m	£m	£m	£m
At 31 December 2008							
Forward foreign exchange contracts:							
Outflow	(78.9)	(16.7)	-	-	-	-	(95.6)
Inflow	64.3	13.7	-	-	-	-	78.0
Commodities:							
Outflow	(24.2)	(0.4)	-	-	-	-	(24.6)
Outflow on options	(0.6)	-	-	-	-	-	(0.6)
Inflow	14.9	0.2	-	-	-	-	15.1
Interest rate swaps:							
Outflow	(56.4)	(174.4)	(41.0)	(353.5)	(88.2)	(27.0)	(740.5)
Outflow on options	-	-	-	(32.8)	-	-	(32.8)
Inflow	34.4	96.6	20.4	204.1	45.8	16.5	417.8
	(46.5)	(81.0)	(20.6)	(182.2)	(42.4)	(10.5)	(383.2)
At 31 December 2007							
Forward foreign exchange contracts:							
Outflow	(68.9)	(8.8)	-	-	-	-	(77.7)
Inflow	68.1	8.8	-	-	-	-	76.9
Interest rate swaps:							
Outflow	(26.3)	(23.3)	(11.5)	(6.8)	-	-	(67.9)
Outflow on options	-	-	-	-	(13.3)	-	(13.3)
Inflow	33.9	30.4	15.0	9.0	-	-	88.3
	6.8	7.1	3.5	2.2	(13.3)	-	6.3

The above table incorporates the contractual cash flows of the interest rate derivatives with floating rates of interest calculated based on LIBOR of 2.77% (2007: 5.99%) at the balance sheet date. This table includes the effect of mutual break clauses, whereby either party can require the other to settle the fair value of the contract at that date for cash. To date, the Group has not been required to settle for cash under such a clause and does not anticipate a future requirement to do so.

Furthermore, for the purposes of this table, callable features have been reflected where the yield curve indicates that a counterparty is likely to call or cancel a contract at nil cost to themselves. We note that no contracts (2007: 3 contracts) are expected to be called at nil prior to their contractual maturity based on the current yield curve.

d) Fair Value

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

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

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 the table is a summary of methods and assumptions used for each category of financial instruments.

	2008 £m	2007 (Restated)* £m
Loans and receivables:		
Cash and cash equivalents	40.6	23.9
Trade and other receivables	297.4	286.7
Financial assets at fair value through profit or loss:		
Derivative financial instruments		
– Forward foreign currency exchange contracts / currency options	21.2	2.1
– Interest rate swaps	-	6.4
Financial liabilities at fair value through profit or loss:		
Derivative financial instruments		
– Forward foreign currency exchange contracts / currency options	(1.0)	(0.7)
– Commodity derivatives	(11.9)	-
– Interest rate swaps	(237.4)	(24.9)
Financial liabilities at amortised cost:		
Trade and other payables	(528.4)	(525.3)
Bank Term Loan	(1,334.6)	(1,429.5)
Bank Revolver Facility (Drawn down)	(446.6)	(196.0)
Bank overdraft	(6.9)	(0.1)
Finance leases	(1.7)	(4.3)
Other	(17.6)	(12.5)
Interest payable	(22.8)	(12.9)

* The 31 Dec 2007 comparatives have been restated for IFRS 3 fair value adjustments on the acquisition of RHM plc.

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 £18.8m has been debited to the income statement in the year (2007: £4.7m 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 £11.9m (2007: nil) has been credited to the income statement. Interest rate swaps are marked to market using prevailing market prices. Interest rate swaps are also not designated for hedge accounting. As a result the movement in the fair value of £218.9m has been charged to the income statement in the year (2007: £31.0m 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 in current market conditions does not approximate the carrying value above. The fair value of the debt is likely to be lower than the carrying amount however since 31 December 2008 the Group has restructured its debt (refer to note 34 for further details).

Certain Euro denominated short and long term borrowings are designated as hedges against Euro denominated assets within the Group. In total £72.4m of Euro borrowings (2007: £70.2m) are designated as hedges against Euro assets.

Finance Lease Liabilities

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

Trade and Other Receivables/Payables

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

e) Obligations under finance leases

	Minimum lease payments		Present value of minimum lease payments	
	2008 £m	**2007 £m**	**2008 £m**	**2007 £m**
Not later than one year	0.6	1.0	0.6	1.0
Later than one year but not later than five years	0.9	3.2	0.7	2.7
Later than five years	0.5	0.9	0.4	0.6
	2.0	5.1	1.7	4.3
Less: future finance charges	(0.3)	(0.8)	N/a	N/a
Present value of lease obligations	1.7	4.3	1.7	4.3
Less: Amount due for settlement within 12 months			(0.6)	(1.0)
Amounts due for settlement after 12 months			1.1	3.3

It is the Group's policy to lease certain items of plant and equipment under finance leases. The average lease term is 2 years, the longest being 9 years.

For the year ended 31 December 2008, the average effective borrowing rate was 7.6% (2007: 8.3%).

Interest rates are fixed at the contract date, and thus expose the Group to fair value interest rate risk. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

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

f) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may vary the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt.

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.

On 18 November 2008 the Group announced an agreement with its lending banks to defer its 31 December 2008 covenant test to 31 March 2009, pending a review of its capital structure.

The gearing ratios at 31 December 2008 and 31 December 2007 were as follows:

	2008 £m	2007 £m
Total borrowings	1,807.4	1,642.4
Less cash and cash equivalents	(40.6)	(23.9)
Net debt	1,766.8	1,618.5
Total equity	991.8	1,460.3
Total capital	2,758.6	3,078.8
Gearing ratio	64%	53%

23. 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 28% except for an asset of £1.9m (2007: £0.2m) relating to Irish retirement benefit obligations where the local rate of 12.5% has been used.

	2008 £m	2007 £m
At 1 January	207.6	32.1
Acquisition of subsidiaries/businesses (note 28)	-	165.6
Credited to the income statement	(25.0)	(29.6)
Debited to equity	19.7	40.6
Transferred to held for sale	(9.2)	-
Disposal of subsidiaries/businesses	-	(1.1)
At 31 December	**193.1**	**207.6**

Due to the unpredictability of future profit streams the Group has not recognised deferred tax assets of £48.1m (2007: £48.1m) relating to capital losses, £7.1m (2007: £10.1m) relating to UK corporation tax losses, £1.3m (2007: £1.3m) Irish corporate tax losses and £34.8m (2007: £34.8m) relating to ACT. These losses can generally be carried forward indefinitely under current legislation.

Deferred tax liabilities	**Accelerated tax depreciation** **£m**	**Intangibles** **£m**	**Total** **£m**
At 1 January 2007	29.5	32.3	61.8
Prior years restatement of opening balances	(2.0)	(2.2)	(4.2)
Acquisition of subsidiaries/businesses	9.1	271.6	280.7
Current year restatement of acquired balances	(0.8)	(18.0)	(18.8)
Current year charge/(credit)	10.6	(12.7)	(2.1)
Prior years (credit)/charge	(0.5)	2.0	1.5
Disposal of subsidiaries/businesses	(1.1)	-	(1.1)
At 31 December 2007	**44.8**	**273.0**	**317.8**
Current year charge/(credit)	36.8	(11.4)	25.4
Prior years credit	(6.8)	-	(6.8)
Transferred to held for sale	(2.0)	(7.2)	(9.2)
At 31 December 2008	**72.8**	**254.4**	**327.2**

Deferred tax assets	Retirement benefit obligation £m	Share based payments £m	Financial Instruments £m	Losses £m	Other £m	Total £m
At 1 January 2007	(25.3)	(2.5)	-	-	(1.9)	(29.7)
Prior years restatement of opening balances	0.3	0.2	-	-	-	0.5
Acquisition of subsidiaries/businesses	(72.3)	-	1.6	(28.6)	(15.8)	(115.1)
Current year restatement of acquired balances	4.6	-	(0.1)	1.9	0.8	7.2
Current year charge/(credit)	17.9	(1.1)	(5.7)	(25.4)	1.1	(13.2)
Prior year credit	-	-	-	-	(0.5)	(0.5)
Debited to equity	39.5	1.1	-	-	-	40.6
At 31 December 2007	**(35.3)**	**(2.3)**	**(4.2)**	**(52.1)**	**(16.3)**	**(110.2)**
Current year charge/(credit)	14.9	1.7	(59.1)	(17.2)	10.2	(49.5)
Prior year charge/(credit)	-	-	-	6.8	(0.9)	5.9
Debited to equity	19.2	0.5	-	-	-	19.7
At 31 December 2008	**(1.2)**	**(0.1)**	**(63.3)**	**(62.5)**	**(7.0)**	**(134.1)**

Net deferred tax liability	£m
At 31 December 2008	**193.1**
At 31 December 2007	207.6

Where there is a legal right of offset and an intention to settle as such, deferred assets and liabilities may be presented on a net basis. This is the case for most of the Group's deferred tax balances and therefore they have been offset in the tables above. Substantial elements of the Group's deferred tax assets and liabilities, primarily relating to the defined benefit pension obligation, are greater than one year in nature.

Deferred tax assets in respect of losses are only recognised to the extent that it is anticipated they will be utilised in the foreseeable future.

Included within the current year charge is an adjustment to deferred tax relating to accelerated tax depreciation is affected by an adjustment of £25.4m as a result of the phasing out of Industrial Buildings Allowances between 2008 and 2011, enacted in the 2008 Finance Act.

24. Provisions for liabilities and charges

	Restructuring £m	Other £m	Total £m
At 1 January 2007	6.7	1.5	8.2
Acquired in the year	17.7	16.5	34.2
Utilised during the year	(16.4)	(2.9)	(19.3)
Additional charge in year	50.2	0.9	51.1
Unwind of provision	0.4	0.4	0.8
At 31 December 2007 (Restated)*	58.6	16.4	75.0
Utilised during the year	(54.8)	(3.1)	(57.9)
Additional charge in the year	33.8	6.4	40.2
Transferred to held for sale	-	(3.0)	(3.0)
Unwind of provision	0.6	0.3	0.9
Released during the year	-	(3.5)	(3.5)
At 31 December 2008	**38.2**	**13.5**	**51.7**

			2008
Analysis of total provisions:			**£m**
Current	18.4	5.2	23.6
Non-current	19.8	8.3	28.1
	38.2	**13.5**	**51.7**

			2007 (Restated)*
Analysis of total provisions:			**£m**
Current	50.5	6.1	56.6
Non-current	8.1	10.3	18.4
	58.6	16.4	75.0

* The 31 Dec 2007 comparatives have been restated for IFRS 3 fair value adjustments on the acquisition of RHM plc.

31 December 2008

At 31 December 2008, restructuring, redundancy and onerous lease provisions have been raised in respect of the integration and restructuring of RHM’s manufacturing facilities into the Group’s existing Premier operations, the move of existing administrative functions to a group-wide shared service centre and closure of our mill in Rotherham. Other than onerous leases which range from 4 to 24 years, it is anticipated that the majority of these provisions will be utilised during 2009.

Other provisions primarily relate to dilapidations against leasehold properties. The costs relating to these 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 4.1% and 5.6%. The unwinding of the discount is charged to the income statement under interest payable.

Other provisions primarily related to dilapidations against leasehold properties.

31 December 2007

At 31 December 2007, restructuring provisions were raised in respect of the integration and restructuring of RHM's administrative functions and manufacturing facilities, integration of the Irish operations and the integration of Campbell's UK into the Group's existing Grocery operations.

Other provisions primarily related to dilapidations against leasehold properties.

25. Retirement benefit schemes

Defined Benefit Schemes

The Group operates a number of defined benefit schemes under which employees are entitled to retirement benefits which are based on final salary on retirement. These are as follows:

a) Premier schemes

The Premier Foods Pension Scheme ("PFPS") was the principal funded defined benefit scheme within the old Premier Group which also operated a smaller funded defined benefit scheme, the Premier Ambient Products Pension Scheme ("PAPPS") for employees acquired with the Ambrosia business in 2001. As a result of the acquisition of Campbell's in 2006, the Group inherited the Premier Grocery Products Pension Scheme ("PGPPS") covering the employees of Campbell's UK business, and the Premier Grocery Products Ireland Pension Scheme ("PGPIPS") covering the employees of Campbell's Ireland. The Group also acquired two further schemes with the acquisition of Chivers Ireland in January 2007, the Chivers 1987 Pension Scheme, and the Chivers 1987 Supplementary Pension Scheme. These schemes are presented together below as the Premier schemes.

b) RHM schemes

As a result of the acquisition of RHM plc, the Group also acquired the RHM Pension Scheme, the Premier Foods Ireland Pension Scheme (1994), the Premier Foods Ireland Van Sales Scheme and the French Termination Indemnity Arrangements. These schemes are presented together below as the RHM schemes, with the exception of the French Termination Indemnity Arrangements which have been included in the speciality bakery businesses disposal group following their classification as discontinued operations.

The exchange rates used to translate the overseas Euro based schemes are £1.00 = 1.2541 Euros for the average rate during the year, and £1.00 = 1.0310 Euros for the closing position at 31 December 2008.

Under all the schemes detailed above, the employees are entitled to retirement benefits which vary as a percentage of final salary on retirement.

The assets of all schemes are held by the trustees of the respective schemes and are independent of the Group's finances. The schemes invest through investment managers appointed by the trustees in UK and European equities and in investment products made up of a broader range of assets. The plan assets do not include any of the Group's own financial instruments, nor any property occupied by, or other assets used by, the Group.

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

	Premier schemes	RHM schemes
	2008	**2008**
Discount rate	6.3%	6.3%
Inflation	2.8%	2.8%
Expected salary increases	3.8%	2.8%
Future pension increases	2.0%	2.0%
	2007	**2007**
Discount rate	5.9%	5.9%
Inflation	3.3%	3.3%
Expected salary increases	4.3%	3.3%
Future pension increases	2.4%	2.4%

For the smaller overseas schemes the discount rate ranges from 4.0% to 5.6%, expected salary increases from 0.0% to 4.5%, and future pension increases from 0.0% to 3.0%. The Group has adopted more conservative mortality rates, the "Medium Cohort" assumption, for all schemes this year. The mortality assumptions are based on standard mortality tables which allow for future mortality improvements. The assumptions are as follows:

Life expectancy	**Premier schemes**	**RHM schemes**	**Total**
Male pensioner, currently aged 65	85.3	84.8	84.9
Female pensioner, currently aged 65	87.9	87.1	87.3
Male non-pensioner, currently aged 45	86.6	86.1	86.2
Female non-pensioner, currently aged 45	89.0	88.3	88.4

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

Pension scheme assets	**Premier schemes**	**RHM schemes**	**Total**
Assets at 31 December 2008			
Equities	148.5	387.5	**536.0**
Government Bonds	12.6	1.4	**14.0**
Corporate Bonds	9.4	277.9	**287.3**
Property	1.3	191.1	**192.4**
Absolute / Target Return Products	180.4	222.9	**403.3**
Interest rate and inflation Swaps	26.5	250.0	**276.5**
Cash / Other	36.7	782.1	**818.8**
Fair value of scheme assets	415.4	2,112.9	**2,528.3**
Assets at 31 December 2007			
Equities	222.8	605.7	**828.5**
Government Bonds	30.5	85.1	**115.6**
Corporate Bonds	8.7	289.3	**298.0**
Property	1.6	96.6	**98.2**
Absolute / Target Return Products	232.6	176.1	**408.7**
Interest rate and inflation Swaps	-	9.6	**9.6**
Cash / Other	10.0	816.8	**826.8**
Fair value of scheme assets	506.2	2,079.2	**2,585.4**

The schemes invest in interest rate and inflation swaps to protect from fluctuations in interest and inflation.

The expected rates of return on assets were:

	Premier schemes	**RHM schemes**	**Total**
2008 (for 2009 return)			
Expected rate (%)	7.4	6.3	**6.5**
Market value (£m)	415.4	2,112.9	**2,528.3**
2007 (for 2008 return)			
Expected rate (%)	8.0	6.9	**7.2**
Market value (£m)	506.2	2,079.2	**2,585.4**
2006 (for 2007 return)			
Expected rate (%)	7.5	-	**7.5**
Market value (£m)	465.7	-	**465.7**

The expected return on pension scheme assets is based on the long-term investment strategy set out in the Schemes' Statement of Investment Principles at the start of the year.

The actual rate of return on plan assets was a loss of 18.2% (2007: 4.6% gain) for Premier schemes, and a 4.3% gain for RHM schemes (2007: 5.8% gain).

The pension schemes hold a charge over the assets of the Group.

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

	Premier schemes £m	RHM schemes £m	Total £m
2008			
Present value of funded obligations	(587.7)	(1,952.1)	**(2,539.8)**
Fair value of plan assets	415.4	2,112.9	**2,528.3**
(Deficit)/surplus in scheme	(172.3)	160.8	**(11.5)**
2007			
Present value of funded obligations	(581.7)	(2,126.9)	**(2,708.6)**
Fair value of plan assets	506.2	2,079.2	**2,585.4**
Deficit in scheme	(75.5)	(47.7)	**(123.2)**
2006			
Present value of funded obligations	(550.4)	-	**(550.4)**
Fair value of plan assets	465.7	-	**465.7**
Deficit in scheme	(84.7)	-	**(84.7)**
2005			
Present value of funded obligations	(418.9)	-	**(418.9)**
Fair value of plan assets	334.5	-	**334.5**
Deficit in scheme	(84.4)	-	**(84.4)**
2004			
Present value of funded obligations	(368.3)	-	**(368.3)**
Fair value of plan assets	303.2	-	**303.2**
Deficit in scheme	(65.1)	-	**(65.1)**

All of the schemes recognise a deficit with the exception of the RHM scheme which is in surplus under IAS 19. This surplus of £163.7m has been shown separately on the face of the balance sheet within Non-current assets.

The increase in the discount rate during the year has been the main driver in the reduction in the fair value of funded obligations.

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

	Premier schemes £m	RHM schemes £m	Total £m
2008			
Opening defined benefit obligation	(581.7)	(2,126.9)	**(2,708.6)**
Current service cost	(9.0)	(8.1)	**(17.1)**
Past service cost	-	(2.8)	**(2.8)**
Interest cost	(33.9)	(122.9)	**(156.8)**
Actuarial gain	23.3	214.8	**238.1**
Other costs/exchange differences	(10.2)	(4.1)	**(14.3)**
Curtailments	-	(0.2)	**(0.2)**
Contributions by plan participants	(4.3)	(13.1)	**(17.4)**
Benefits paid	28.1	111.2	**139.3**
Closing defined benefit obligation	(587.7)	(1,952.1)	**(2,539.8)**
2007			
Opening defined benefit obligation	(550.4)	-	**(550.4)**
Acquisition of subsidiary undertaking	(15.9)	(2,231.8)	**(2,247.7)**
Current service cost	(10.2)	(7.0)	**(17.2)**
Past service cost	-	(2.1)	**(2.1)**
Interest cost	(29.1)	(89.6)	**(118.7)**
Actuarial gain	2.6	135.8	**138.4**
Other costs/exchange differences	(3.1)	(1.0)	**(4.1)**
Curtailments	0.6	(4.6)	**(4.0)**
Contributions by plan participants	(3.7)	(10.8)	**(14.5)**
Benefits paid	27.5	84.2	**111.7**
Closing defined benefit obligation	(581.7)	(2,126.9)	**(2,708.6)**

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

	Premier schemes £m	RHM schemes £m	Total £m
2008			
Opening fair value of plan assets	506.2	2,079.2	**2,585.4**
Expected return	39.7	140.4	**180.1**
Administrative and life insurance costs	(2.2)	(5.5)	**(7.7)**
Actuarial losses	(131.6)	(50.3)	**(181.9)**
Contributions by employer	18.0	43.1	**61.1**
Contributions by plan participants	4.3	13.1	**17.4**
Other income/exchange differences	9.1	4.1	**13.2**
Benefits paid	(28.1)	(111.2)	**(139.3)**
Closing fair value of plan assets	415.4	2,112.9	**2,528.3**
2007			
Opening fair value of plan assets	465.7	-	**465.7**
Acquisition of subsidiary undertaking	13.2	1,993.3	**2,006.5**
Expected return	36.3	104.6	**140.9**
Administrative and life insurance costs	(1.9)	(4.2)	**(6.1)**
Actuarial (loss)/gains	(14.8)	11.7	**(3.1)**
Contributions by employer	28.8	46.3	**75.1**
Contributions by plan participants	3.7	10.8	**14.5**
Other income/exchange differences	2.7	0.9	**3.6**
Benefits paid	(27.5)	(84.2)	**(111.7)**
Closing fair value of plan assets	506.2	2,079.2	**2,585.4**

The history of the plans for the current and prior years is as follows:

	Premier schemes £m	RHM schemes £m	Total £m
2008			
Experience adjustments on plan liabilities	23.3	214.8	**238.1**
Experience adjustments on plan assets	(131.6)	(50.3)	**(181.9)**
Net actuarial (loss)/gain for the year	(108.3)	164.5	**56.2**
Cumulative actuarial (loss)/gain	(186.3)	312.0	**125.7**
2007			
Experience adjustments on plan liabilities	2.6	135.8	**138.4**
Experience adjustments on plan assets	(14.8)	11.7	**(3.1)**
Net actuarial (loss)/gain for the period	(12.2)	147.5	**135.3**
Cumulative actuarial (loss)/gain	(78.0)	147.5	**69.5**
2006			
Experience adjustments on plan liabilities	4.4	-	**4.4**
Experience adjustments on plan assets	11.7	-	**11.7**
Net actuarial gain for the year	16.1	-	**16.1**
Cumulative actuarial loss	(65.8)	-	**(65.8)**
2005			
Experience adjustments on plan liabilities	(43.7)	-	**(43.7)**
Experience adjustments on plan assets	17.8	-	**17.8**
Net actuarial loss for the year	(25.9)	-	**(25.9)**
Cumulative actuarial loss	(81.9)	-	(81.9)
2004			
Experience adjustments on plan liabilities	(65.8)	-	**(65.8)**
Experience adjustments on plan assets	9.8	-	**9.8**
Net actuarial loss for the year	(56.0)	-	**(56.0)**
Cumulative actuarial loss	-	-	-

The actual return on plan assets was a £1.8m loss (2007: £137.8m gain), which is £181.9m less (2007: £3.1m less) than the expected return on plan assets of £180.1m (2007: £140.9m) at the start of the relevant periods.

The actuarial gain on liabilities of £238.1m (2007: £138.4m gain) comprises a loss on member experience of £8.6m (2007: £30.6m gain) and an actuarial gain due to changes in assumptions of £246.7m (2007: £107.8m gain).

The net actuarial gains taken to the statement of recognised income and expense were £56.2m (2007: £135.3m gain). These were £37.4m (2007: £95.8m gain) net of taxation (with tax at 28% for UK schemes, and 12.5% for Irish schemes).

The Group expects to contribute approximately £56.2m (2008: £73.0m) to its defined benefit plans in 2009, £23.9m (2008: £22.0m) of regular contributions and £32.3m (2008: £51.0m) of additional contributions to fund the scheme deficits.

The amounts recognised in the income statement are as follows:

	Premier schemes	RHM schemes	Total
	£m	£m	£m
2008			
Current service cost	(9.0)	(8.1)	**(17.1)**
Past service cost	-	(2.8)	**(2.8)**
Administrative and life insurance costs	(2.2)	(5.5)	**(7.7)**
Interest cost	(33.9)	(122.9)	**(156.8)**
Expected return on plan assets	39.7	140.4	**180.1**
Losses on curtailment	-	(0.2)	**(0.2)**
Total expense	(5.4)	0.9	**(4.5)**
2007			
Current service cost	(10.2)	(7.0)	**(17.2)**
Past service cost	-	(2.1)	**(2.1)**
Administrative and life insurance costs	(1.9)	(4.2)	**(6.1)**
Interest cost	(29.1)	(89.6)	**(118.7)**
Expected return on plan assets	36.3	104.6	**140.9**
Gains/(losses) on curtailment	0.6	(4.6)	**(4.0)**
Total expense	(4.3)	(2.9)	**(7.2)**

Defined Contribution Schemes

A number of companies in the Group operate defined contribution schemes, predominantly stakeholder arrangements. In addition a number of schemes providing life assurance benefits only are operated. The total expense recognised in the income statement of £1.1m (2007: £1.2m) represents contributions payable to the plans by the Group at rates specified in the rules of the plans.

Other post retirement benefits

The Group does not provide any other post retirement benefits.

26. Share capital

	2008 £m	2007 £m
Authorised		
1,500,000,000 (2007: 1,500,000,000) ordinary shares of 1 pence each	15.0	15.0
Issued and fully paid		
844,604,805 (2007: 844,600,074) ordinary shares of 1 pence each	8.5	8.5

2008

During the year, 4,731 1 pence ordinary shares were issued to certain employees at a price of between 171 and 186 pence per ordinary share upon the exercise of share options and were fully paid up.

2007

On 15 February 2007, a special resolution was passed to increase the authorised share capital of the Company to £15.0m by the creation of 500m ordinary shares at 1 pence each.

On 16 March 2007, the Group completed the acquisition of 100% of RHM plc for a total consideration of £1,338.0m. The consideration for the acquisition was one new ordinary Premier Foods' share and 83.2 pence in cash for each RHM share held. Premier Foods issued 348,324,199 shares at 296.25 pence for each ordinary share in RHM plc.

During 2007, 577,148 1 pence ordinary shares were issued to certain employees at a price of between 171 and 230 pence per ordinary share upon the exercise of share options and were fully paid up.

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 32.9m ordinary shares of 1 pence each between 2009 and 2014, granted at prices ranging between 1 pence per ordinary share and 196 pence per ordinary share. The number of shares subject to options, the periods in which they were granted and the periods in which they may be exercised are given below. For 2008, a summary of the Company's schemes is as follows:

1. The Company adopted an Executive Share Option Scheme ("ESOS") at the time of admission for executive directors. A portion of the options granted under the ESOS have now vested and are exercisable between 3 and 10 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.

2. A Savings Related Share Option Scheme for employees. The employees involved in the scheme have the right to subscribe for up to 20.8m ordinary shares. The number of shares subject to options, the periods in which they were granted and the periods in which they may be exercised are given below. These options are equity-settled, have a maximum term of 3.5 years and generally vest only if employees remain in employment to the vesting date.

3. A Long-Term Incentive Plan for senior managers. The individuals involved in the scheme have the right to subscribe for up to 5.0m ordinary shares at 1 pence per ordinary share. The number of shares subject to awards, the periods in which they were granted and the periods in which they may be awarded are given below. These awards are equity-settled and have a maximum term of 3 years.

The vesting conditions attached to the Company's Long-Term Incentive Plan arrangements are explained in detail in the directors' remuneration report.

4. A Co-Investment Plan for directors and senior managers. The scheme is structured as a share matching plan and the individuals involved in the scheme are required to commit and retain a significant amount of capital in the form of Premier Foods' shares. The number of shares subject to awards, the periods in which they were granted and the periods in which they may be awarded are given below. These awards are equity-settled and have a maximum term of 3 years.

5. A small number of shadow awards have been made to senior management of the Group. These awards are cash-settled, have a maximum term of 3 years and vest with the employees in accordance with the terms of the Long-Term Incentive Plan noted below. They have an exercise price of 1 pence and remaining contractual life of 1.6 years.

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

		2008		2007	
	Year of expiry	**Options**	**Weighted average exercise price (p)**	**Options**	**Weighted average exercise price (p)**
Outstanding at beginning of year		2,598,043	170	3,036,978	170
Forfeited during the year		(38,683)	170	(438,935)	170
Outstanding at the end of the year	2014	2,559,360	170	2,598,043	170
Exercisable at the end of the year		1,096,869	170	1,113,447	170

The options outstanding at 31 December 2008 had a weighted average exercise price of 170 pence (2007: 170 pence), and a weighted average remaining contractual life of 5.6 years (2007: 6.6 years).

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

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

	2008		2007	
	Options	**Weighted average exercise price (p)**	**Options**	**Weighted average exercise price (p)**
Outstanding at beginning of year	11,373,922	184	2,713,315	184
Scheme rolled over from RHM acquisition	-	-	3,992,613	171
Exercised during the year	(4,731)	172	(100,832)	173
Granted during the year	16,876,711	72	5,655,364	196
Forfeited during the year	(7,462,154)	184	(886,538)	179
Outstanding at the end of the year	20,783,748	93	11,373,922	184
Exercisable at the end of the year	17,495	182	-	-

During the year, 16.9m (2007: 5.7m) options were granted under the Savings Related Share Option Schemes, with a weighted average exercise price at the date of exercise of 72 pence per ordinary share.

The options outstanding at 31 December 2008 had a weighted average exercise price of 93 pence (2007: 184 pence), and a weighted average remaining contractual life of 2.6 years (2007: 2.0 years).

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

	2008		2007	
	Options	**Weighted average exercise price (p)**	**Options**	**Weighted average exercise price (p)**
Outstanding at beginning of year	4,417,661	1	2,253,829	1
Scheme rolled over from RHM acquisition	-	-	2,128,490	1
Granted during the year	2,394,634	1	994,198	1
Forfeited during the year	(1,777,018)	1	(958,856)	1
Outstanding at the end of the year	5,035,277	1	4,417,661	1
Exercisable at the end of the year	-	-	-	-

During the year, 2.4m (2007: 1.0m) of awards were granted under the Long-Term Incentive Plan, with a weighted average share price at the date of exercise of 1 pence. The awards outstanding at 31 December 2008 had a weighted average remaining contractual life of 1.7 years (2007: 1.7 years). Details of executive director participation in the above schemes can be found in the directors' remuneration report.

The weighted average fair value of awards granted during the year was 70 pence per award (2007: 206 pence). This was determined using a closed-form approach as a proxy for a stochastic Monte Carlo valuation model (which takes into account market based performance conditions) except for the Savings Related Share Option Scheme where the Black-Scholes model was used. The significant inputs into the model were:

	2008	**2007**
Weighted average share price (pence)	126	272
Annual risk-free interest rate (%)	4.0	5.5
Expected dividend at grant date (%)	4.5	5.3
Expected option life (years)	3	3
Expected volatility (%)	33	21

The expected dividend is based on the annual average dividend yield for the Group up to the date of the grant (15 April 2008) and matched to the expected life of the awards.

The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices over the last three years.

Details of the share awards of the Premier Foods Co-Investment Plan are as follows:

	2008 Awards	**2007 Awards**
Outstanding at beginning of year	1,272,454	-
Granted during the year	3,530,765	1,272,454
Forfeited during the year	(375,801)	-
Outstanding at the end of the year	4,427,418	1,272,454
Exercisable at the end of the year	-	-

The awards outstanding at 31 December 2008 had a weighted average remaining contractual life of 2.1 years (2007: 2.4 years). The weighted average fair value of awards granted during the year was 66 pence per award (2007: 238 pence). This was determined using a closed-form approach as a proxy for a stochastic Monte Carlo valuation model. The significant inputs into the model were:

	2008	**2007**
Weighted average share price (pence)	118	314
Annual risk-free interest rate (%)	4.0	5.5
Expected dividend (%)	4.5	5.3
Expected option life (years)	3	3
Expected volatility (%)	33	21

The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices over the last three years.

In 2008, the Group recognised an expense of £1.4m net of a £0.8m credit in relation to lower social security obligations on the share awards (2007: £3.9m), related to all equity-settled share based payment transactions.

27. Reserves

	Share premium reserve	Merger reserve	Other reserves	Profit and loss reserve	Minority interest reserve	Total
	£m	£m	£m	£m	£m	£m
At 1 January 2007	760.6	(136.8)	-	(167.8)	0.1	456.1
Loss for the year	-	-	-	(63.3)	-	(63.3)
Dividends paid	-	-	-	(61.1)	-	(61.1)
Shares issued (a)	-	1,029.7	-	-	-	1,029.7
Cost of shares issued (a)	-	(2.2)	-	-	-	(2.2)
Actuarial gain (net of taxation) (b)	-	-	-	95.8	-	95.8
Share based payments (c)	-	-	-	3.9	-	3.9
Purchase of own shares (d)	-	-	-	(3.0)	-	(3.0)
Tax on share options (e)	-	-	-	(1.1)	-	(1.1)
Movement on net investment hedge	-	-	(3.1)	-	-	(3.1)
Exchange differences on translation	-	-	-	0.1	-	0.1
At 31 December 2007	760.6	890.7	(3.1)	(196.5)	0.1	1,451.8
Loss for the year	-	-	-	(443.8)	-	(443.8)
Dividends paid	-	-	-	(54.7)	-	(54.7)
Actuarial gain (net of taxation) (b)	-	-	-	37.4	-	37.4
Share based payments (c)	-	-	-	2.2	-	2.2
Tax on share options (e)	-	-	-	(0.5)	-	(0.5)
Movement on net investment hedge	-	-	(19.9)	-	-	(19.9)
Exchange differences on translation	-	-	-	10.8	-	10.8
At 31 December 2008	760.6	890.7	(23.0)	(645.1)	0.1	983.3

Share premium reserve

The share premium reserve comprises the premium paid over the nominal value of shares for shares issued.

Merger reserve

The merger reserve comprises the non-statutory premium arising on shares issued as consideration for acquisition of subsidiaries where merger relief under section 131 of the Companies Act 1985 applies.

Other reserves

Other reserves comprise the hedging reserve which represents the effective portion of the gains or losses on derivative financial instruments that have been designated as hedges.

Profit and loss reserve

The profit and loss reserve represents the cumulative surplus or deficit and the own shares reserve which represents the cost of shares in the Premier Foods plc purchased in the market and held by the Company on behalf of the Employee Benefit Trust ("EBT") in order to satisfy options and awards under the Company's incentive schemes.

Minority interest reserve

The minority interest reserve represents the reserves attributable to minority interests.

Notes to the reserves table

(a) On 16 March 2007, Premier Foods plc issued 348,324,199 new 1 pence ordinary shares for a premium of 295.25 pence for the acquisition of RHM. Under s.131 of the Companies Act 1985, share premium arising as a result of acquiring more than 90% of the issued share capital of a company is recorded in the merger reserve.

(b) Actuarial gains relating to the Group's retirement benefit schemes are recognised directly within the profit and loss reserve (note 25).

(c) Amounts are in respect of outstanding share option schemes in accordance with IFRS 2: "Share-based payment".

(d) On acquisition of RHM plc the Group inherited two employment benefit trusts. The purpose of these trusts was to distribute ordinary shares in the Company of RHM plc for the benefit of employees from the previous RHM business. On acquisition the shares held by the EBT converted to the shares of the Company of Premier Foods plc.

As at 31 December 2008, the UK Trustee of the EBT held 86,274 ordinary shares in the Company and the overseas Trustee of the EBT held 850,000 ordinary shares in the Company. The value of the Company's shares held by the Trustees of the EBTs at 31 December 2008 was £0.3m based on market value at the year end.

As at 31 December 2008, the Trustee of the Premier Foods plc EBT held 57,509 ordinary shares in the Company.

(e) Amounts are in respect of deferred tax on the intrinsic value of outstanding options above.

28. Acquisitions

Subsequent to the year ended 31 December 2007, the Group has completed the exercise of attributing fair value adjustments to the assets and liabilities acquired with the RHM business. As a result, final fair value adjustments have been made to the previously presented provisional fair values at 31 December 2007 in relation to a decrease in trade receivables of £0.4m, a decrease in property, plant and equipment of £0.5m, an increase in engineering spares inventory of £0.5m, an increase in dilapidation provisions of £0.7m and the associated decrease in deferred tax liabilities of £0.5m. The impact of these final fair value adjustments is an increase in goodwill by £0.6m which was disclosed in our Interim Report 2008. These have been incorporated with effect from the date of acquisition and the comparative balance sheet has been restated to reflect these fair value adjustments.

29. Notes to the cash flow statement

Reconciliation of operating (loss)/profit to cash flows from operating activities

	Year ended 31 Dec 2008 £m	Year ended 31 Dec 2007 (Restated)* £m
Continuing operations		
Operating (loss)/profit	(40.5)	72.0
Depreciation of property, plant and equipment	50.7	44.9
Amortisation of intangible assets	76.7	62.0
Impairment/loss on disposal of property, plant and equipment	10.6	15.9
Impairment/loss on disposal of intangible assets	-	0.6
Impairment of goodwill	194.4	-
Revaluation gains on financial instruments	(6.9)	(4.7)
Share based payments	1.4	3.9
Net cash inflow from operating activities before interest and tax and movements in working capital	286.4	194.6
Increase in inventories	(38.8)	(5.6)
(Increase)/decrease in trade and other receivables	(42.5)	103.4
Increase in trade and other payables and provisions	23.6	138.4
Exchange gain/(loss) on working capital	1.1	(3.1)
Movement in net retirement benefit obligations	(56.6)	(63.9)
Cash generated from continuing operations	173.2	363.8
Discontinued operations	16.2	(3.6)
Cash generated from operating activities	189.4	360.2
Exceptional items cash flow	(121.8)	(105.5)
Cash generated from operations before exceptional items	311.2	465.7

* Comparatives have been restated to reflect the classification of Martine Spécialités S.A.S., Le Pain Croustillant and Sofrapain S.A.S. as discontinued operations.

Additional analysis of cash flows

	Year ended 31 Dec 2008 £m	Year ended 31 Dec 2007 £m
Interest paid	(150.4)	(122.8)
Interest received	45.0	24.8
Financing costs	(20.2)	(18.8)
Return on financing	**(125.6)**	**(116.8)**
Sale of subsidiaries / businesses	**-**	**22.0**

Reconciliation of cash and cash equivalents to net borrowings

	Year ended 31 Dec 2008 £m	Year ended 31 Dec 2007 £m
Net inflow of cash and cash equivalents	9.9	21.3
Debt acquired with RHM	-	(0.5)
Unamortised debt issuance acquired with RHM	-	4.8
Decrease/(increase) in finance leases	2.6	(2.7)
Increase in borrowings	(133.2)	(987.4)
Other non-cash changes	(27.6)	(12.6)
Increase in borrowings net of cash	**(148.3)**	**(977.1)**
Total borrowings net of cash at beginning of year	(1,618.5)	(641.4)
Total net borrowings at end of year	**(1,766.8)**	**(1,618.5)**

Analysis of movement in borrowings

	As at 1 January 2008 £m	Cash flow £m	Other non-cash changes £m	As at 31 December 2008 £m
Bank overdrafts	(0.1)	(6.8)	-	(6.9)
Cash and bank deposits	23.9	16.7	-	40.6
Net cash and cash equivalents	23.8	9.9	-	33.7
Borrowings - term facilities	(1,439.8)	118.2	(20.0)	(1,341.6)
Borrowings - revolving credit facilities	(200.5)	(249.5)	-	(450.0)
Finance leases	(4.3)	1.1	1.5	(1.7)
Other	(12.5)	(5.1)	-	(17.6)
Gross borrowings net of cash	(1,633.3)	(125.4)	(18.5)	(1,777.2)
Debt issuance costs	14.8	3.2	(7.6)	10.4
Total net borrowings	**(1,618.5)**	**(122.2)**	**(26.1)**	**(1,766.8)**

30. Operating lease commitments

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

	2008		2007	
	Property £m	Plant and Equipment £m	Property £m	Plant and equipment £m
Within one year	16.4	13.9	12.2	12.0
Between 2 and 5 years	56.0	33.0	71.8	34.2
After 5 years	115.3	1.5	84.8	-
	187.7	48.4	168.8	46.2

Included in property above are £33.5m (2007: £48.4m) of operating lease commitments for discontinued operations.

The Group sub-lets various properties under non-cancellable lease arrangements.

31. Capital commitments

	2008 £m	2007 £m
Contracts placed for future capital expenditure not provided in the financial statements	22.8	42.6

32. Contingencies

In April 2008 the UK Office of Fair Trading notified the Group of an inquiry into potential co-ordination of retail prices in sectors of the Grocery market. The Group is co-operating with the inquiry which is currently at the information gathering stage.

There were no other material contingent liabilities at 31 December 2008. Other contingencies and guarantees in respect of the Parent Company are described in note 8 of the Parent Company financial statements.

33. Related party transactions

Key management personnel of the Group are considered to be the Executive and Non-Executive Directors, the Operations Board and the Company Secretary.

Details of their remuneration are set out below in aggregate for each of the categories specified in IAS 24 "Related Party Disclosures". Further information about the remuneration of individual directors is provided in the audited part of the directors' remuneration report.

	Year ended 31 Dec 2008 £m	Year ended 31 Dec 2007 £m
Salaries and other short term benefits	4.3	4.4
Post employment benefits	0.4	0.4
Termination benefits	0.7	0.6
Share based payments	0.1	0.8
	5.5	6.2

Apart from the information above and the related party transaction disclosed in the directors' report, there were no other related party transactions.

34. Post balance sheet events

Financing Arrangements

On 12 January 2009, the Group arranged a £60m working capital facility to provide additional working capital headroom to 31 March 2009. As a consequence the total available debt facility during this period is £1,990m.

On 5 March 2009, the Group announced revised financing arrangements including a proposed share issuance and proposed changes to lending agreements to provide greater covenant and liquidity headroom and to extend the maturity of the facility. These revised financing arrangements require the approval of ordinary shareholders at an extraordinary general meeting scheduled for 23 March 2009.

With regards the lending agreements, the Group announced amendments to its Term and Revolving Credit Facilities. These amendments included a rephasing of the facilities to provide additional liquidity and covenant headroom to an extended maturity date in December 2013. The total facility as at 31 March 2009 will be £1,930m and will be amortised by £100m in April 2009. The facility will then be amortised by £50m in December 2009 and then in June and December of each year until December 2013 when the facility matures.

As part of the amendment process the covenant schedule for the Group has been reset. The two covenants which the Group is required to meet are calculated and tested on a 12 month rolling basis at the half year and full year each year. For the next 12 months, those tests are as follows:

	June 2009	**December 2009**
Net Debt/EBITDA	5.00:1	4.75:1
EBITDA/Cash Interest	2.00:1	2.00:1

For the purposes of the covenant calculation net debt is defined as net borrowings and amounts guaranteed under standby letters of credit but excluding any financial indebtedness in relation to arrangements under its debtor securitisation programme and any items relating to its subsidiary Citadel Insurance Company Limited. EBITDA is defined as profit before tax excluding exceptional items, movement on the fair valuation of financial instruments, pension financing credit/charge, expenses relating to employee share incentive schemes and cash interest, which is defined to be net interest excluding the amortisation of debt issuance costs, exceptional write-off of financing costs, unwind of discount on provisions, securitisation interest and fair value adjustments for interest hedging instruments.

With regards to the proposed share issue, the Group proposes to raise approximately £404m, before expenses, through the issue of 1,553,416,776 new ordinary shares. This will be structured as a placing and open offer of 1,055,756,006 new ordinary shares at a price of 26 pence per share, and a firm placing of 497,660,770 new ordinary shares at a price of 26 pence per share. Subject to the approval of shareholders at the extraordinary general meeting, the Company expects to receive the proceeds on approximately 27 March 2009.

Pensions

The Group has agreed new arrangements with its four main Pension Schemes (RHM Pension Scheme, Premier Foods Pension Scheme, Premier Ambient Products Pension Scheme and Premier Grocery Products Pension Scheme) regarding deficit payments. The key terms of this agreement relate to providing greater certainty on deficit payments by fixing the deficit payments from 2009 to 2013 and agreeing that any incremental deficits arising from the 2010 and 2013 valuations will be recovered over a 12 year period. The new arrangements are conditional on the share placing and new financing arrangements.

Disposal of the speciality bakery businesses

The Group received firm offers for its speciality bakery businesses, Martine Spécialités S.A.S., Le Pain Croustillant and Sofrapain S.A.S. Subsequent to year end the Group completed the employee consultation process required under French labour law and binding offer agreements were signed in relation to the disposal of the three businesses.

The sales of Le Pain Croustillant and Martine Spécialitiés S.A.S. completed on 2 March 2009 and we expect the sale of Sofrapain S.A.S. to complete in April 2009.

Receivables Purchasing Agreement

In March 2009, the Group extended the maturity date of its Receivables Purchasing Agreement provided by DLLI (a wholly owned subsidiary of Rabobank Group) from December 2010 to March 2012. The underlying commercial terms have also been renegotiated, the principle changes being an increase in the margin and a reduction in the advance rate.

Interest rate swaps

Since 31 December 2008, the Group has negotiated an amendment to the break clauses in two of its interest rate swaps. This has the effect of extending the first break date under these interest rate swaps to August 2012 from March 2009 and December 2009 and makes the break dates consistent with other long dated swaps in its portfolio. It also has the effect of fixing the net payments on one long dated swap and amending its terms such that it will now settle on termination for a mark to market payment to the counterparty bank.