

Independent auditors' report to the members of Northern Foods plc

We have audited the Group financial statements of Northern Foods plc for the 52 weeks ended 28 March 2009 which comprise the Consolidated income statement, the Consolidated balance sheet, the Consolidated cash flow statement, the reconciliation of net cash flow to movements in net debt, the Consolidated statement of recognised income and expense and the related notes 1 to 37.

These Group financial statements have been prepared under the accounting policies set out therein.

We have also audited the information in the Directors' remuneration report that is described as having been audited.

We have reported separately on the parent company financial statements of Northern Foods plc for the 52 weeks ended 28 March 2009.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual report, the Directors' remuneration report and the Group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union are set out in the Statement of directors' responsibilities.

Our responsibility is to audit the Group financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the Group financial statements give a true and fair view, whether the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation and whether the part of the Directors' remuneration report described as having been audited has been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' report is consistent with the Group financial statements.

In addition we report to you if, in our opinion, we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We review whether the Corporate governance statement reflects the Company's compliance with the nine provisions of the 2006 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual report as described in the contents section and consider whether it is consistent with the audited Group financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Group financial statements. Our responsibilities do not extend to any further information outside the Annual report.

Basis of audit opinion

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

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

Opinion

In our opinion:

- > the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 28 March 2009 and of its profit for the 52 weeks then ended;
- > the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation;
- > the part of the Directors' remuneration report described as having been audited has been properly prepared in accordance with the Companies Act 1985; and
- > the information given in the Directors report is consistent with the Group financial statements.

Deloitte LLP

Chartered Accountants and Registered Auditors
Leeds
27 May 2009

Consolidated income statement

for the 52 weeks ended 28 March 2009

	Notes	Before restructuring items 2009 £m	Restructuring items 2009 £m	Total 2009 £m	Before restructuring items 2008 £m	Restructuring items 2008 £m	Total 2008 £m
Revenue	3, 4	975.2	–	975.2	931.9	–	931.9
Profit from operations	4, 5, 6, 7	52.7	(35.4)	17.3	48.4	(4.7)	43.7
Finance income	3, 9	54.2	–	54.2	59.2	–	59.2
Finance expense	9	(59.4)	–	(59.4)	(57.5)	–	(57.5)
Profit before taxation		47.5	(35.4)	12.1	50.1	(4.7)	45.4
Taxation		(6.6)	9.5	2.9	(11.7)	0.8	(10.9)
Movement on deferred tax due to change in legislation		(12.5)	–	(12.5)	–	–	–
Taxation	10	(19.1)	9.5	(9.6)	(11.7)	0.8	(10.9)
Profit for the period	4, 29	28.4	(25.9)	2.5	38.4	(3.9)	34.5

All amounts in the current and prior periods relate to continuing activities.

The result for the period is all attributable to equity holders of the parent.

Earnings per share (pence)

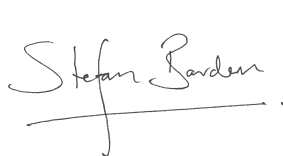
Basic	12			0.54			7.08
Diluted	12			0.52			6.95

Consolidated balance sheet

as at 28 March 2009

	Notes	28 March 2009 £m	29 March 2008 £m
Non-current assets			
Goodwill	13	57.1	54.8
Other intangible assets	14	3.9	4.6
Derivative financial instruments	25	26.6	–
Property, plant and equipment	15	301.6	320.0
Retirement benefit assets	35	–	71.5
Deferred taxation assets	27	17.1	–
		406.3	450.9
Current assets			
Inventories	16	48.5	47.2
Trading investments	17	0.1	0.1
Trade and other receivables	19	120.0	111.3
Derivative financial instruments	25	1.1	–
Cash and cash equivalents	20	60.8	72.9
		230.5	231.5
Total assets			
		636.8	682.4
Current liabilities			
Trade and other payables	21	(182.8)	(184.4)
Provisions	22	(3.6)	(2.3)
Current taxation liabilities		(22.0)	(26.0)
Bank loans and overdrafts	23	(9.9)	(0.3)
		(218.3)	(213.0)
Non-current liabilities			
Revolving credit facility 2010	23, 24	(115.0)	(130.0)
Senior loan notes 2012–2017	23, 24	(162.0)	(131.6)
Derivative financial instruments	25	–	(4.1)
Retirement benefit obligations	35	(71.5)	(9.9)
Deferred taxation liabilities	27	(2.0)	(14.7)
Accruals and deferred income		(13.9)	(13.7)
		(364.4)	(304.0)
Total liabilities			
		(582.7)	(517.0)
Net assets			
		54.1	165.4
Equity			
Share capital	28	128.6	128.6
Share premium account	29	65.1	65.1
Capital redemption reserve	29	23.6	23.6
Reserve for own shares	29	(50.5)	(39.5)
Employee share ownership trust reserve	29	(8.8)	(8.3)
Hedging and translation reserve	29	39.8	21.4
Other reserves	29	8.0	5.2
Accumulated deficit	29	(151.7)	(30.7)
Equity attributable to the equity holders of the parent			
		54.1	165.4

The financial statements were approved by the Board of directors and authorised for issue on 27 May 2009. They were signed on its behalf by:



S Barden
Director
27 May 2009



A M Booker
Director
27 May 2009

Consolidated cash flow statement

for the 52 weeks ended 28 March 2009

	Notes	2009 £m	2008 £m
Net cash from operating activities	30	54.1	32.5
Investing activities:			
Interest received		0.4	1.3
Purchase of property, plant and equipment		(31.0)	(21.5)
Proceeds of sale of property, plant and equipment		–	4.4
Disposal of trading investments		–	4.8
Acquisitions of subsidiary and businesses (net of cash acquired, acquisition costs, working capital and debt adjusters)		–	(22.0)
Receipt of deferred consideration		–	6.7
Grants received		0.7	0.3
Net cash used in investing activities		(29.9)	(26.0)
Financing activities:			
Dividends paid	11	(20.7)	(21.0)
(Decrease)/increase in amounts drawn on Revolving credit facility 2010	23	(15.0)	45.0
Purchase of treasury shares	29	(11.0)	(5.3)
Purchase of shares for Employee share ownership trust	29	(0.5)	(4.1)
Net cash (used in)/from financing activities		(47.2)	14.6
Net (decrease)/increase in cash and cash equivalents		(23.0)	21.1
Net cash and cash equivalents:			
At start of period		72.6	47.9
Effect of foreign exchange rates		1.3	3.6
Cash and cash equivalents at end of period		50.9	72.6
Cash and cash equivalents comprise:			
Cash and cash equivalents		60.8	72.9
Bank loans, overdrafts and loan notes due within one year		(9.9)	(0.3)
		50.9	72.6

Reconciliation of net cash flow to movements in net debt

for the 52 weeks ended 28 March 2009

	Notes	2009 £m	2008 £m
Net (decrease)/increase in cash and cash equivalents		(23.0)	21.1
Decrease in trading investments	17	–	(4.8)
Decrease/(increase) in amounts drawn on Revolving credit facility 2010	23	15.0	(45.0)
Decrease/(increase) in finance leases	33	0.3	(0.8)
		(7.7)	(29.5)
Effect of foreign exchange rates		1.3	3.6
Other movements		(0.1)	(0.1)
Movements in net debt in period		(6.5)	(26.0)
Net debt at start of period		(200.2)	(174.2)
Net debt at end of period	26	(206.7)	(200.2)

Consolidated statement of recognised income and expense

for the 52 weeks ended 28 March 2009

	Notes	2009 £m	2008 £m
Currency translation differences on overseas investments	29	16.9	13.0
Actuarial (losses)/gains on defined benefit pension schemes	29, 35	(143.1)	35.3
Taxation on actuarial (losses)/gains taken directly to equity	27, 29	40.1	(12.8)
Fair value movement on cash flow hedge	29	34.0	2.4
Transfer to profit and loss on cash flow hedge	29	(32.5)	1.1
Net income recognised directly in equity		(84.6)	39.0
Profit for the period from operations		2.5	34.5
Total recognised income for the period		(82.1)	73.5

Total recognised income and expense for the period is all attributable to equity holders of the parent.

Notes to the consolidated financial statements

1 General information

Northern Foods plc (Northern Foods) is a company incorporated in the United Kingdom under the Companies Act 1985. The address of the registered office is included within the Company information section (page 114). The nature of the Group's operations and its principal activities are set out in the segmental reporting note and in the Performance review.

The financial statements are presented in pounds Sterling because that is the currency of the primary economic environment in which the Group operates. Overseas operations are included in accordance with the accounting policies.

2 Significant accounting policies

Basis of accounting

The financial statements have been prepared in accordance with IFRS. These financial statements have also been prepared in accordance with IFRS adopted by the European Union (EU) and therefore the Group financial statements comply with Article 4 of the EU IAS Regulation.

The financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments. Further information is included in the derivative financial instruments and hedge accounting section on pages 83 to 87.

Northern Foods' management considers the following to be the most important accounting policies for the Group. In applying these accounting policies, management makes certain judgements and estimates that affect the reported amounts of assets and liabilities at the period end date and the reported revenues and expenses during the financial year. The financial statements have been prepared in accordance with the Group's accounting policies described below.

Key accounting judgements and sources of estimation uncertainty

The key accounting judgements and sources of estimation uncertainty with a significant risk of causing a material adjustment to assets and liabilities in the next 12 months include the following:

Pensions – movements in equity markets, interest rates, inflation and life expectancy could materially affect the level of surpluses and deficits in the pension schemes. The key assumptions used to value pension assets and liabilities are set out in note 35 Retirement benefit obligations;

Tax – the Group carries out tax planning consistent with a group of its size, and makes appropriate provision, based on best estimates, until tax computations are agreed with the taxation authorities;

Useful economic life estimates – the Group reviews the useful economic lives attributed to assets on an ongoing basis to ensure they are appropriate. Changes in economic life could impact the carrying value and charges to the income statement in future periods;

Provisions – using information available at the balance sheet date, the directors make judgements based on experience on the level of provision required. Further information received after the balance sheet date may impact the level of provision required;

Share based payments – in accordance with IFRS 2 'Share-based payments', share options and other share awards are measured at fair value at the date of grant. The fair value determined is then expensed in the income statement on a straight line basis over the vesting period, with a corresponding increase in equity. The fair value of the options and other share awards are measured using the Black-Scholes and Monte Carlo option pricing models. The valuation of these share based payments requires several judgements to be made in respect of the number of options that are expected to be exercised including behavioural considerations, exercise restrictions and historical volatility in the share price. Details of the assumptions made in respect of each of the share based payment schemes are disclosed in note 34 Equity settled share based payments. Changes in these assumptions could lead to changes in the income statement expense in future periods;

Impairment – the Group reviews the carrying value of goodwill and fixed assets and other intangibles, including acquisition intangibles. The Group has impaired certain asset values on a fair value less costs to sell basis, using past experience and external sources of information. Future changes in performance or disposals could impact this value. Management's assumptions for testing the carrying value of goodwill are included within note 13.

Going concern

In determining whether the Group's annual consolidated financial statements can be prepared on a going concern basis, the directors considered the Group's business activities, together with the factors likely to affect its future development, performance and position. These statements are set out in the Performance review. The review also includes the financial position of the Group, its cash flows, liquidity position and borrowing facilities. The key factors considered by the directors were as follows:

- > the implications of the challenging economic environment and future uncertainties on the Group's revenues and profits. The Group undertakes forecasts and projections of trading and cash flows on a regular basis. This allows the Group to target performance and identify areas of focus for management;
- > the impact of the competitive environment within which the Group's businesses operate;
- > the potential actions which could be taken in the event that revenues are worse than expected, to ensure that operating profit and cash flows are protected;
- > the Group has access to overdraft facilities and a committed bank facility to meet day-to-day working capital requirements. Following the refinancing of the bank facility in March 2009, the Group has committed bank facilities to July 2012. In April 2009, the existing facility was reduced from £460.0m at March 2009 to £305.0m. The facility will reduce to £250.0m from July 2010.

As at the date of this report, the directors have a reasonable expectation that the Company and Group have adequate resources to continue in business for the foreseeable future. Accordingly, the Annual report and financial statements for the 52 weeks ended 28 March 2009 have been prepared on the going concern basis.

2 Significant accounting policies continued

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 28 March 2009, together known as the Group. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

The results of subsidiaries and businesses acquired or disposed of during the period from the effective date of acquisition, or up to the effective date of disposal are included in the Group's results, as appropriate.

On acquisition, the assets and liabilities and contingent liabilities of a subsidiary, or trade and assets of businesses acquired, are measured at their fair value. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (i.e. discount on acquisition) is credited to the Consolidated income statement during the period of any acquisition.

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

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

Business combinations

The acquisition of subsidiaries and businesses acquired are accounted for using the acquisition method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 'Business combinations' are recognised at their fair value at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 'Non Current Assets Held for Sale and Discontinued Operations', which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in the income statement as a profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, Value Added Tax (VAT) and other sales related taxes.

(a) Sales of goods

Sales of goods are recognised when goods are delivered and title has passed.

(b) Finance income

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Finance income includes the expected return on pension scheme assets.

Foreign currencies

(a) Functional and presentation currency

The individual financial statements of each Group company are presented in the currency of the primary economic environment in which it operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each Group company are expressed in pounds Sterling, which is the functional currency of the Company, and the presentation currency for the consolidated financial statements.

(b) Transactions and balances

In preparing the financial statements of the individual companies, transactions in currencies other than pounds Sterling are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rate prevailing on the balance sheet date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items are included in the income statement for the period.

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

(c) Group companies

On consolidation, the assets and liabilities of the Group's overseas operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or an expense in the period in which the operation is disposed of.

Leases

Leases are classified as finance leases whenever the terms of the lease involve the substantial transfer of the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Notes to the consolidated financial statements

continued

2 Significant accounting policies continued

Assets held under finance leases are recognised as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability.

Rentals payable under operating leases are charged to income on a straight line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight line basis over the lease term.

Taxation

The tax expense represents the sum of the current tax payable and deferred tax.

The current tax payable is based on the taxable profit or loss for the period. Taxable profit differs from net profit as reported in the income statement because it excludes items of income and expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method.

Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary differences arise from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference, and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered.

Deferred tax is calculated at the tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited to the income statement, except where it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities, and when they relate to income taxes levied by the same taxation authority, and the Group intends to settle its current tax assets and liabilities on a net basis.

Property, plant and equipment

Property, plant and equipment held for use in the production or supply of goods, or for administrative purposes is stated in the balance sheet at historical cost or deemed cost, less depreciation. Historical cost includes the expenditure that is directly attributable to the acquisition of the items. Deemed cost includes surpluses arising on the revaluation of certain properties to their fair values prior to the date of transition to IFRS. Land is not depreciated.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Assets in the course of construction are carried at cost less any recognised impairment loss. Cost includes professional fees which are capitalised in accordance with the Group's accounting policy. Depreciation of these assets commences when the assets are ready for their intended use.

Depreciation is charged so as to write off the cost or valuation of assets over their estimated useful lives, using the straight line method, on the following basis:

Property	20–50 years (or over the remaining life of the lease if shorter)
Plant and equipment	5–15 years
Motor vehicles	4–10 years

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, over the term of the relevant lease.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

Intangible assets

(a) Goodwill

Goodwill arising on consolidation represents the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities at the date of acquisition.

Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill which is recognised as an asset is reviewed for impairment at least annually. Any impairment is recognised immediately in the income statement and is not subsequently reversed.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

2 Significant accounting policies continued

Goodwill arising on acquisitions before the date of transition to IFRS has been retained at the previous UK Generally Accepted Accounting Principles (GAAP) amount subject to being tested for impairment at that date. Goodwill written off to reserves under UK GAAP prior to 1998 has not been reinstated and is not included in determining any subsequent profit or loss on disposal.

(b) Computer software

Computer software that is not integral to an item of property, plant or equipment is classified as an intangible asset and is held on the balance sheet at cost net of amortisation and any provision for impairment. These costs are amortised over their estimated useful lives of ten years.

(c) Customer relationships

Customer relationships are included at fair value at the date of acquisition and are held on the balance sheet at cost net of amortisation and any provision for impairment. These costs are amortised over their estimated useful lives of ten years.

Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash generating unit (CGU) to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money, and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset or CGU in prior years. A reversal of an impairment loss is recognised as income immediately.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred bringing the inventories to their present location and condition. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Retirement benefit costs

(a) Pension obligations/assets

The Group operates a number of defined benefit schemes for qualifying employees, principally the Northern Foods Pension Scheme (the Scheme) and Northern Foods Pension Builder (Pension Builder) in the United Kingdom and the Green Isle Foods Group Retirement and Death Benefit Plan (the Plan) in the Republic of Ireland. A defined benefit scheme is one where the amount of pension benefit an employee will receive on retirement is dependent on age, years of service and compensation.

For defined benefit schemes, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations for the purpose of the financial statements being carried out at each balance sheet date. Actuarial gains and losses are recognised in full in the period in which they occur. They are recognised outside the income statement and are presented in the statement of recognised income and expense.

The retirement benefit obligation/asset recognised in the balance sheet represents the present value of the defined benefit obligation/asset as adjusted for unrecognised past service costs, and net of the fair value of the scheme assets. Any asset resulting from this calculation is limited to the past service cost plus the present value of the available refunds and reductions in future contributions. The Group has considered the impact of IFRIC 14. The rules of the Scheme give the Company an unconditional right to a refund of the current residual surplus and as such there is no restriction to the level of surplus that can be recognised in the balance sheet.

Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight line basis over the average period until the benefits vest.

Current service cost is recognised within profit from operations in the income statement.

The expected return on scheme assets and the interest on pension scheme liabilities are recognised in finance income and finance expense respectively.

(b) Post retirement healthcare

The Group provides post retirement healthcare benefits to eligible retired employees. An employee is eligible if granted the benefit and if retirement occurred on or before 31 March 1999. Employees who were granted the benefit, but retired after 31 March 1999, will not receive this benefit in retirement. Post 31 March 1999, the benefit was not granted to any employees.

The expected cost of this benefit has been computed using an accounting methodology similar to that for defined benefit pension schemes. Actuarial gains and losses arising from experience adjustments, and changes in actuarial assumptions, are recognised in full in the period in which they occur.

They are recognised outside the income statement and presented in the statement of recognised income and expense. These obligations are valued annually for the purpose of the financial statements by independent qualified actuaries.

Notes to the consolidated financial statements

continued

2 Significant accounting policies continued

Financial instruments

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

Financial assets

Trading investments are classed as held for trading. Any gains and losses arising from the change in fair value are recognised in the income statement for the period.

Financial assets held by the Company are classified as held for trading or loans and receivables at amortised cost. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Loans and receivables

Trade receivables, loans, other receivables and cash and cash equivalents that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables at amortised cost. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short term receivables when the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the income statement.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the income statement to the extent that the carrying amount of the investment at the date the impairment is reversed and does not exceed what the amortised cost would have been had the impairment not been recognised.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, deposits held at call with banks and other short term, highly liquid, investments with original maturities of three months or less.

Bank overdrafts are shown within borrowing in current liabilities on the balance sheet.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

Financial liabilities

Financial liabilities held by the Group are classified as financial liabilities measured at amortised cost, financial liabilities held at amortised cost in a cash flow hedging relationship, and derivatives that are designated and effective as hedging instruments carried at fair value.

Financial liabilities measured at amortised cost are initially measured at fair value, net of transaction costs, and subsequently measured at amortised cost using the effective interest method. Interest expense is recognised on an effective yield basis. The effective interest method is used to calculate the amortised cost of a financial liability by allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability.

Bank borrowings

Interest bearing bank loans and overdrafts are classified as other financial liabilities at amortised cost. They are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accrual basis in the income statement using the effective interest rate method. They are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

Derivative financial instruments and hedge accounting

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The Group uses foreign exchange forward contracts and interest rate swap contracts to hedge some of these exposures. The Group does not use derivative financial instruments for speculative purposes.

The use of financial derivatives is governed by the Group's policies approved by the Board of directors, which provide written principles on the use of financial derivatives. Further information on currency and interest rate management is provided in note 25 Financial instruments.

Changes in the fair value of derivative financial instruments that are designated and effective as hedging instruments are recognised directly in equity. The ineffective portion is recognised immediately in the income statement. If the cash flow hedge of a firm commitment or forecasted transaction results in the recognition of an asset or a liability, then, at the time the asset or liability is recognised, the associated gains or losses on the derivative that had been previously recognised in equity are included in the initial measurement of the asset or liability. For hedges that do not result in the recognition of an asset or a liability, amounts deferred in equity are recognised in the income statement in the same period in which the hedged item affects net profit or loss.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement as they arise.

2 Significant accounting policies continued

At the inception of the hedge relationship, the entity documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged item.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecasted transaction occurs. If a hedging transaction is no longer expected to occur, the net cumulative gain or loss that was recognised in equity is recognised immediately in profit or loss for the period.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at their present value and at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date.

Share based payments

The Group has applied the requirements of IFRS 2 'Share-based payments'. In accordance with the transitional provisions, IFRS 2 has been applied to all grants of equity instruments after 7 November 2002 that were unvested at 1 January 2005.

The Group issues equity settled share based payments to certain employees in addition to issuing an HM Revenue & Customs approved Savings-related share option scheme for all employees. Equity settled share based payments are measured at fair value (excluding the effect of non-market based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity settled share based payments is expensed on a straight line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non-market based vesting conditions.

Fair value is measured by use of the Black-Scholes and Monte Carlo models. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

Government grants

Government grants in respect of capital expenditure are credited to deferred income and are released to the income statement over the expected useful lives of the relevant assets by equal annual instalments. Grants of a revenue nature are credited to the income statement so as to match them with the expenditure to which they relate.

Research and development

Research and development costs comprise all directly attributable costs necessary to create and produce new products which are both brand new in design and those being modified. Costs classified as research and development include raw materials, labour costs, artwork origination and market research directly attributable to developing the product.

Equity instruments

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

Dividends

Dividend distributions to the Company's shareholders are recognised in the Group and Company financial statements as follows:

- > Final dividend: when approved by the Company's shareholders at the Annual general meeting;
- > Interim dividend: when paid by the Company.

Accounting standards in issue but not yet effective

At the date of approval of these financial statements, the following standards and interpretations, considered relevant to the Group, were in issue but not yet effective and have not been applied in these financial statements:

- > amendments to IFRS 2 'Share based payments'
- > IFRS 3 (revised) 'Business combinations'
- > IFRS 7 (revised) 'Financial instruments: disclosures'
- > IFRS 8 'Operating Segments'
- > IAS 1 (revised) 'Presentation of financial statements'
- > IAS 7 (revised) 'Statement of cash flows'
- > IAS 16 (revised) 'Property, plant and equipment'
- > IAS 17 (revised) 'Leases'
- > IAS 19 (revised) 'Employee benefits'
- > IAS 20 (revised) 'Government grants'
- > IAS 23 (revised) 'Borrowing costs'
- > IAS 27 (revised) 'Consolidated and separate financial statements'
- > IAS 36 (revised) 'Impairment of assets'
- > IAS 38 (revised) 'Intangible assets'
- > IAS 39 (revised) 'Financial instruments: recognition and measurement'

The directors anticipate that the adoption of these standards and interpretations in future periods will not have an expected material impact on the financial statements of the Group.

Notes to the consolidated financial statements

continued

2 Significant accounting policies continued

Non-GAAP measures

Definitions of non-GAAP measures used by Northern Foods are shown below:

(a) Net debt

Net debt is not a defined term under IFRS and may not therefore be comparable with other similarly titled non-IFRS debt measures reported by other companies. Net debt is defined as total borrowings (including both short term and long term bank loans, bonds, loan notes and finance leases) less cash and cash equivalents and short term investments. Net debt will also include the proportion of the fair value of the currency swaps hedging the balance sheet value of the Group's US Dollar denominated loan notes. The Group adopts this measure because it is used in calculating the banking covenants. It is also the measure used for internal debt analysis. In addition, the net debt balance provides an indication of the net borrowings on which the Company is required to pay interest. For further information see note 26 Analysis of net debt.

(b) Underlying revenue

Underlying revenue excludes the impact of currency rate changes, product categories no longer manufactured, acquisitions and discontinued operations including Fenland.

(c) Restructuring items

Items which relate to significant restructuring are presented as a separate column within their relevant Consolidated income statement category. Presentation of these items in a separate column helps to provide a better indication of the Group's underlying business performance. Restructuring items include costs or income associated with the restructuring of businesses and gains or losses on the disposal or closure of businesses.

(d) Free cash flow

Free cash flow is net cash from operating activities, adjusted for special pension contributions, less net capital expenditure, plus interest received. Net capital expenditure is purchase of property, plant and equipment (PPE) less grants received and proceeds from sale of PPE.

(e) Net working capital

Net working capital is defined as inventories plus trade and other receivables less trade and other payables.

(f) Adjusted earnings per share

Adjusted earnings per share is basic earnings per share before restructuring items, movement on deferred tax due to change in legislation and one off release of prior year tax liability.

(g) Profit from operations

Profit from operations is earnings stated before finance income and expense and taxes. Further information is provided within note 5 Analysis of consolidated income statement.

(h) EBITDA

EBITDA is earnings before interest, tax, depreciation and amortisation. It is calculated as profit from operations plus depreciation and amortisation, all measured before restructuring items.

(i) Underlying profit before taxation

Underlying profit before taxation is profit before restructuring items and net pensions financing. This is reconciled to profit before taxation* in note 4.

(j) Underlying earnings per share

Underlying earnings per share is before restructuring items, movement on deferred tax due to change in legislation, one off release of prior year tax liability and net pensions financing. This is reconciled to earnings per share in note 12.

3 Revenue

The analysis of the Group's revenue is as follows:

Continuing operations:	2009 £m	2008 £m
Sale of goods	975.2	931.9
Revenue	975.2	931.9
Finance income	54.2	59.2
Other operating income	1.4	0.9
Total	1,030.8	992.0

4 Segmental reporting

Business segments

For management purposes the Group is organised into three operating divisions; Chilled, Frozen and Bakery. These divisions are the basis on which the Group reports its primary segment information. The operating divisions are as follows:

Division	Major product category
Chilled	Ready Meals, Sandwiches & Salads
Frozen	Pizza, Fish & Vegetables, Pastry, Meat & Meat-free products
Bakery	Biscuits, Puddings

Segment information

The segment information is as follows:

	Chilled		Frozen		Bakery		Total	
	2009 £m	2008 £m	2009 £m	2008 £m	2009 £m	2008 £m	2009 £m	2008 £m
Revenue	486.8	481.5	272.4	245.4	216.0	205.0	975.2	931.9
Less revenue from acquisitions	(15.0)	–	(5.2)	–	–	–	(20.2)	–
Product categories no longer manufactured	(18.8)	(52.6)	–	–	–	–	(18.8)	(52.6)
Foreign exchange	–	–	(12.6)	–	–	–	(12.6)	–
Underlying revenue	453.0	428.9	254.6	245.4	216.0	205.0	923.6	879.3

Underlying revenue allows comparability between the current and prior periods. Underlying revenue excludes the impact of currency rate changes, product categories no longer manufactured, acquisitions and discontinued operations including Fenland.

Underlying revenue has been adjusted to exclude revenue earned in the current period from acquisitions which corresponds to the period in the prior year when the acquired operations were not part of the Group.

Notes to the consolidated financial statements

continued

4 Segmental reporting continued

	External revenue		Profit from operations*	
	2009 £m	2008 £m	2009 £m	2008 £m
Chilled	486.8	481.5	22.9	22.1
Frozen	272.4	245.4	9.3	11.4
Bakery	216.0	205.0	20.5	14.9
	975.2	931.9	52.7	48.4
Net finance (costs)/income*			(5.2)	1.7
Profit before taxation*			47.5	50.1
Taxation*			(19.1)	(11.7)
Profit for the period*			28.4	38.4

A reconciliation of profit before taxation* to underlying profit before tax* is shown below:

Profit before taxation*	47.5	50.1
Net pensions financing credit	(8.5)	(15.7)
Underlying profit before tax*	39.0	34.4

* Before restructuring items

Restructuring items from operations of £35.4m (2007/08: £4.7m) comprised Chilled £30.2m (2007/08: £1.3m), Frozen £2.7m (2007/08: £2.9m) and Bakery £2.5m (2007/08: £0.5m).

Intersegmental sales were charged at prevailing market prices and were immaterial for both the current and prior periods.

Profit from operations after restructuring items was: Chilled £7.3m loss (2007/08: £20.8m profit), Frozen £6.6m (2007/08: £8.5m) and Bakery £18.0m (2007/08: £14.4m).

Assets/(liabilities)	2009			2008		
	Assets £m	Liabilities £m	Total £m	Assets £m	Liabilities £m	Total £m
Chilled	229.1	(74.0)	155.1	260.8	(76.8)	184.0
Frozen	194.2	(67.6)	126.6	176.1	(59.0)	117.1
Bakery	103.7	(36.5)	67.2	99.8	(35.0)	64.8
Operating assets/(liabilities)	527.0	(178.1)	348.9	536.7	(170.8)	365.9
Unallocated corporate assets:						
Cash at bank and in hand	60.8	–	60.8	72.9	–	72.9
Trading investments	0.1	–	0.1	0.1	–	0.1
Corporate other receivables	4.1	–	4.1	1.2	–	1.2
Retirement benefit assets	–	–	–	71.5	–	71.5
Deferred tax assets	17.1	–	17.1	–	–	–
Derivative financial instruments	27.7	–	27.7	–	–	–
Unallocated corporate liabilities:						
Total borrowings	–	(286.9)	(286.9)	–	(261.9)	(261.9)
Derivative financial instruments	–	–	–	–	(4.1)	(4.1)
Retirement benefit obligations	–	(71.5)	(71.5)	–	(9.9)	(9.9)
Deferred tax liabilities	–	(2.0)	(2.0)	–	(14.7)	(14.7)
Current tax liabilities	–	(22.0)	(22.0)	–	(26.0)	(26.0)
Corporate other payables	–	(22.2)	(22.2)	–	(29.6)	(29.6)
Total assets/(liabilities)	636.8	(582.7)	54.1	682.4	(517.0)	165.4

4 Segmental reporting continued

Other information – 2009	Chilled £m	Frozen £m	Bakery £m	Group £m
Capital additions	15.1	6.6	8.7	30.4
Depreciation	16.9	13.7	8.0	38.6
Amortisation of other intangible assets	0.4	0.2	0.1	0.7
Impairment of property, plant and equipment	24.0	–	–	24.0

Other information – 2008	Chilled £m	Frozen £m	Bakery £m	Group £m
Capital additions	11.2	2.9	5.2	19.3
Depreciation	19.7	12.4	9.0	41.1
Amortisation of other intangible assets	0.3	0.2	0.1	0.6
Impairment of property, plant and equipment	0.9	0.3	0.3	1.5

Geographical segments

The Group operates in two main geographical areas; the United Kingdom and the Republic of Ireland. The Chilled and Bakery divisions operate in the United Kingdom while the Frozen division operates in both the United Kingdom and the Republic of Ireland. The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of the goods/services:

	Revenue	
	2009 £m	2008 £m
United Kingdom	892.1	858.1
Other	83.1	73.8
	975.2	931.9

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment and intangible assets, analysed by geographical area in which the assets are located:

	Segment assets		Additions to property, plant and equipment and intangible assets	
	2009 £m	2008 £m	2009 £m	2008 £m
United Kingdom	458.1	529.8	24.6	17.1
Republic of Ireland	178.7	152.6	5.8	2.2
	636.8	682.4	30.4	19.3

5 Analysis of consolidated income statement

	Before restructuring items 2009 £m	Restructuring items 2009 £m	Total 2009 £m	Before restructuring items 2008 £m	Restructuring items 2008 £m	Total 2008 £m
Continuing operations:						
Revenue	975.2	–	975.2	931.9	–	931.9
Cost of sales	(769.8)	(31.3)	(801.1)	(736.0)	(2.5)	(738.5)
Gross profit	205.4	(31.3)	174.1	195.9	(2.5)	193.4
Distribution costs	(65.0)	(0.2)	(65.2)	(65.2)	–	(65.2)
Administrative expenses	(89.1)	(3.9)	(93.0)	(83.2)	(2.2)	(85.4)
Other operating income	1.4	–	1.4	0.9	–	0.9
Profit from operations	52.7	(35.4)	17.3	48.4	(4.7)	43.7

Notes to the consolidated financial statements

continued

6 Restructuring items

	2009 £m	2008 £m
Restructuring items from operations	(35.4)	(4.7)
Taxation	9.5	0.8
Total	(25.9)	(3.9)

Restructuring items of £35.4m comprised: £22.9m relating to the impact of mothballing the Fenland ready meals facility, with an £18.1m non-cash asset impairment, a £0.4m curtailment gain and a £5.2m cash rationalisation cost. Other costs relate to asset impairments of £5.9m in relation to the Hull site, and other rationalisation charges totalling £6.6m across the Chilled, Bakery and Frozen divisions will help drive future profitability improvement.

Items which relate to significant restructuring events are presented as a separate column within their relevant Consolidated income statement category. Presentation of these items in a separate column helps to provide a better indication of the Group's underlying business performance. Restructuring items include costs or income associated with the restructuring of businesses and gains or losses on the disposal or closure of businesses.

7 Profit from operations

Profit from operations after restructuring items has been arrived at after charging/(crediting) the items below:

	2009 £m	2008 £m
Net foreign exchange losses	0.9	1.7
Research and development costs (principally new product development)	8.0	9.5
Depreciation of property, plant and equipment	38.6	41.1
Impairment of property, plant and equipment	24.0	1.5
Amortisation of other intangibles	0.7	0.6
Staff costs (note 8)	216.8	218.5
Auditors' remuneration for audit services	0.3	0.2
Government grants	(1.6)	(1.1)
Cost of inventories recognised as expense	766.7	731.8
Write down of inventories recognised as an expense	3.1	4.2
Loss on disposal of property, plant and equipment	0.1	0.3
Impairment loss recognised on trade receivables	2.2	1.0
Reversal of impairment losses recognised on trade receivables	(0.1)	(0.3)
Operating lease charges – Plant and machinery	2.2	2.7
Operating lease charges – Land and buildings	0.8	2.2

A more detailed analysis of auditors' remuneration is provided below:

	2009 Deloitte LLP £'000	2008 Deloitte LLP £'000
Audit services		
Fees payable to the Company's auditors for the audit of the Group's Annual report	85	80
Fees payable to the Company's auditors and their associates for the audit of the Company's subsidiaries pursuant to legislation	173	163
	258	243
Other services		
Other services supplied pursuant to legislation – Half year review	38	37
Other services – Accounting advice	–	30
Other	–	20
	38	87
Tax services		
Advisory services	142	119
Compliance	139	143
	281	262
Total	577	592

Deloitte LLP were appointed sole Group auditors for both the current and prior periods.

8 Staff costs

The average monthly number of employees (including executive directors) was:

	2009 number	2008 number
Continuing operations:		
Production	8,399	9,281
Distribution	565	544
Administration	926	942
	9,890	10,767

Aggregate remuneration comprised:

	2009 £m	2008 £m
Continuing operations:		
Wages and salaries	203.2	207.1
Social security costs	17.4	17.6
Other pension income	(3.8)	(6.2)
	216.8	218.5

In addition to the staff costs disclosed above, redundancy costs of £7.3m (2007/08: £1.0m) were charged to restructuring.

9 Net finance (expense)/income

	2009 £m	2008 £m
Finance income:		
Loans and receivables at amortised cost:		
Bank interest receivable	0.3	0.8
Other interest receivable	0.1	0.2
Expected return on pension scheme assets	53.8	58.2
	54.2	59.2
Finance expense:		
Financial liability held at amortised cost in a cash flow hedging relationship:		
Interest on Senior loan notes 2012–2017	(7.8)	(7.8)
Other financial liabilities at amortised cost:		
Interest on bank overdrafts and loans	(6.1)	(7.2)
Other interest payables	(0.2)	–
Interest on pension scheme liabilities	(45.3)	(42.5)
	(59.4)	(57.5)
Net finance (expense)/income	(5.2)	1.7

Notes to the consolidated financial statements

continued

10 Taxation

	2009 £m	2008 £m
Current taxation:		
UK corporation tax	1.8	(0.4)
Overseas tax	2.0	1.2
Tax on restructuring items – UK	(4.2)	–
Tax on restructuring items – overseas	(0.2)	(0.2)
	(0.6)	0.6
Deferred taxation:		
UK deferred tax	3.2	11.2
Overseas tax	(0.4)	(0.3)
Movement on deferred tax due to change in legislation	12.5	–
Tax on restructuring items – UK	(5.1)	(0.6)
	10.2	10.3
Tax charge for the period	9.6	10.9

The movement on deferred tax due to the change in legislation arose from the amendments to the industrial buildings allowance regime which were substantively enacted in the Finance Act 2008.

UK corporation tax is calculated at 28.0% (2007/08: 30.0%) of the estimated assessable profit or loss for the period. Overseas tax is taxation on profits made in the Republic of Ireland which is calculated at 12.5% (2007/08: 12.5%).

A deferred tax credit of £0.3m (2007/08: £0.1m charge) was taken to equity relating to equity settled incentive schemes.

A deferred tax credit of £40.1m (2007/08: £12.8m charge) was taken to equity relating to the actuarial gains and losses on the retirement benefit assets and obligations.

The charge for the year can be reconciled to the profit as per the Consolidated income statement as follows:

	2009 £m	2009 %	2008 £m	2008 %
Profit before taxation	12.1	100.0	45.4	100.0
Taxation at the UK corporation tax rate of 28.0% (2007/08: 30.0%)	3.4	28.0	13.6	30.0
Effect of lower overseas tax rates	(1.7)	(14.0)	(1.9)	(4.2)
Adjustment to tax charge in respect of prior periods:				
Corporation tax	(4.7)	(38.8)	(0.7)	(1.5)
Deferred tax	(1.4)	(11.6)	2.1	4.6
Change in UK tax legislation	12.5	103.3	–	–
Change in UK taxation rate from 30.0% to 28.0%	–	–	(2.8)	(6.2)
Expenses not deductible in determining taxable profit and other items	1.5	12.4	0.6	1.3
Tax charge and effective tax rate for the period	9.6	79.3	10.9	24.0

The adjustments in respect of prior periods relate to the finalisation of previous years' tax computations and a switch from current to deferred tax with respect to capital allowance disclaimers.

11 Dividends

Equity dividends on ordinary shares	2009 £m	2008 £m
Amounts recognised in the period:		
Final dividend for the 52 weeks ended 29 March 2008 of 2.95p (2006/07: 2.75p) per share	13.6	13.4
Interim dividend for the 52 weeks ended 28 March 2009 of 1.55p (2007/08: 1.55p) per share	7.1	7.6
	20.7	21.0
Proposed final dividend for the 52 weeks ended 28 March 2009 of 2.95p (2007/08: 2.95p) per share	13.6	14.2

The proposed final dividend is subject to approval by shareholders at the Annual general meeting and accordingly has not been included as a liability in these financial statements.

12 Earnings per share

Earnings and earnings per share	Earnings 2009 £m	Basic earnings per share 2009 pence	Diluted earnings per share 2009 pence	Earnings 2008 £m	Basic earnings per share 2008 pence	Diluted earnings per share 2008 pence
Earnings used for calculation of earnings per share	2.5	0.54	0.52	34.5	7.08	6.95
Restructuring items	25.9	5.55	5.40	3.9	0.80	0.79
Movement on deferred tax due to change in legislation	12.5	2.68	2.61	–	–	–
One off release of prior year tax liability	(4.7)	(1.01)	(0.98)	–	–	–
Adjusted earnings per share*	36.2	7.76	7.55	38.4	7.88	7.74
Net pensions financing credit net of tax	(6.1)	(1.31)	(1.27)	(11.0)	(2.26)	(2.22)
Underlying earnings per share**	30.1	6.45	6.28	27.4	5.62	5.52

Number of shares	2009 number (m)	2008 number (m)
Weighted average number of shares	514.2	514.2
Own shares held	(41.2)	(22.5)
Shares held in Employee share ownership trust (ESOT)	(6.2)	(4.3)
Weighted average number of shares used for calculation of basic earnings per share and earnings per share before restructuring items	466.8	487.4
Savings-related share options	–	0.8
Executive share options	–	0.7
Long term incentive plan	0.4	0.7
Deferred share bonus plan	2.8	3.4
Matching share award	1.0	0.9
Performance share plan	8.3	2.4
Weighted average number of shares used for calculation of diluted earnings per share and diluted earnings per share before restructuring items	479.3	496.3

* Adjusted earnings per share is basic earnings per share before restructuring items, movement on deferred tax due to change in legislation and one off release of prior year tax liability

** Underlying earnings per share is before restructuring items, movement on deferred tax due to change in legislation, one off release of prior year tax liability and net pensions financing

Notes to the consolidated financial statements

continued

13 Goodwill

	£m
Cost:	
At start of prior period	49.8
Acquisitions	7.9
Exchange movements	2.4
At end of prior period	60.1
At start of period	60.1
Exchange movements	3.1
At end of period	63.2
Accumulated impairment losses:	
At start of prior period	4.8
Exchange movements	0.5
At end of prior period	5.3
At start of period	5.3
Exchange movements	0.8
At end of period	6.1
Carrying amount:	
At end of period	57.1
At start of period	54.8

Goodwill acquired in a business combination is allocated, at acquisition, to the Group's cash generating units (CGUs) that are expected to benefit from that business combination. The CGUs have been defined as the operating business to which the goodwill relates. The carrying amount of goodwill has been allocated as follows:

	2009 £m	2008 £m
Solway Foods	30.1	30.1
Ethnic Cuisine	5.1	5.1
Green Isle	20.1	17.8
Convenience Foods	1.8	1.8
	57.1	54.8

Impairment tests for goodwill

The Group tests for impairment of goodwill at least annually.

The recoverable amounts of the CGUs are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates, gross margin and expected changes to selling prices and direct costs during the period. The key assumptions are based on past experience which has been adjusted for expected changes in future conditions.

The Group prepares cash flow forecasts derived from the most recent financial plans approved by management for the next five years and extrapolates these cash flows in perpetuity using growth assumptions relevant for the business sector. The growth rate used is not more than 3.0% (2007/08: not more than 3.0%), and is not considered to be higher than the average long term industry growth rate.

The rates used to discount the forecast cash flows for all CGUs are based on the Group's pre-tax weighted average cost of capital of 11.1% (2007/08: 11.1%).

The recoverable amount for each CGU exceeded its carrying value at the impairment test date. The Group has conducted sensitivity analysis based on reasonably possible changes in the key assumptions used for the impairment test. This has not resulted in any impairment of the carrying value of goodwill as at 28 March 2009.

In relation to Ethnic Cuisine, reasonable possible changes in the key assumptions listed above would cause the recoverable amount of the CGU to be equal to its carrying amount. The recoverable amount of Ethnic Cuisine is 23.0% higher than the carrying amount and a reduction of 3.0% in the gross margin percentage or a reduction of 3.0% in forecast sales would result in the recoverable amount being equal to the carrying amount.

14 Other intangible assets

	Customer relationships £m	Software licences £m	Total £m
Cost:			
At start of prior period	–	5.9	5.9
Acquisitions	1.7	–	1.7
At end of prior period	1.7	5.9	7.6
At start of period	1.7	5.9	7.6
At end of period	1.7	5.9	7.6
Accumulated amortisation:			
At start of prior period	–	2.4	2.4
Charge for prior period	–	0.6	0.6
At end of prior period	–	3.0	3.0
At start of period	–	3.0	3.0
Charge for period	0.1	0.6	0.7
At end of period	0.1	3.6	3.7
Carrying amount:			
At end of period	1.6	2.3	3.9
At start of period	1.7	2.9	4.6

The Group tests for impairment of customer relationships where there is an indicator that the asset may be impaired. The key assumptions for the value in use calculations are those regarding forecast sales volumes and prices. The growth rate used is not more than 3.0% and is not considered to be higher than the average long term industry growth rate. Management estimates discount rates using the Group's weighted average cost of capital.

The rate used to discount the forecast cash flows is the Group's pre-tax weighted average cost of capital of 11.1% (2007/08: 11.1%).

Notes to the consolidated financial statements

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15 Property, plant and equipment

	Freehold property £m	Leasehold property £m	Plant, fixtures and vehicles £m	Total £m
Cost or valuation:				
At start of prior period	167.9	271	554.0	749.0
Additions	2.7	–	16.6	19.3
Disposals	(5.1)	–	(2.5)	(7.6)
Acquisition of subsidiaries and businesses	–	5.8	8.6	14.4
Reclassifications	0.1	–	(0.1)	–
Exchange movements	5.1	–	20.5	25.6
At start of period	170.7	32.9	597.1	800.7
Additions	0.7	–	29.7	30.4
Disposals	–	–	(0.8)	(0.8)
Exchange movements	6.1	–	25.2	31.3
At end of period	177.5	32.9	651.2	861.6
Accumulated depreciation and impairment losses:				
At start of prior period	54.5	6.2	367.3	428.0
Charge for prior period	3.2	0.5	37.4	41.1
Restructuring provision for impairment	–	–	1.5	1.5
Disposals	(0.8)	–	(2.1)	(2.9)
Exchange movements	0.9	–	12.1	13.0
At start of period	57.8	6.7	416.2	480.7
Charge for period	2.0	0.6	36.0	38.6
Restructuring provision for impairment	11.8	–	12.2	24.0
Disposals	–	–	(0.7)	(0.7)
Exchange movements	1.2	–	16.2	17.4
At end of period	72.8	7.3	479.9	560.0
Carrying amount:				
At end of period	104.7	25.6	171.3	301.6
At start of period	112.9	26.2	180.9	320.0

At the period end, the Group had entered into contractual commitments for the purchase of property, plant and equipment amounting to £2.5m (2007/08: £2.0m).

The carrying amount of the Group's property, plant and equipment includes an amount of £nil (2007/08: £nil) in respect of assets held under finance leases.

Impairment charges of £24.0m were incurred during the period, of which £18.1m related to the mothballing of the Fenland site and £5.9m related to the Hull site, all within the Chilled division. The Group impaired these asset values on a fair value less costs to sell basis, using past experience and external sources of information such as open market valuations.

The Group performs impairment reviews where there is an indicator of impairment. The Fenland site was impaired following the announcement to mothball the site. The Hull site was impaired following a poor trading performance during 2008/09.

The impairment charges have been recognised within restructuring items in the consolidated income statement.

The recoverable amounts of other items of property, plant and equipment were determined from value in use calculations. No impairments were identified on these assets. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the period. Management estimates discount rates using the Group's weighted average cost of capital.

The Group prepares cash flow forecasts derived from the most recent financial plans approved by management for the next five years and extrapolates these cash flows in perpetuity using growth assumptions relevant for the business sector. The growth rate used is not more than 3.0% (2007/08: not more than 3.0%) and is not considered to be higher than the average long term industry growth rate.

The rates used to discount the forecast cash flows for all CGUs are based on the Group's pre-tax weighted average cost of capital of 11.1% (2007/08: 11.1%).

16 Inventories

	2009 £m	2008 £m
Raw materials	16.2	15.5
Work in progress	3.4	4.3
Finished goods	28.9	27.4
	48.5	47.2

The directors consider that the replacement cost of inventories is not materially different to the value shown above.

17 Trading investments

Trading investments, stated at fair value, represent investments in listed equity securities that present the Group with opportunity for return through dividend income and trading gains. They have no fixed maturity or coupon rate. The fair values of these securities are based on quoted market prices.

	2009 £m	2008 £m
Trading investments at fair value	0.1	0.1

18 Subsidiaries

A list of the significant subsidiary investments, including the name, country of incorporation and proportion of ownership interest is given in note 43 to the Company's separate financial statements.

19 Trade and other receivables

	2009 £m	2008 £m
Trade receivables	108.0	97.2
Other receivables	8.1	10.7
Other prepayments	3.9	3.4
	120.0	111.3

Trade receivables of £108.0m (2007/08: £97.2m) are net of amounts that are individually determined to be impaired of £3.3m (2007/08: £1.9m).

The average credit period taken on sales of goods is 38 days (2007/08: 31 days). Trade receivables are provided for based on estimated irrecoverable amounts from the sale of goods, determined by reference to past default experience and sales documentation.

Notes to the consolidated financial statements

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19 Trade and other receivables continued

An ageing profile of trade receivables past due but not impaired is shown below:

	Past due by 1–31 days £m	Past due by 32–90 days £m	Total £m
2009	6.4	–	6.4
2008	9.0	0.5	9.5

Included within trade receivables are balances which are neither past due nor impaired of £101.6m (2007/08: £87.7m). In determining the recoverability of a trade receivable the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The directors believe that there is no further credit provision required in excess of the allowance for doubtful debts. Management believe that these balances have low credit risk because the Group's top five customers, all leading UK retailers, represent 77% of the Group's revenue. This results in a high concentration of credit risk, however, these customers have good credit ratings and consequently the credit risk for the Group's overall trade receivables is considered low.

Before accepting any new customer, the Group uses an external credit scoring system and trade references to assess potential customer's credit quality and defines credit limits by customer.

Included in the trade receivables balance are receivables with a carrying amount of £6.4m (2007/08 £9.5m) which are past due at the period end for which the Group has not provided as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances. The average age of these receivables which are past due but not impaired is 11 days past due (2007/08: 17 days). The table below shows the movement in the allowance for doubtful debt:

	2009 £m	2008 £m
At start of period	1.9	1.5
Impairment losses recognised	2.2	1.0
Amounts written off as uncollectible	(0.7)	(0.3)
Impairment losses reversed	(0.1)	(0.3)
At end of period	3.3	1.9

The ageing profile of impaired trade receivables is shown below:

	Current £m	Past due by 1–31 days £m	Past due by 32–90 days £m	Past due by over 90 days £m	Total £m
2009	2.2	0.1	0.4	0.6	3.3
2008	–	0.3	1.0	0.6	1.9

The directors consider that the carrying amount of trade and other receivables approximates to their fair value due to their short term nature. The directors consider the maximum credit risk at the balance sheet date is equivalent to the carrying value of trade and other receivables.

20 Cash and cash equivalents

	2009 £m	2008 £m
Cash and cash equivalents	60.8	72.9
	60.8	72.9

Cash comprises cash held by the Group and short term bank deposits with an original maturity of three months or less. The directors consider that the carrying amount of these assets to be approximately their fair value due to their short term nature.

21 Trade and other payables

	2009 £m	2008 £m
Trade payables	112.0	100.7
Accruals and deferred income	56.8	63.5
Other payables including social security	14.0	20.2
	182.8	184.4

Trade payables principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade payables is 52 days (2007/08: 49 days). The Group has financial risk management policies in place to ensure that all payables are paid within the internal credit timeframe.

The directors consider that the carrying amount of trade payables approximates to their fair value due to their short term nature.

22 Provisions

	£m
At start of period	2.3
Restructuring provisions – charge for period	9.6
Utilised in period	(8.3)
At end of period	3.6

All of the provisions are included within current liabilities and relate to restructuring items. The provisions are expected to be utilised in full within the next 52 week period.

The restructuring provisions made during the period of £9.6m comprised: £5.1m in respect of the Fenland mothballing and £4.5m relating to rationalisation charges that will help drive future profitability improvement through cost saving initiatives.

23 Financial liabilities – borrowings

Current	2009 £m	2008 £m
Bank loans and overdrafts due within one year or on demand	9.9	0.3
	9.9	0.3
Non-current	2009 £m	2008 £m
Revolving credit facility 2010	115.0	130.0
Senior loan notes 2012–2017	162.0	131.6
	277.0	261.6

Borrowings are repayable as follows:

	2009 £m	2008 £m
Within one year or on demand	9.9	0.3
In the second year	115.0	–
In the third to fifth years inclusive	52.7	175.9
After five years	109.3	85.7
	286.9	261.9

Notes to the consolidated financial statements

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23 Financial liabilities – borrowings continued

Bank loans and overdrafts are analysed by currency as follows:

	Sterling £m	US Dollars £m	Total £m
2009			
Bank loans and overdrafts due within one year or on demand	9.9	–	9.9
Revolving credit facility 2010	115.0	–	115.0
Senior loan notes 2012–2017	54.3	107.7	162.0
	179.2	107.7	286.9
2008			
Bank loans and overdrafts due within one year or on demand	0.3	–	0.3
Revolving credit facility 2010	130.0	–	130.0
Senior loan notes 2012–2017	54.3	77.3	131.6
	184.6	77.3	261.9

The average interest rates paid on bank loans and overdrafts were as follows:

	2009 %	2008 %
Bank overdrafts	5.30	6.54
Bank loans	4.39	6.17
Senior loan notes 2012–2017	5.50	5.50

Where market values are not available, fair values of financial assets and financial liabilities have been calculated by discounting expected future cash flows at prevailing interest rates and by applying period end exchange rates.

The fair value of the Senior loan notes 2012–2017 is disclosed below:

	2009 Carrying value £m	2009 Fair value £m	2008 Carrying value £m	2008 Fair value £m
Senior loan notes 2012–2017	162.0	168.3	131.6	139.0

At the period end the Group had available £345.0m (2007/08: £330.0m) of undrawn committed facilities on the Revolving credit facility 2010 and £8.8m bank overdrafts (2007/08: £4.7m), in respect of which all conditions precedent had been met.

24 Financing

Bank overdrafts

All bank loans and overdrafts are unsecured and repayable on demand, and are arranged at floating rates, thus exposing the Group to cash flow interest rate risk. The interest rate on bank overdrafts is 1.5% (2007/08: 1.0%) above the Bank of England base rate.

Revolving credit facility 2010

The Group holds a five year unsecured syndicated revolving credit facility of £460.0m. At the period end, the amount due under the facility was £115.0m (2007/08: £130.0m). The amount drawn down is repayable in periods of up to one year but is capable of being immediately refinanced as part of the committed Revolving credit facility 2010. The rate of interest fluctuates in line with market rates, thus exposing the Group to cash flow interest rate risk.

In March 2009 the Group established a Forward Start banking facility of £250.0m to July 2012 which will replace the existing £460.0m Revolving credit facility on expiry in July 2010. In April 2009, the existing facility was reduced from £460.0m to £305.0m. The current facility banking covenants are calculated under Frozen UK GAAP. The new facility covenants will be calculated under IFRS from July 2010. The new financing costs agreed as part of the Forward Start facility were effective from 25 March 2009.

The maturity profile of the Revolving credit facility 2010 is shown below. This assumes that the interest paid during future years is paid at the expected future interest rate (5.83%) and the level of debt drawn down remains consistent with borrowings at the balance sheet date.

	Interest payable over remaining life of facility £m	Repayment of principal £m	Total payable £m
Revolving credit facility 2010	8.4	115.0	123.4

24 Financing continued

Senior loan notes 2012–2017

The Company has approximately £142.7m of senior guaranteed loan notes in the US Private Placement debt market. Notes are in both US Dollars (\$155.0m) and pounds Sterling (£54.3m). The notes are fixed rate and unsecured.

The maturity profile below shows the annual cash flows paid in both the current and prior year. The cash flow hedge is currently effective. In consequence, the interest payments are fixed and are accounted for in the Consolidated income statement on an accruals basis. The charge to the Consolidated income statement corresponds to the annual interest paid. The repayment of the principal amount will not enter into the determination of profit or loss unless the hedge becomes ineffective. The effectiveness of the cash flow hedge is assessed at each balance sheet date.

Tranche	Maturity	Amount (m)	Amount £m	Interest rate	Annual swap cash flow paid to banks £m	Annual swap cash flow received from banks \$m	Annual interest paid \$m	Annual interest paid £m
Series A	Dec 2012	\$35.0	20.0	5.63%	1.1	2.0	2.0	1.1
Series B	Dec 2015	\$82.5	47.1	5.77%	2.5	4.8	4.8	2.5
Series C	Dec 2017	\$37.5	21.3	5.87%	1.2	2.2	2.2	1.2
Series D	Dec 2012	£28.5	28.5	5.47%	–	–	–	1.6
Series E	Dec 2015	£25.8	25.8	5.47%	–	–	–	1.4
			142.7					7.8

All US Dollar cash flows are hedged using cross currency swaps. Northern Foods will receive each 20 December and 20 June (the bond interest payment dates) fixed US Dollar sufficient to fully cover interest due to holders of the US Dollar denominated bonds, in exchange for payment of fixed pounds Sterling on the same date. The weighted average interest rate payable in pounds Sterling by the Company is approximately 5.5%. Additionally, the swap contracts provide for an exchange of the principal amounts at maturity at the same rate of exchange as the initial principal was translated (£1 = \$1.752).

At the period end, the carrying value of the Senior loan notes 2012–2017 was £162.0m (2007/08: £131.6m) and the derivative financial instrument on the cross currency interest rate swaps was an asset of £26.6m (2007/08: liability £4.1m). The currency element of fair value of the swaps was an asset of £19.8m (2007/08: liability £10.5m) and the interest rate element of fair value of the swaps was an asset of £6.8m (2007/08: £6.4m).

25 Financial instruments

Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns whilst maximising the return to stakeholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of net debt, as disclosed in note 26, and equity shareholders' funds, as disclosed in notes 28 and 29.

Board policy is to operate with fixed rate borrowings within a range of 20% to 50% of total net debt over the medium term, although the Group may operate outside of this range in the short term. At the year end 78% of the Group's debt was fixed (2007/08: 71%). The proportion of fixed rate borrowings increased after the business disposals made during 2006/07. The Group's net debt position is maintained daily and reviewed by management on a weekly basis.

During the period, the Company repurchased 17,490,115 shares at a cost of £11.0m (2007/08: 6,056,846 shares at a cost of £5.3m).

Notes to the consolidated financial statements

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25 Financial instruments continued

Categories of financial instruments

	Carrying value		Fair value	
	2009 £m	2008 £m	2009 £m	2008 £m
Financial assets				
Held for trading:				
Trading investments	0.1	0.1	0.1	0.1
Derivatives that are designated and effective as hedging instruments carried at fair value:				
Derivative financial instruments (cross currency interest rate swaps)	26.6	–	26.6	–
Derivative financial instruments (currency rate swaps)	1.1	–	1.1	–
Loans and receivables at amortised cost:				
Trade receivables	108.0	97.2	108.0	97.2
Cash and cash equivalents	60.8	72.9	60.8	72.9
	196.6	170.2	196.6	170.2
Financial liabilities				
Financial liability held at amortised cost in a cash flow hedging relationship:				
Senior loan notes 2012–2017	(162.0)	(131.6)	(168.3)	(139.0)
Derivatives that are designated and effective as hedging instruments carried at fair value:				
Derivative financial instruments (cross currency interest rate swaps)	–	(4.1)	–	(4.1)
Other financial liabilities at amortised cost:				
Trade payables	(112.0)	(100.7)	(112.0)	(100.7)
Bank loans and overdrafts	(9.9)	(0.3)	(9.9)	(0.3)
Revolving credit facility 2010	(115.0)	(130.0)	(115.0)	(130.0)
Finance leases	(0.5)	(0.8)	(0.5)	(0.8)
	(399.4)	(367.5)	(405.7)	(374.9)

The fair value of the trade receivables approximates to their carrying value due to the short term nature of the receivables. The fair value of the trading investments and cash and cash equivalents are based on their market value.

The fair values of the financial assets that are designated and effective as hedging instruments, have been calculated by discounting expected future cash flows at prevailing interest rates and by applying period end exchange rates.

The directors use their judgement in selecting an appropriate valuation technique for derivatives that are designated and effective as hedging instruments carried at fair value, but that are not quoted in an active market. Valuation techniques commonly used by market practitioners are applied and assumptions are made based on quoted market rates adjusted for specific features of the instrument.

The fair value of the other financial liabilities at amortised cost approximates to their carrying value. The trade and other payables approximate to their fair value due to the short term nature of the payables. The bank loans and overdrafts and the Revolving credit facility 2010 approximate to their fair value based on their variable market rate. The finance lease fair value approximates to the carrying value based on discounted future cash flows.

Financial risk management objectives

The Group collates information from across the business and reports to the Board of directors on key financial risks on a monthly basis. These risks include credit risk, liquidity risk, interest rate risk and currency risk.

The Group seeks to minimise its exposure to these risks by using derivative financial instruments where applicable. The use of derivative financial instruments is governed by Group policies which have been approved by the Board of directors. The Group only enters into trade financial instruments for specific purposes. Speculative purchases are not made. See page 87 for further details.

Credit risk management

Credit risk refers to the risk of financial loss to the Group if a counterparty defaults on its contractual obligations of the loans and receivables at amortised cost held in the balance sheet.

The Group's credit risk is primarily attributable to its trade receivables. The Group's top five customers, all leading UK retailers, continue to represent 77% of the Group's revenue. These customers have favourable credit ratings and consequently reduce the credit risk for the Group's overall trade receivables. The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with good credit ratings assigned by international credit rating agencies. Processes are in place to manage receivables and overdue debt and to ensure that appropriate action is taken to resolve issues on a timely basis. Credit control operating procedures are in place to review all new customers. Existing customers are reviewed as management become aware of changes of circumstances for specific customers. During the period, the amount written off in respect of credit risk was £0.7m (2007/08: £0.3m).

25 Financial instruments continued

The amounts presented in the balance sheet are net of appropriate allowance for doubtful trade receivables, specific customer risk and assessment of the current economic environment. The carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the Group's maximum exposure to credit risk.

Liquidity risk management

Liquidity risk refers to the risk that the Group may not be able to fund the day to day running of the Group. Liquidity risk is reviewed by the Board on a monthly basis. The Group manages liquidity risk by monitoring actual and forecast cash flows and matching the maturity profiles of financial assets and liabilities. The Group also monitors the drawdown of debt against the available banking facilities and reviews the level of reserves. Liquidity risk management ensures sufficient debt funding is available for the Group's day to day needs. Board policy is to maintain reasonable headroom of unused committed bank facilities in a range of maturities at least 12 months beyond the period end.

The Group has two principal debt facilities (notes 23 and 24):

- > Revolving credit facility 2010 (extended to 2012 through the Forward Start facility)
- > Senior loan notes 2012–2017

The Board also monitors the Group's banking covenants which are calculated under Frozen UK GAAP. When the Forward Start Revolving credit facility begins in July 2010 the covenants will be calculated under IFRS. No breaches have been made during the year or prior period.

The following table details the Group's maturity profile of its financial liabilities (excluding derivative financial instruments):

	Less than 1 month £m	1–3 months £m	3 months to 1 year £m	1–5 years £m	5+ years £m	Total £m
2009						
Senior loan notes 2012–2017	–	4.6	4.5	84.1	118.9	212.1
Trade payables	77.2	34.8	–	–	–	112.0
Bank loans and overdrafts	9.9	–	–	–	–	9.9
Revolving credit facility 2010	0.6	1.1	5.0	116.7	–	123.4
Finance leases	–	–	0.2	0.3	–	0.5
	87.7	40.5	9.7	201.1	118.9	457.9
2008						
Senior loan notes 2012–2017	–	3.8	3.7	73.6	98.2	179.3
Trade payables	69.4	31.3	–	–	–	100.7
Bank loans and overdrafts	0.3	–	–	–	–	0.3
Revolving credit facility 2010	0.6	1.3	5.7	139.8	–	147.4
Finance leases	–	–	0.2	0.6	–	0.8
	70.3	36.4	9.6	214.0	98.2	428.5

The above maturity profiles have not been discounted.

The liquidity profile of the trade payables has been assumed consistent with the Group's payment terms of 45 days (2007/08: 45 days).

The repayment of the interest and principal on the US Dollar denominated Senior loan notes 2012–2017 has been calculated at the period end rate of £1 = \$1.432 (2007/08: £1 = \$1.989).

The repayment of interest on the Revolving credit facility 2010 has been calculated on the principal at the period end date and the expected future interest rate.

Notes to the consolidated financial statements

continued

25 Financial instruments continued

The maturity profiles of the derivative financial instruments are shown below. The US Dollar exchange rate used is that at the balance sheet date of £1 = \$1.432 (2007/08: £1 = \$1.989).

	Less than 1 month £m	1–3 months £m	3 months to 1 year £m	1–5 years £m	5+ years £m	Total £m
2009						
Swap cash flow paid to banks	–	(2.4)	(2.4)	(33.3)	(78.3)	(116.4)
Swap cash flow received from banks	–	3.1	3.1	41.9	96.6	144.7
	–	0.7	0.7	8.6	18.3	28.3
2008						
Swap cash flow paid to banks	–	(2.4)	(2.4)	(38.1)	(78.3)	(121.2)
Swap cash flow received from banks	–	2.3	2.3	34.7	69.6	108.9
	–	(0.1)	(0.1)	(3.4)	(8.7)	(12.3)

Interest rate risk management

The Group is exposed to interest rate risk on borrowings drawn down on the Revolving credit facility 2010. The risk is managed by maintaining an appropriate mix between fixed and floating rate borrowings. Interest risk management balances debt financing as a tool to improve the returns through leverage in the capital structure with the potential for an increase in interest rates to impact profits negatively. Board policy is to operate with fixed rate borrowings within a range of 20% to 50% of total net borrowings over the medium term (although the Group may operate outside this range in the short term). At the year end 78% of the Group's net debt is fixed (2007/08: 71%). Board approval is required for the use of any interest rate derivative.

Interest rate sensitivity analysis has been performed on the financial assets and liabilities to illustrate the impact on Group profits and equity if interest rates increased/decreased. This analysis assumes the liabilities outstanding at the period end were outstanding for the whole period. A 100 bps increase or decrease has been used, comprising management's assessment of reasonably possible changes in interest rates.

If interest rates had been 100 bps higher/lower, then profit before taxation for the 52 weeks ended 28 March 2009 would have decreased/increased by £1.2m (2007/08: £1.3m) and equity at the balance sheet date would have decreased/increased by £1.2m (2007/08: £1.3m). It has been assumed that all other variables remained the same when preparing the interest rate sensitivity analysis.

Foreign currency risk management

Foreign currency risk management occurs at a transactional level on revenues and purchases in foreign currencies and at a translational level in relation to the translation of overseas operations. Board policy is for UK businesses to hedge transactional exposures using forward foreign exchange contracts wherever material. Transactional exposure in our Irish business has been partly hedged during the year. The remaining transactional exposure is partially offset by a translation exposure. The Senior loan notes 2012–2017 have been hedged using cross currency interest rate swaps of equivalent maturity (subject to a one off right for the counterparty bank to break the swap after seven years at the market value of the swap at that date). The Group monitors foreign exchange rates to assess the potential impact on Group profits if exchange rates move significantly and a summary of hedges in place is reported monthly to the Board.

The Group's main foreign exchange risk is to the Euro. During the 52 week period to 28 March 2009, the Euro strengthened against GBP by 14.7%, mainly in the second half of the year, with the closing rate at €1.0765 compared to €1.2621 at the prior period end. The average rate for the 52 week period to 28 March 2009 was €1.2058, a reduction of 15.1% versus prior year. The net impact of the stronger Euro on our Euro manufacturing base reduced overall profitability by £5.0m.

The overseas subsidiary, whose functional currency is the Euro, has pounds Sterling assets and liabilities at both balance sheet dates. A sensitivity analysis has been performed on these pounds Sterling financial assets and liabilities to sensitivity of a 10% increase/decrease in pounds Sterling to Euro exchange rate. A 10% increase/decrease has been used, comprising management's assessment of reasonably possible changes in Euro exchange rates. The impact on profit for the period is an increase/decrease of £0.4m (2007/08: increase/decrease of £0.3m) and the impact on equity is an increase/decrease of £0.4m (2007/08: increase/decrease of £0.3m).

A sensitivity analysis has been performed on the financial assets and liabilities to sensitivity of a 10% increase/decrease in the pounds Sterling to US Dollar exchange rate. A 10% increase/decrease has been used, comprising management's assessment of reasonably possible changes in US Dollar exchange rates. The impact on profit for the period is an increase/decrease of £nil (2007/08: £nil) and on equity is an increase/decrease of £2.3m (2007/08: £1.1m).

25 Financial instruments continued

Forward foreign exchange contracts

Group policy is to hedge individual capital expenditure foreign currency transactions of more than £0.3m. During 2008/09 the Group also entered into foreign exchange contracts to hedge an element of Sterling sales in the Irish business. The contracts are fair valued at the period end and the Group tests the effectiveness of the hedge using the hypothetical derivative method. The cumulative change in the fair value of the hypothetical derivative is compared to the cumulative fair value changes of the hedge instrument. All outstanding contracts at the period end will vest within one year.

An analysis of outstanding contracts is shown below:

	Average exchange rate		Foreign currency		Contract value		Fair value	
	2009	2008	2009 m	2008 m	2009 £m	2008 £m	2009 £m	2008 £m
Outstanding contracts:								
Buy US Dollars:								
In less than 3 months	–	1.984	–	0.6	–	0.3	–	0.3
In 3–6 months	–	1.980	–	0.1	–	0.1	–	0.1
Buy Euros:								
In less than 3 months	1.142	1.264	10.1	1.3	8.9	1.0	0.5	1.0
In 3–6 months	1.141	–	10.8	–	9.5	–	0.6	–

Changes in the fair value of non-hedging currency derivatives amounting to £nil have been charged to the income statement in the year (2007/08: £nil).

Cross currency interest rate swaps

The Company has cross currency interest rate swaps to provide a cash flow hedge against currency and interest rate movements on the US\$155.0m Senior loan notes 2012–2017. Swap contracts with a nominal value of US\$155.0m (£88.5m) have fixed Sterling interest payments at an average rate of 5.5% for periods up to 2017 and have fixed US Dollar interest receipts at an average rate of 5.76%. At the period end, swap contracts had a fair value of £26.6m (2007/08: negative £4.1m).

The cash flow hedge forms part of the Group's risk management strategy which is reviewed and authorised by the Board. The fixed cash flows will be achieved through the use of cross currency interest rate swaps. The actual risk being hedged is the foreign exchange risk.

The Group uses the Dollar offset hypothetical derivative method to test the effectiveness of the hedge. The cumulative change in the fair value of the hypothetical derivative is compared to the cumulative fair value changes of the hedge instrument. The fair values of foreign currency forward contracts are measured using quoted forward foreign exchange rates and yield curves from quoted interest rates matching maturities of the contracts. The maturity profile is shown on page 83.

26 Analysis of net debt

References to net debt refer to the total borrowings of the Group, including both short term and long term bank loans, bonds, loan notes and finance leases, after offsetting the cash and cash equivalents of the business and short term investments. Net debt will also include the proportion of the fair value of the currency swaps hedging the balance sheet value of the Group's US Dollar denominated loan notes.

The table below reconciles net debt:

	2009 £m	2008 £m
Cash and cash equivalents	60.8	72.9
Trading investments	0.1	0.1
Bank loans, overdrafts and loan notes due within one year	(9.9)	(0.3)
Finance leases	(0.5)	(0.8)
Revolving credit facility 2010	(115.0)	(130.0)
Senior loan notes 2012–2017	(162.0)	(131.6)
Currency element of fair value of swaps hedging the Group's US Dollar denominated loan notes	19.8	(10.5)
Net debt	(206.7)	(200.2)

Net debt

Net debt is not a defined term under IFRS and may not therefore be comparable with other similarly titled non-IFRS debt measures reported by other companies. The Group adopts this measure because it is used in calculating the banking covenants. It is also the measure used for internal debt analysis. In addition, the net debt balance provides an indication of the net borrowings on which the Company is required to pay interest.

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27 Deferred taxation assets/(liabilities)

	2009 £m	2008 £m
UK deferred tax asset	17.1	–
UK deferred tax liability	–	(12.4)
Overseas deferred tax liability	(2.0)	(2.3)
Net deferred tax asset/(liability)	15.1	(14.7)

IAS 12 'Income taxes' permits the offsetting of balances within the same tax jurisdiction. All of the deferred tax assets which have been offset are available for offset against deferred tax liabilities in their respective tax jurisdictions.

A reconciliation of the net asset/(liability) is shown below:

	Retirement benefit obligation £m	Other employee benefits £m	Accelerated tax depreciation £m	Revaluation of buildings £m	Other £m	Total £m
At start of prior period	6.5	1.9	2.1	(1.1)	–	9.4
(Charged)/credited to income statement in prior period	(7.8)	(0.3)	(3.1)	–	0.3	(10.9)
Restructuring items	(1.8)	–	2.4	–	–	0.6
Acquisition of subsidiaries and businesses	–	–	(0.8)	–	–	(0.8)
(Charged)/credited to equity	(12.8)	(0.1)	–	0.1	–	(12.8)
Exchange differences	0.1	–	(0.3)	–	–	(0.2)
At start of period	(15.8)	1.5	0.3	(1.0)	0.3	(14.7)
(Charged)/credited to income statement	(3.1)	0.3	–	–	–	(2.8)
Restructuring items	(1.6)	–	6.7	–	–	5.1
Movement on deferred tax due to change in legislation	–	–	(12.5)	–	–	(12.5)
Credited to equity	40.1	0.3	–	–	–	40.4
Exchange differences	0.1	–	(0.5)	–	–	(0.4)
At end of period	19.7	2.1	(6.0)	(1.0)	0.3	15.1
UK deferred tax asset/(liability)	18.7	2.1	(3.0)	(1.0)	0.3	17.1
Overseas deferred tax asset/(liability)	1.0	–	(3.0)	–	–	(2.0)
Net deferred tax asset/(liability)	19.7	2.1	(6.0)	(1.0)	0.3	15.1

The movement on deferred tax due to the change in legislation arose from the amendments to the industrial buildings allowance regime which were substantively enacted in the Finance Act 2008.

The movement on the retirement benefit obligation of £40.1m (2007/08: £12.8m) relates to the actuarial loss on the retirement benefit obligation. See note 35 for further details.

At the balance sheet date, the aggregate amount of temporary differences associated with unremitted earnings of subsidiaries for which deferred tax liabilities have not been recognised is £19.3m (2007/08: £17.4m). No liability has been recognised in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

No deferred tax has been provided on capital losses totalling £151.9m at 28 March 2009 (2007/08: £155.5m) as it is uncertain when these losses will be utilised against future taxable gains. The unprovided deferred tax asset on these losses is £42.5m (2007/08: £43.5m).

28 Share capital

	2009 number (m)	2009 £m	2008 number (m)	2008 £m
Authorised ordinary shares of 25p each	760.0	190.0	760.0	190.0
Allotted, called up and fully paid ordinary shares of 25p each:				
At start of period	514.2	128.6	514.2	128.6
At end of period	514.2	128.6	514.2	128.6

The Company has one class of ordinary shares which carry no right to fixed income.

During both the current and prior period, the Company did not issue any shares.

29 Reserves

	Share premium account £m	Capital redemption reserve £m	Reserve for own shares £m	ESOT reserve £m	Hedging and translation reserve £m	Other reserves £m	Accumulated deficit £m
At start of prior period	65.1	23.6	(34.2)	(4.2)	4.9	4.2	(66.8)
Net profit for period	-	-	-	-	-	-	34.5
Dividends	-	-	-	-	-	-	(21.0)
Actuarial gains on defined benefit pension schemes net of deferred tax	-	-	-	-	-	-	22.5
Purchase of shares for ESOT	-	-	-	(4.1)	-	-	-
Purchase of treasury shares	-	-	(5.3)	-	-	-	-
Equity settled incentive schemes net of deferred tax	-	-	-	-	-	1.0	-
Exchange differences	-	-	-	-	13.0	-	-
Increase in fair value of cash flow hedge	-	-	-	-	2.4	-	-
Transfer to profit or loss on cash flow hedge	-	-	-	1.1	-	-	-
Other movements	-	-	-	-	-	-	0.1
At start of period	65.1	23.6	(39.5)	(8.3)	21.4	5.2	(30.7)
Net profit for period	-	-	-	-	-	-	2.5
Dividends	-	-	-	-	-	-	(20.7)
Actuarial losses on defined benefit pension schemes net of deferred tax	-	-	-	-	-	-	(103.0)
Purchase of shares for ESOT	-	-	-	(0.5)	-	-	-
Purchase of treasury shares	-	-	(11.0)	-	-	-	-
Equity settled incentive schemes net of deferred tax	-	-	-	-	-	3.0	-
Exchange differences	-	-	-	-	16.9	-	-
Increase in fair value of cash flow hedge	-	-	-	-	34.0	-	-
Transfer to profit or loss on cash flow hedge	-	-	-	-	(32.5)	-	-
Other movements	-	-	-	-	-	(0.2)	0.2
At end of period	65.1	23.6	(50.5)	(8.8)	39.8	8.0	(151.7)

Share premium account

The share premium account represents amounts received in excess of the nominal value of shares on issue of new shares.

Capital redemption reserve

The capital redemption reserve arose on the repurchase and cancellation of ordinary shares.

Reserve for own shares

The reserve for own shares held by the Group represents the shares in the Company held in treasury. The number of shares held in treasury at the balance sheet date was 45,461,961 (2007/08: 27,971,846).

ESOT reserve

The ESOT holds shares which are primarily used to satisfy awards made under long term incentive plans. The number of shares held in the ESOT at the balance sheet date was 7,682,843 (2007/08: 6,697,363).

Hedging and translation reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

The translation element of the reserve records exchange differences arising from the translation of the financial statements of foreign subsidiaries.

Other reserves

Other reserves primarily represent the equity component of share based payment arrangements and the remaining revaluation reserve from when the Group accounted under UK GAAP.

Accumulated deficit

The accumulated deficit comprises the Group's annual profits and losses, actuarial gains and losses on the defined benefit pension schemes and dividend payments.

Notes to the consolidated financial statements

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30 Reconciliation of net cash from operating activities

	Notes	2009 £m	2008 £m
Profit from operations – continuing operations	5	17.3	43.7
Adjustments for:			
Depreciation of property, plant and equipment and amortisation of other intangible assets	14, 15	39.3	41.7
Impairment of property, plant and equipment	15	24.0	1.5
Loss on disposal of property, plant and equipment		0.1	0.3
Increase/(decrease) in provisions	22	1.3	(5.4)
Change in retirement benefit obligation excluding special pension contributions		(2.5)	2.0
Equity settled incentive scheme		2.7	1.1
Grants and other non-cash movements		(1.5)	(0.9)
Operating cash flow before movement in working capital and special pension contributions		80.7	84.0
Special pension contributions		–	(22.0)
Operating cash flow before movement in working capital		80.7	62.0
Movement in inventories		1.3	1.5
Movement in trade and other receivables		(2.8)	3.7
Movement in trade and other payables		(8.5)	(16.8)
Cash from operations		70.7	50.4
Interest paid		(15.6)	(14.9)
Net taxation paid		(1.0)	(3.0)
Net cash from operating activities		54.1	32.5

31 Contingent liabilities

A number of subsidiary companies and Northern Foods plc are guarantors in respect of the Senior loan notes 2012–2017, whereby they absolutely and unconditionally guarantee the principal and interest on the Senior loan notes 2012–2017. Additionally, the same subsidiary companies are cross guarantors in respect of the five year syndicated Revolving credit facility 2010.

A subsidiary undertaking is party to a letter of credit issued by Barclays Bank plc for £nil (2007/08: £4.5m) secured against the assets of the subsidiary undertaking.

Northern Foods plc is the guarantor in respect of the obligations of several subsidiary undertakings with Allied Irish Bank. As at 28 March 2009 Northern Foods plc guaranteed £0.7m (2007/08: £nil).

32 Operating lease commitments

The Group recognised the following lease payments under operating leases as an expense in the year:

	2009 £m	2008 £m
Plant and machinery	2.2	2.7
Land and buildings	0.8	2.2
	3.0	4.9

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases fall due as follows:

	2009 £m	2008 £m
Within one year	4.2	4.8
In the second to fifth years inclusive	12.0	9.4
After five years	3.2	10.5
	19.4	24.7

The Group leases various offices and warehouses under non-cancellable operating lease agreements. The leases have various terms, escalation clauses and renewal rights. The Group also leases plant and machinery and vehicles under non-cancellable operating lease agreements.

33 Finance leases

The Group's finance lease obligations are shown below:

	2009 £m	2008 £m
Within one year	0.2	0.2
In the second to fifth years inclusive	0.3	0.6
	0.5	0.8

The fair value of the Group's finance lease obligations approximates to their carrying value.

34 Equity settled share based payments

Equity settled share option plan

The Group has applied the requirements of IFRS 2 'Share-based payments'. In accordance with the transitional provisions, IFRS 2 has been applied to all grants of equity instruments after 7 November 2002 that were unvested at 1 January 2005.

The Group operates long term incentive schemes for executive directors and senior management within the Group in addition to issuing an HM Revenue & Customs Savings-related share option scheme for all employees. Options are granted with a fixed exercise price. Options lapse when an employee leaves the Group subject to certain 'good leaver' provisions.

The fair value per option granted and the assumptions used in the calculations are as follows:

Executive share options	Grant of share options	Grant of share options	Grant of share options	Grant of share options
Date of grant	19 Dec 2003	17 Dec 2004	14 Dec 2005	4 July 2006
Number of instruments granted	3,375,195	2,313,123	2,059,231	4,218,455
Exercise price (pence)	137.0	169.7	153.3	79.7
Share price at date of grant (pence)	135.0	166.5	153.5	84.0
Contractual life (years)	10	10	10	10
Performance conditions	Note A	Note B	Note B	Note B
Settlement	Equity	Equity	Equity	Equity
Expected volatility	37%	33%	30%	30%
Expected option life at grant date (years)	5	5	5	5
Risk free interest rate	4.78%	4.44%	4.30%	4.70%
Expected dividend (dividend yield)	6.79%	5.25%	6.00%	5.40%
Fair value per granted instrument determined at the grant date (pence)	27.5	36.0	26.4	15.3
Valuation model	Black-Scholes	Black-Scholes	Black-Scholes	Black-Scholes

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34 Equity settled share based payments continued

Other arrangements	Long term incentive plan	Long term incentive plan	Share bonus plan	Share bonus plan	Deferred share bonus plan
Date of grant	12 Dec 2005	4 July 2006	4 July 2006	13 June 2007	13 July 2006
Number of instruments granted	474,442	1,013,523	408,809	357,028	4,928,287
Exercise price (pence)	nil	nil	nil	nil	nil
Share price at date of grant (pence)	153.7	84.0	84.0	123.5	81.8
Contractual life (years)	5	5	3	3	3
Performance conditions	Note C	Note C	Note D	Note D	Note E
Settlement	Equity	Equity	Equity	Equity	Equity
Expected volatility	30.0%	30.0%	30.0%	25.0%	30.0%
Expected life at grant date (years)	3	3	3	3	3
Risk free interest rate	4.30%	4.70%	4.70%	5.77%	4.70%
Expected dividend (dividend yield)	6.00%	5.40%	5.40%	4.78%	5.40%
Fair value per granted instrument determined at the grant date (pence)	128.1	61.1	61.0	88.9	40.9
Valuation model	Black-Scholes	Black-Scholes	Black-Scholes	Black-Scholes	Black-Scholes

Other arrangements	Matching share award	Performance share plan	Performance share plan	Deferred share bonus plan
Date of grant	4 June 2007	29 Aug 2007	5 Dec 2007	26 Sept 2007
Number of instruments granted	1,040,460	2,441,010	3,350,000	194,586
Exercise price (pence)	nil	nil	nil	nil
Share price at date of grant (pence)	129.7	98.8	87.0	101.7
Contractual life (years)	3 and 4	3	3	2
Performance conditions	Note G	Note F	Note F	Note E
Settlement	Equity	Equity	Equity	Equity
Expected volatility	25.2%	27.2%	30.9%	30.0%
Expected life at grant date (years)	3 and 4	3	3	2
Risk free interest rate	5.77%	5.26%	4.41%	5.11%
Expected dividend (dividend yield)	0	0	0	0
Fair value per granted instrument determined at the grant date (pence)	89.14	58.90	49.17	101.70
Valuation model	Monte Carlo	Monte Carlo	Monte Carlo	Black-Scholes

Other arrangements	Save as you earn	Save as you earn	Performance share plan	Performance share plan
Date of grant	20 Dec 2007	20 Dec 2007	4 July 2008	9 Dec 2008
Number of instruments granted	4,607,258	5,390,539	4,238,949	310,625
Exercise price (pence)	76.0	76.0	nil	nil
Share price at date of grant (pence)	90.0	90.0	57.0	55.8
Contractual life (years)	3.5	5.5	3	3
Performance conditions	Note H	Note H	Note I	Note I
Settlement	Equity	Equity	Equity	Equity
Expected volatility	27.5%	27.4%	32.6%	40.5%
Expected life at grant date (years)	3.25	5.25	3	3
Risk free interest rate	4.45%	4.56%	4.97%	2.26%
Expected dividend (dividend yield)	4.78%	4.78%	0	0
Fair value per granted instrument determined at the grant date (pence)	20.11	21.53	3764	3747
Valuation model	Monte Carlo	Monte Carlo	Monte Carlo	Monte Carlo

Expected volatility was determined by calculating the historical volatility of the Group's share price over a period commensurate with the expected term of the relevant award. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

34 Equity settled share based payments continued

Performance conditions – notes

- A Performance condition measured by reference to earnings per share. The target requires that the real growth in earnings per share over the three year performance period is greater than 3% per annum compound. The performance condition allowed for retesting after years four and five against the full period from the grant.
- B Performance condition measured by reference to earnings per share. The target requires that the real growth in earnings per share over the three year performance period is greater than 3% per annum compound. The performance condition does not allow for retesting.
- C The LTIP has two performance conditions:
- TSR: The total number of shares that will vest will be up to 50% dependent on how the TSR in relation to an ordinary share of Northern Foods over the relevant performance period compares with TSR in relation to the ordinary shares of the companies in the comparator group in the same period. Where the TSR of Northern Foods over the performance period places it between the median and the upper quartile the number of shares will be calculated on a straight line basis with 20% of the shares being received when Northern Foods is placed above median, and 50% being received where Northern Foods is placed in the upper quartile. Where Northern Foods growth in TSR places it below median, no shares will vest in relation to this element of the award.
- Return on invested capital (ROIC): 50% of the total award vests on achievement of a minimum growth in ROIC over the performance period. Growth in ROIC over the period has to be 100 or more basis points. The number of shares that each participant receives is calculated on a straight line basis with 7.5% of the shares being received if Northern Foods achieves growth of 100 basis points and maximum of 50% being received if the Company achieves growth of 200 basis points.
- D Under the Share bonus plan, 80% of annual bonus opportunity is linked to specific financial targets, including targets for profit from operations and profit before tax, both measured before restructuring items. The other 20% is directly related to individual performance against personal performance contracts set at the start of the financial year, which contain six individual and business performance targets which are considered appropriately stretching.
- E The Deferred share bonus plan (DSBP) was introduced in June 2006 so as to incentivise and retain the key talent necessary to drive the specific performance improvements required. Performance was assessed against key milestones over the 12 month period to 31 March 2007. These four key milestones related to improving free cash flow and reducing net debt as at 1 April 2006 by £125m, reducing the run rate for central costs by £12m per annum compared to 2005/06 and the successful resolution of the pension deficit. This DSBP provided a smaller number of key senior executives with an award of shares with a value up to 100% of base salary, at the prevailing market price of 81.75 pence per share on 13 July 2006. These shares will be satisfied by the transfer of existing shares held in trust after the vesting date in July 2009.
- F The Performance share plan was introduced to incentivise the Group's senior executives. There are two performance conditions which will align the interests of senior executives with those of shareholders.
- TSR: The total number of shares that will vest will be up to 50% dependent on TSR growth over the performance period. TSR is required to grow by 30% from the effective base of £1.24 for 7.5% of the shares to vest up to a maximum of 50% being received if the TSR grows by 80% or more.
- ROIC: 50% of the total award vests on achievement of a minimum growth in ROIC over the performance period. The number of shares that each participant receives is calculated on a straight line basis with 7.5% of the shares being received if the Group achieves growth of 100 basis points and maximum of 50% being received if the Group achieves growth of 200 basis points or more.
- G The award of matching shares to S Barden was made as part of his recruitment as chief executive. The performance conditions attached to the matching share award are the same as those for the Performance share plan (see F) save that threshold vesting of the TSR element will not occur unless the Group achieves growth in TSR of 35% over the relevant period. Half the matching award will vest on the third anniversary of the grant with the other half vesting on the fourth anniversary of the grant to the extent that the performance conditions are met and providing he retains the purchased shares and remains employed by the Group.
- H The Group introduced a HM Revenue & Customs approved savings-related share option plan for all employees. There are no performance conditions attached to these options.
- I This relates to the second year of awards under the Performance share plan. The two performance conditions which will align the interests of senior executives with those of shareholders are:
- TSR: The total number of shares that will vest will be up to 50% dependent on TSR growth over the performance period. TSR is required to grow by 30% from the effective base of £0.659 for 7.5% of the shares to vest up to a maximum of 50% being received if the TSR grows by 80% or more.
- ROIC: 50% of the total award vests on achievement of a minimum growth in ROIC over the performance period. The number of shares that each participant receives is calculated on a straight line basis with 7.5% of the shares being received if the Group achieves growth of 100 basis points and maximum of 50% being received if the Group achieves growth of 200 basis points or more.

For further information on share incentive schemes see the Remuneration report on pages 41 to 52.

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34 Equity settled share based payments continued

Details of movements in share options during the period are as follows:

	Options 2009 number	Weighted average exercise price 2009 £	Options 2008 number	Weighted average exercise price 2008 £
Outstanding at start of period	1,920,865	0.80	8,533,451	1.23
Forfeited during period	(517,762)	0.80	(5,410,637)	1.34
Expired during period	–	–	(1,201,949)	1.46
Outstanding at end of period	1,403,103	0.80	1,920,865	0.80
Exercisable at end of period	1,403,103	0.80	1,920,865	0.80

Forfeiture arises when the employee leaves within the vesting period. Expiration of shares occurs when the last date for exercise has passed and the option has not been exercised.

There were no share options exercised during the period (2007/08: nil). The options outstanding had a weighted average remaining contractual life of 7.27 years (2007/08: 8.27 years). The weighted average fair value of the share options outstanding is £0.15 (2007/08: £0.15) per share. The exercise price of options outstanding at the period end was £0.80 (2007/08: £0.80).

The Group recognised total expenses of £2.7m (2007/08: £1.1m) in the period relating to equity settled share based payment transactions.

35 Retirement benefit obligations

Defined benefit schemes

The Group operates a number of defined benefit schemes for qualifying employees, principally the Northern Foods Pension Scheme ('the Scheme') and Northern Foods Pension Builder ('Pension Builder') in the United Kingdom and the Green Isle Foods Group Retirement and Death Benefit Plan ('the Plan') in the Republic of Ireland. Under the Scheme, Pension Builder and the Plan, employees are entitled to retirement benefits based on pay and service. The Scheme, Pension Builder and the Plan are funded schemes whilst the Group's Post retirement medical benefit scheme is unfunded. The Scheme and the Plan are final salary schemes. The assets of the Scheme, Pension Builder and the Plan are held in trustee administered funds separate from the finances of the Group.

On 22 March 2005 the Company announced the closure of the Scheme to new entrants and withdrew its agreement to allow early retirement on an enhanced basis. Pension Builder was introduced on 1 May 2005 and is available to all UK based employees. Pension Builder is a defined benefit scheme based on the career average principle.

Northern Foods has reviewed the future cost of delivering benefits against a challenging background of social and economic changes in order to maintain competitiveness and long term success. This has resulted in approximately 300 of the senior management population moving from the Scheme and Pension Builder to a defined contribution scheme from 29 March 2009.

The most recent valuation of the Scheme for the purpose of the financial statements and the present value of defined benefit obligations was carried out at 28 March 2009 by an independent qualified actuary, PricewaterhouseCoopers LLP. The present value of the defined benefit obligation/asset, the related current service cost and past service cost was measured using the projected unit credit method. The principal assumptions used for the purpose of the actuarial valuation of the Scheme and Pension Builder are detailed below.

	Valuation date	
	2009	2008
Rate of increase in salaries	3.0%	3.9%
Rate of increase to pensions in payment	2.7%	3.1%
Rate of increase to deferred pensions	3.0%	3.4%
Discount rate	6.8%	6.4%
Inflation assumption	2.8%	3.4%

35 Retirement benefit obligations continued

Sensitivities

The mortality assumptions used are based on mortality experience of the Scheme and anticipated mortality experience. The assumptions are below the national average reflecting the socio-economic make up of the Scheme membership. For the valuation at 28 March 2009, the Company has adopted the medium cohort principle for the Scheme and Pension Builder (2007/08: medium cohort). If life expectancy is increased or decreased by one year, liabilities are estimated to increase or decrease by £15.0m respectively. The impact of a 0.1% increase or decrease in the discount rate would decrease or increase liabilities by £11.0m respectively. The impact of a 0.1% increase or decrease in the rate of increase to pensions would increase or decrease liabilities by £5.2m respectively. The impact of a 0.1% increase or decrease in the inflation assumption would increase or decrease liabilities by £1.5m respectively.

The life expectancy in years for a member aged 65 is as follows:

	Valuation date	
	2009	2008
Current pensioner – male	18.7	18.7
– female	21.0	21.0
Future pensioner – male	20.0	20.0
– female	22.2	22.2

Post retirement medical benefit scheme

Until 31 March 1999, the Group operated a post retirement medical benefit scheme. The method of accounting, assumptions and the frequency of valuations are similar to those used for defined benefit pension schemes detailed on page 94. The main actuarial assumptions are the underlying medical cost inflation of 4.8% per annum (2007/08: 5.4%) and the discount rate of 6.8% per annum (2007/08: 6.4%).

If the assumed rate of underlying medical cost inflation increased or decreased by 1.0% per annum then the valuation of the liabilities is estimated to increase or decrease by approximately £0.5m (2007/08: £0.4m) respectively.

Amounts recognised in the income statement in respect of the Group's defined benefit schemes and post employment medical benefit scheme are as follows:

	Defined benefit schemes		Post retirement medical benefit scheme		Total retirement benefit schemes	
	2009 £m	2008 £m	2009 £m	2008 £m	2009 £m	2008 £m
Current service cost	6.2	9.7	–	–	6.2	9.7
Interest on obligation	45.0	42.3	0.3	0.2	45.3	42.5
Expected return on scheme assets	(53.8)	(58.2)	–	–	(53.8)	(58.2)
Curtailment gain	(1.2)	–	–	–	(1.2)	–
	(3.8)	(6.2)	0.3	0.2	(3.5)	(6.0)

The service cost for the period has been included within cost of sales £5.4m (2007/08: £8.4m), distribution costs £0.3m (2007/08: £0.5m) and administrative expenses £0.5m (2007/08: £0.8m). The interest on obligation and expected return on scheme assets is included within financing. Actuarial gains and losses have been reported in the Consolidated statement of recognised income and expense.

The curtailment gain of £1.2m consists of a £0.4m gain following the mothballing of the Fenland site, and a £0.8m gain on moving 300 members of the leadership population out of the defined benefit schemes to a defined contribution scheme effective 1 April 2009.

Notes to the consolidated financial statements

continued

35 Retirement benefit obligations continued

The amounts recognised in the Consolidated balance sheet in respect of the Group's defined benefit schemes and post retirement medical benefit scheme are as follows:

	Defined benefit schemes		Post retirement medical benefit scheme		Total retirement benefit schemes	
	2009 £m	2008 £m	2009 £m	2008 £m	2009 £m	2008 £m
Present value of obligations	(705.1)	(718.2)	(3.6)	(4.4)	(708.7)	(722.6)
Fair value of scheme assets	637.2	784.2	–	–	637.2	784.2
	(67.9)	66.0	(3.6)	(4.4)	(71.5)	61.6

The following table shows the split of the Group's defined benefit schemes and post retirement medical benefit scheme between retirement benefit assets and retirement benefit obligations:

	Defined benefit schemes		Post retirement medical benefit scheme		Total retirement benefit schemes	
	2009 £m	2008 £m	2009 £m	2008 £m	2009 £m	2008 £m
Retirement benefit assets	–	71.5	–	–	–	71.5
Retirement benefit obligations	(67.9)	(5.5)	(3.6)	(4.4)	(71.5)	(9.9)
	(67.9)	66.0	(3.6)	(4.4)	(71.5)	61.6

The table above does not include the related deferred tax assets and liabilities.

Movements in the present value of obligations are as follows:

	Defined benefit schemes		Post retirement medical benefit scheme		Total retirement benefit schemes	
	2009 £m	2008 £m	2009 £m	2008 £m	2009 £m	2008 £m
At start of period	718.2	805.4	4.4	4.7	722.6	810.1
Current service cost	6.2	9.7	–	–	6.2	9.7
Interest on obligation	45.0	42.3	0.3	0.2	45.3	42.5
Actuarial gains	(36.1)	(109.2)	(0.8)	(0.3)	(36.9)	(109.5)
Curtailment gain	(1.2)	–	–	–	(1.2)	–
Contributions from scheme members	4.8	5.1	–	–	4.8	5.1
Benefits paid	(34.9)	(37.5)	(0.3)	(0.2)	(35.2)	(37.7)
Exchange differences	3.1	2.4	–	–	3.1	2.4
At end of period	705.1	718.2	3.6	4.4	708.7	722.6

Movements in the fair value of scheme assets are as follows:

	Defined benefit schemes	
	2009 £m	2008 £m
At start of period	784.2	801.5
Expected return on scheme assets	53.8	58.2
Actuarial losses	(180.0)	(74.2)
Contributions from sponsoring companies	7.1	29.5
Contributions from scheme members	4.8	5.1
Benefits paid	(34.9)	(37.5)
Exchange differences	2.2	1.6
At end of period	637.2	784.2

35 Retirement benefit obligations continued

The fair value of scheme assets at the balance sheet date and the expected rate of return are analysed as follows:

	2009 £m	2008 £m	2009 %	2008 %
Defined benefit schemes				
Equity	338.9	498.0	8.1	7.9
Bonds	284.5	284.0	6.8	6.4
Other	13.8	2.2	0.5	5.3
	637.2	784.2		

The expected return on individual classes of pension scheme assets are determined by reference to external indices and after taking advice from external advisers. The overall expected rate of return is the weighted average of the returns above, allowing for anticipated balances held in each asset class according to the Scheme's investment strategy. The actual return on scheme assets was a loss of £126.2m (2007/08: £16.0m).

Work has continued to reduce future funding volatility of the Scheme as the revised investment strategy, agreed in 2008/09 is implemented. Paragraph 106 of IAS 19 requires the expected return on plan assets to be based on market expectations of returns over the entire life of the related obligation and as such the revised expected returns have been reflected. The weighted average expected return of the revised investment strategy is 7.1% and this will be used to calculate the expected return on assets for 2009/10.

The history of experience adjustments is as follows:

	2009 £m	2008 £m	2007 £m	2006 £m	2005 £m
Defined benefit schemes					
Present value of obligations	(705.1)	(718.2)	(805.4)	(813.0)	(729.3)
Fair value of scheme assets	637.2	784.2	801.5	727.8	562.9
Deficit in the scheme	(67.9)	66.0	(3.9)	(85.2)	(166.4)
Experience adjustments on scheme obligations:					
Amount loss/(gain)	56.0	–	–	30.2	(0.7)
Percentage of scheme obligations	7.9%	–	–	3.7%	0.1%
Experience adjustments on scheme assets:					
Amount (loss)/gain	(180.0)	(74.2)	(15.5)	99.6	14.2
Percentage of scheme obligations	25.5%	9.5%	1.9%	13.7%	2.5%

The cumulative effect of the experience adjustments on scheme liabilities as included in the Consolidated statement of recognised income and expense is a loss of £26.5m (2007/08: gain of £29.5m).

The cumulative effect of the experience adjustments on scheme assets as included in the Consolidated statement of recognised income and expense is a loss of £170.2m (2007/08: gain of £9.8m).

The Group expects to make contributions of approximately £5m to its defined benefit schemes in 2009/10.

Notes to the consolidated financial statements

continued

36 Events after the balance sheet date

On 27 May 2008 the Group announced that following the conclusion of negotiations to seek mutually acceptable and commercially viable terms for business supplied from Northern Foods' Hull ready meals facility, Northern Foods and its main customer served by the site have agreed to terminate the existing supply contracts.

As a result, we will be commencing consultation with employees on a proposal to cease production and close the site, in accordance with our strategy to continue with business only where terms generate an adequate return. The proposal includes consultation to move a proportion of production to other facilities. The net profit impact in 2009/10 will be minimal and the Company will incur a one off cash restructuring cost in the 2009/10 financial year which is expected to be less than £5m. Our 2008/09 accounts include a non-cash impairment of £5.9m.

The Group has also proposed a final dividend outlined in note 11 which is a non-adjusting post balance sheet event.

There have been no other post balance sheet events.

37 Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

Remuneration of key management personnel

The remuneration of the Board of directors, who are the key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS 24 'Related party disclosures'. Further information about the remuneration of individual directors is provided in the audited section of the Directors' remuneration report.

	2009 £m	2008 £m
Salaries and other short term employee benefits	1.3	1.8
Post employment benefits	0.1	–
Compensation for loss of office	–	0.2
Share based payments	0.6	0.4
	2.0	2.4

Independent auditors' report to the members of Northern Foods plc

We have audited the parent company financial statements of Northern Foods plc for the 52 weeks ended 28 March 2009 which comprise the Company balance sheet, the Company cash flow statement, the Company statement of recognised income and expense, and the related notes 38 to 57.

These parent company financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the Group financial statements of Northern Foods plc for the 52 weeks ended 28 March 2009 and on the information in the Directors' remuneration report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual report and the parent company financial statements in accordance with applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union are set out in the Statement of directors' responsibilities.

Our responsibility is to audit the parent company financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the parent company financial statements give a true and fair view and whether the parent company financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' report is consistent with the parent company financial statements.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the other information contained in the Annual report as described in the contents section and consider whether it is consistent with the audited parent company financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent company financial statements. Our responsibilities do not extend to any further information outside the Annual report.

Basis of audit opinion

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

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

Opinion

In our opinion:

- > the parent company financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the Company's affairs as at 28 March 2009;
- > the parent company financial statements have been properly prepared in accordance with the Companies Act 1985; and
- > the information given in the Directors' report is consistent with the parent company financial statements.

Deloitte LLP

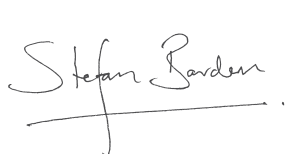
Chartered Accountants and Registered Auditors
Leeds
27 May 2009

Company balance sheet

as at 28 March 2009

	Notes	28 March 2009 £m	29 March 2008 £m
Non-current assets			
Property, plant and equipment	42	72.6	88.2
Investments in subsidiaries	43	1,028.0	1,080.3
Retirement benefit assets	56	–	71.5
Derivative financial instruments	49	26.6	–
Deferred tax assets	50	13.8	–
		1,141.0	1,240.0
Current assets			
Trade and other receivables	44	417.1	349.2
Derivative financial instruments	49	0.1	–
Cash and cash equivalents	45	48.5	58.3
		465.7	407.5
Total assets		1,606.7	1,647.5
Current liabilities			
Trade and other payables	46	(224.5)	(109.7)
Provisions	47	(1.4)	(2.0)
Current taxation liabilities		(12.6)	(18.4)
Bank loans and overdrafts	48	(9.9)	(0.3)
		(248.4)	(130.4)
Non-current liabilities			
Revolving credit facility 2010	48	(115.0)	(130.0)
Senior loan notes 2012–2017	48	(162.0)	(131.6)
Derivative financial instruments	49	–	(4.1)
Long term loans due to subsidiary undertakings		(490.2)	(499.1)
Retirement benefit obligations	56	(63.1)	(4.4)
Deferred taxation liabilities	50	–	(16.2)
Accruals and deferred income		(2.6)	–
		(832.9)	(785.4)
Total liabilities		(1,081.3)	(915.8)
Net assets		525.4	731.7
Equity			
Share capital	51	128.6	128.6
Share premium account	52	65.1	65.1
Capital redemption reserve	52	23.6	23.6
Reserve for own shares	52	(50.5)	(39.5)
Employee share ownership trust reserve	52	(8.8)	(8.3)
Hedging and translation reserve	52	6.9	6.4
Other reserves	52	7.2	4.3
Retained earnings	52	353.3	551.5
Total equity		525.4	731.7

The financial statements were approved by the Board of directors and authorised for issue on 27 May 2009. They were signed on its behalf by:



S Barden
Director
27 May 2009



A M Booker
Director
27 May 2009

Company cash flow statement

for the 52 weeks ended 28 March 2009

	Notes	2009 £m	2008 £m
Net cash from operating activities	53	28.7	12.7
Investing activities:			
Interest received		0.2	0.6
Purchase of property, plant and equipment		(1.1)	(0.1)
Proceeds of sale of property, plant and equipment		–	4.1
Net cash (used in)/from investing activities		(0.9)	4.6
Financing activities:			
Dividends paid	11	(20.7)	(21.0)
(Decrease)/increase in amounts drawn on Revolving credit facility 2010	23	(15.0)	45.0
Purchase of treasury shares	52	(11.0)	(5.3)
Purchase of shares for Employee share ownership trust	52	(0.5)	(4.1)
Net cash (used in)/from financing activities		(47.2)	14.6
Net (decrease)/increase in cash and cash equivalents		(19.4)	31.9
Cash and cash equivalents at start of period		58.0	26.1
Cash and cash equivalents at end of period		38.6	58.0
Cash and cash equivalents comprise:			
Cash and cash equivalents		48.5	58.3
Bank overdrafts		(9.9)	(0.3)
		38.6	58.0

Company statement of recognised income and expense

for the 52 weeks ended 28 March 2009

	Notes	2009 £m	2008 £m
Actuarial (losses)/gains on defined benefit pension schemes	52, 56	(141.3)	35.5
Taxation on actuarial (losses)/gains taken directly to equity	50, 52	39.9	(12.8)
Fair value movement on cash flow hedge	52	30.8	2.4
Transfer to profit or loss on cash flow hedge	52	(30.3)	1.1
Net (loss)/income recognised directly in equity		(100.9)	26.2
(Loss)/profit for the period		(76.1)	99.6
Net (loss)/income recognised directly in equity		(177.0)	125.8

Total recognised income and expense for the period is all attributable to equity holders of the parent.

Notes to the Company financial statements

38 Significant accounting policies

The separate financial statements of the Company are presented as required by the Companies Act 1985. As permitted by that act, the separate financial statements have been prepared in accordance with IFRS.

The financial statements have been prepared on the historical cost basis. The principal accounting policies adopted are the same as those detailed in note 2 of the Consolidated financial statements, except as set out below:

Investments in subsidiaries are stated at cost less any provision for impairment.

39 Loss for the period

Of the Group profit for the period, a loss of £76.1m (2007/08: profit of £99.6m) has been dealt with in the accounts of the parent company. In accordance with the exemptions allowed by section 230(3) of the Companies Act 1985, the parent company has not presented its own income statement.

40 (Loss)/profit from operations

A detailed analysis of auditors' remuneration is provided below:

	2009 Deloitte LLP £'000	2008 Deloitte LLP £'000
Audit services		
Fees payable to the Company's auditors for the audit of the Group's Annual report	85	80
	85	80
Other services		
Other services supplied pursuant to such legislation – Half year review	38	37
Other services – Accounting advice	–	30
Other	–	20
	38	87
Tax services		
Advisory services	142	119
Compliance	139	143
	281	262
Total	404	429

Deloitte LLP were appointed sole Group auditors for both the current and prior period.

41 Staff costs

The average monthly number of employees (including executive directors) was:

	2009 number	2008 number
Administration	260	284

Aggregate remuneration comprised:

	2009 £m	2008 £m
Wages and salaries	8.9	9.0
Social security costs	1.1	1.1
Other pension costs	0.8	0.8
	10.8	10.9

42 Property, plant and equipment

	Freehold property £m	Leasehold property £m	Plant, fixtures and vehicles £m	Total £m
Cost or valuation:				
At start of prior period	113.1	16.1	24.6	153.8
Additions	–	–	0.1	0.1
Disposals	(5.1)	–	–	(5.1)
Reclassifications	0.1	–	(0.1)	–
Group transfers	–	–	0.1	0.1
At start of period	108.1	16.1	24.7	148.9
Additions	–	–	1.2	1.2
At end of period	108.1	16.1	25.9	150.1
Accumulated depreciation and impairment losses:				
At start of prior period	37.1	3.7	14.9	55.7
Charge for period	2.1	0.3	2.0	4.4
Restructuring provision for impairment	–	–	1.3	1.3
Disposals	(0.7)	–	–	(0.7)
At start of period	38.5	4.0	18.2	60.7
Charge for period	1.7	0.3	1.7	3.7
Restructuring provision for impairment	13.1	–	–	13.1
At end of period	53.3	4.3	19.9	77.5
Carrying amount:				
At end of period	54.8	11.8	6.0	72.6
At start of period	69.6	12.1	6.5	88.2

At the period end, the Company had entered into contractual commitments for the purchase of property, plant and equipment amounting to £nil (2007/08: £nil).

Impairment charges of £13.1m were incurred during the period, relating to properties that are used within the Chilled segment. The Company impaired these asset values on a fair value less costs to sell basis, using past experience and external sources of information such as open market valuations. The Company performs impairment reviews where there is an indicator of impairment.

The recoverable amounts of other items of property, plant and equipment were determined from value in use calculations. No impairments were identified on these assets. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the period. Management estimates discount rates using the Group's weighted average cost of capital.

The Company prepares cash flow forecasts derived from the most recent financial plans approved by management for the next five years and extrapolates these cash flows in perpetuity using growth assumptions relevant for the business sector. The growth rate does not exceed 3.0% (2007/08: does not exceed 3.0%) and is not considered to be higher than the average long term industry growth rate.

The rate used to discount the forecast cash flows for all CGUs are based on the Group's pre-tax weighted average cost of capital of 11.1% (2007/08: 11.1%).

Notes to the Company financial statements

continued

43 Investments in subsidiaries

The Company's principal subsidiaries at the period end are as follows:

Directly owned:

Convenience Foods Limited
Northern Foods Grocery Group Limited

Indirectly owned:

F W Farnsworth Limited
Green Isle Foods Limited
Cavaghan & Gray Group Limited
Cavaghan & Gray Limited
Solway Foods Limited
Ethnic Cuisine Limited

The above companies are all wholly owned (ordinary shares), and their principal activities are food manufacture. All are incorporated in the UK except for Green Isle Foods Limited, which is incorporated in the Republic of Ireland.

Subsidiary undertakings:	2009 £m	2008 £m
At start of period	872.5	889.5
Impairment of investments	–	(17.0)
At end of period	872.5	872.5
Long term loans due from subsidiary undertakings	155.5	207.8
	1,028.0	1,080.3

The directors consider the value of investments to be supported by their underlying assets.

44 Trade and other receivables

	2009 £m	2008 £m
Receivables from subsidiary undertakings	414.3	344.0
Other receivables	1.6	4.2
Other prepayments	1.2	1.0
	417.1	349.2

The directors consider that the carrying amount of trade and other receivables approximates to their fair value. The directors consider that the maximum credit risk at the balance sheet date is equivalent to the carrying value of trade and other receivables. None of the above are considered past due or impaired at the period end.

45 Cash and cash equivalents

	2009 £m	2008 £m
Cash and cash equivalents	48.5	58.3
	48.5	58.3

Cash and cash equivalents comprises cash held by the Company and short term bank deposits with an original maturity of three months or less. The directors consider that the carrying amount of these assets to be approximately their fair value.

46 Trade and other payables

	2009 £m	2008 £m
Trade payables	4.2	3.0
Payables due to subsidiary undertakings	205.8	86.8
Accruals and deferred income	3.8	3.3
Other payables including social security	10.7	16.6
	224.5	109.7

Trade payables principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade payables is 33 days (2007/08: 33 days). The Company has financial risk management policies in place to ensure that all payables are paid within the internal credit timeframe. The directors consider that the carrying amount of trade payables approximates to their fair value.

47 Provisions

	£m
At start of period	2.0
Restructuring provisions – charge for period	0.6
Utilised in period	(1.2)
At end of period	1.4

All of the £1.4m provisions are included within current liabilities and relate to restructuring items. The provision is expected to be utilised in full within the next 52 week period.

The restructuring provisions made during the period of £0.6m are in respect of central cost reduction initiatives.

48 Financial liabilities – borrowings

Current	2009 £m	2008 £m
Bank loans and overdrafts due within one year or on demand	9.9	0.3
	9.9	0.3

Non-current	2009 £m	2008 £m
Revolving credit facility 2010	115.0	130.0
Senior loan notes 2012–2017	162.0	131.6
	277.0	261.6

Borrowings are repayable as follows:

	2009 £m	2008 £m
Within one year or on demand	9.9	0.3
In the second year	115.0	–
In the third to fifth years inclusive	52.7	175.9
After five years	109.3	85.7
	286.9	261.9

Notes to the Company financial statements

continued

48 Financial liabilities – borrowings continued

Bank loans and overdrafts are analysed by currency as follows:

	Sterling £m	US Dollars £m	Total £m
2009			
Bank loans and overdrafts due within one year or on demand	9.9	–	9.9
Revolving credit facility 2010	115.0	–	115.0
Senior loan notes 2012–2017	54.3	107.7	162.0
	179.2	107.7	286.9
2008			
Bank loans and overdrafts due within one year or on demand	0.3	–	0.3
Revolving credit facility 2010	130.0	–	130.0
Senior loan notes 2012–2017	54.3	77.3	131.6
	184.6	77.3	261.9

For further detail regarding the bank loans see notes 23 and 24 within the Group disclosure notes.

49 Financial instruments

Categories of financial instruments

	Carrying value		Fair value	
	2009 £m	2008 £m	2009 £m	2008 £m
Financial assets				
Derivatives that are designated and effective as hedging instruments carried at fair value:				
Derivative financial instruments (cross currency interest rate swaps)	26.6	–	26.6	–
Derivative financial instruments (currency rate swaps)	0.1	–	0.1	–
Loans and receivables at amortised cost:				
Long term loans due from subsidiary undertakings	155.5	207.8	155.5	207.8
Receivables from subsidiary undertakings	414.3	344.0	414.3	344.0
Cash and cash equivalents	48.5	58.3	48.5	58.3
	645.0	610.1	645.0	610.1
Financial liabilities				
Financial liability held at amortised cost in a cash flow hedging relationship:				
Senior loan notes 2012–2017	(162.0)	(131.6)	(168.3)	(139.0)
Derivatives that are designated and effective as hedging instruments carried at fair value:				
Derivative financial instruments (cross currency interest rate swaps)	–	(4.1)	–	(4.1)
Other financial liabilities at amortised cost:				
Trade payables	(4.2)	(3.0)	(4.2)	(3.0)
Long term loans due to subsidiary undertakings	(490.2)	(499.1)	(490.2)	(499.1)
Payables due to subsidiary undertakings	(205.8)	(86.8)	(205.8)	(86.8)
Bank loans and overdrafts	(9.9)	(0.3)	(9.9)	(0.3)
Revolving credit facility 2010	(115.0)	(130.0)	(115.0)	(130.0)
	(987.1)	(854.9)	(993.4)	(862.3)

The intercompany receivable balance has been reviewed for recoverability at the balance sheet date. The fair value of the receivables from subsidiary undertakings approximate to their carrying value due to their short term nature. The fair value of the cash and cash equivalents are based on their market value.

The fair values of the financial assets that are designated and effective as hedging instruments have been calculated by discounting expected future cash flows at prevailing interest rates and by applying period end exchange rates.

The directors use their judgement in selecting an appropriate valuation technique for derivatives that are designated and effective as hedging instruments carried at fair value, but that are not quoted in an active market. Valuation techniques commonly used by market practitioners are applied and assumptions are made based on quoted market rates adjusted for specific features of the instrument.

The fair value of the other financial liabilities at amortised cost approximates to their carrying value. The trade and other payables approximate to their fair value due to the short term nature of the payables. The fair value of the bank loans and overdrafts and the revolving credit facility 2010 approximate to their fair value based on their variable market rate.

Long term loans due to subsidiary undertakings are interest free and have no fixed date of redemption.

Payables due to subsidiary undertakings carry a fixed interest rate linked to market rates.

49 Financial instruments continued

The following table details the Company's maturity profile of its financial liabilities (excluding derivative financial instruments):

	Less than 1 month £m	1–3 months £m	3 months to 1 year £m	1–5 years £m	5+ years £m	Total £m
2009						
Senior loan notes 2012–2017	–	4.6	4.5	84.1	118.9	212.1
Trade payables	3.9	0.3	–	–	–	4.2
Long term loans due to subsidiary undertakings	–	–	–	–	490.2	490.2
Payables due to subsidiary undertakings	205.8	–	–	–	–	205.8
Bank loans and overdrafts	9.9	–	–	–	–	9.9
Revolving credit facility 2010	0.6	1.1	5.0	117.0	–	123.7
	220.2	6.0	9.5	201.1	609.1	1,045.9
2008						
Senior loan notes 2012–2017	–	3.8	3.7	73.6	98.2	179.3
Trade payables	2.8	0.2	–	–	–	3.0
Long term loans due to subsidiary undertakings	–	–	–	–	499.1	499.1
Payables due to subsidiary undertakings	86.8	–	–	–	–	86.8
Bank loans and overdrafts	0.3	–	–	–	–	0.3
Revolving credit facility 2010	0.6	1.3	5.7	139.8	–	147.4
	90.5	5.3	9.4	213.4	597.3	915.9

The liquidity profile of the trade payables has been assumed consistent with the Company's average credit period taken for trade payables of 33 days (2007/08: 33 days).

Payables due to subsidiary undertakings can be repayable on demand, and as such have been classified as less than one month.

The repayment of the interest and principal on the US Dollar denominated Senior loan notes 2012–2017 has been calculated at the period end rate of £1 = \$1.432 (2007/08: £1 = \$1.989).

The repayment of interest on the Revolving credit facility 2010 has been calculated on the principal at the period end date and the interest rate at that date.

The maturity profiles of the derivative financial instruments are shown below. The US Dollar exchange rate used is that at the balance sheet date of £1 = \$1.432 (2007/08: £1 = \$1.989).

	Less than 1 month £m	1–3 months £m	3 months to 1 year £m	1–5 years £m	5+ years £m	Total £m
2009						
Swap cash flow paid to banks	–	(2.4)	(2.4)	(33.3)	(78.3)	(116.4)
Swap cash flow received from banks	–	3.1	3.1	41.9	96.6	144.7
	–	0.7	0.7	8.6	18.3	28.3
2008						
Swap cash flow paid to banks	–	(2.4)	(2.4)	(38.1)	(78.3)	(121.2)
Swap cash flow received from banks	–	2.3	2.3	34.7	69.6	108.9
	–	(0.1)	(0.1)	(3.4)	(8.7)	(12.3)

For further detail regarding the financial instruments see note 25 within the Group disclosure notes.

Notes to the Company financial statements

continued

50 Deferred taxation assets/(liabilities)

	Retirement benefit obligation £m	Other employee benefits £m	Accelerated tax depreciation £m	Revaluation of buildings £m	Other £m	Total £m
At start of prior period	6.0	0.4	0.3	(1.1)	–	5.6
(Charged)/credited to income statement	(7.8)	–	0.2	–	0.3	(7.3)
Restructuring items	(1.8)	–	0.1	–	–	(1.7)
Charged to equity	(12.8)	(0.1)	–	0.1	–	(12.8)
At start of period	(16.4)	0.3	0.6	(1.0)	0.3	(16.2)
(Charged)/credited to income statement	(3.0)	0.9	(2.5)	–	–	(4.6)
Restructuring items	(1.6)	–	3.2	–	–	1.6
Movement on deferred tax due to change in legislation	–	–	(7.3)	–	–	(7.3)
Charged to equity	39.9	0.3	–	0.1	–	40.3
At end of period	18.9	1.5	(6.0)	(0.9)	0.3	13.8

IAS 12 'Income taxes' permits the offsetting of balances within the same tax jurisdictions. All of the deferred tax assets were available for offset against deferred tax liabilities.

The movement on deferred tax due to the change in legislation arose from the amendments to the industrial buildings allowance regime which were substantively enacted in the Finance Act 2008.

No deferred tax has been provided on capital losses totalling £56.0m at 28 March 2009 (2007/08: £56.0m) as it is uncertain when these losses will be utilised against future taxable gains. The unprovided deferred tax asset on these losses is £15.7m (2007/08: £15.7m).

51 Share capital

For further detail regarding the share capital see note 28 within the Group disclosure notes.

52 Reserves

	Share premium account £m	Capital redemption reserve £m	Reserve for own shares £m	ESOT reserve £m	Hedging reserve £m	Other reserves £m	Retained earnings £m
At start of period	65.1	23.6	(34.2)	(4.2)	2.9	3.3	450.1
Net profit for period	–	–	–	–	–	–	99.6
Dividends	–	–	–	–	–	–	(21.0)
Actuarial gains on defined benefit pension schemes net of deferred tax	–	–	–	–	–	–	22.7
Purchase of equity share capital	–	–	(5.3)	–	–	–	–
Equity settled incentive schemes net of deferred tax	–	–	–	–	–	1.0	–
Increase in fair value of cash flow hedge	–	–	–	–	2.4	–	–
Transfer to profit or loss on cash flow hedge	–	–	–	–	1.1	–	–
Purchase of shares for ESOT	–	–	–	(4.1)	–	–	–
Other movements	–	–	–	–	–	–	0.1
At start of period	65.1	23.6	(39.5)	(8.3)	6.4	4.3	551.5
Net profit for period	–	–	–	–	–	–	(76.1)
Dividends	–	–	–	–	–	–	(20.7)
Actuarial gains on defined benefit pension schemes net of deferred tax	–	–	–	–	–	–	(101.4)
Purchase of equity share capital	–	–	(11.0)	–	–	–	–
Equity settled incentive schemes net of deferred tax	–	–	–	–	–	3.0	–
Increase in fair value of cash flow hedge	–	–	–	–	30.8	–	–
Transfer to profit or loss on cash flow hedge	–	–	–	–	(30.3)	–	–
Purchase of shares for ESOT	–	–	–	(0.5)	–	–	–
Other movements	–	–	–	–	–	(0.1)	–
At end of period	65.1	23.6	(50.5)	(8.8)	6.9	7.2	353.3

For further detail regarding reserves see note 29 within the Group disclosure notes. Retained earnings include £192.4m (2007/08: £192.4m) of undistributable reserves.

53 Reconciliation of net cash from operating activities

	Notes	2009 £m	2008 £m
(Loss)/profit from operations		(80.9)	12.1
Adjustments for:			
Depreciation of property, plant and equipment	42	3.7	4.4
Impairment of property, plant and equipment	42	13.1	1.3
Loss on disposal of property, plant and equipment		–	0.2
Impairment of investments in subsidiaries		–	17.0
Decrease in provisions		(0.6)	(2.0)
Change in retirement benefit obligation excluding special contributions		(2.6)	1.8
Equity settled incentive schemes		2.7	1.1
Other non-cash movements		0.2	–
Operating cash flow before movement in working capital and special pension contributions		(64.4)	35.9
Special pension contributions		–	(22.0)
Operating cash flow before movement in working capital		(64.4)	13.9
Movement in trade and other receivables (including movement on intercompany balances)		33.8	260.8
Movement in trade and other payables (including movement on intercompany balances)		73.9	(247.2)
Cash from operations		43.3	27.5
Interest paid		(13.8)	(14.9)
Taxation recovered		(0.8)	0.1
Net cash from operating activities		28.7	12.7

54 Operating lease commitments

Outstanding commitments for future minimum lease payments under non-cancellable operating leases fall due as follows:

	2009 £m	2008 £m
Within one year	1.3	1.3
In the second to fifth years inclusive	5.5	4.4
After five years	2.7	5.3
	9.5	11.0

The Company leases various offices and warehouses under non-cancellable operating lease agreements. The leases have various terms, escalation clauses and renewal rights. The Company also leases plant and machinery and vehicles under non-cancellable operating lease agreements.

55 Equity settled share based payments

For further detail regarding share based payments see note 34 within the Group disclosure notes.

Notes to the Company financial statements

continued

56 Retirement benefit obligations

The amounts recognised in the Company balance sheet in respect of the Company's defined benefit schemes and post employment medical benefit scheme are as follows:

	Defined benefit schemes		Post retirement medical benefit scheme		Total retirement benefit schemes	
	2009 £m	2008 £m	2009 £m	2008 £m	2009 £m	2008 £m
Present value of obligations	(686.5)	(701.1)	(3.6)	(4.4)	(690.1)	(705.5)
Fair value of scheme assets	627.0	772.6	–	–	627.0	772.6
	(59.5)	71.5	(3.6)	(4.4)	63.1	67.1

The table above does not include the related deferred tax assets and liabilities.

Movements in the present value of obligations are as follows:

	Defined benefit schemes		Post retirement medical benefit scheme		Total retirement benefit schemes	
	2009 £m	2008 £m	2009 £m	2008 £m	2009 £m	2008 £m
At start of period	701.1	790.7	4.4	4.7	705.5	795.4
Current service cost	5.3	8.8	–	–	5.3	8.8
Interest on obligation	44.1	41.5	0.3	0.2	44.4	41.7
Curtailment gain	(1.2)	–	–	–	(1.2)	–
Actuarial gains	(32.7)	(106.5)	(0.8)	(0.3)	(33.5)	(106.8)
Contributions from scheme members	4.4	3.8	–	–	4.4	3.8
Benefits paid	(34.5)	(37.2)	(0.3)	(0.2)	(34.8)	(37.4)
At end of period	686.5	701.1	3.6	4.4	690.1	705.5

Movements in the fair value of scheme assets are as follows:

	Defined benefit schemes	
	2009 £m	2008 £m
At start of period	772.6	790.9
Expected return on scheme assets	52.9	57.4
Actuarial losses	(174.8)	(71.3)
Contributions from the sponsoring company	6.4	29.0
Contributions from scheme members	4.4	3.8
Benefits paid	(34.5)	(37.2)
At end of period	627.0	772.6

For further detail on the retirement benefit obligations see note 35 within the Group disclosure notes. The Group disclosure includes information on the Scheme, Pension Builder, the Plan and the Post retirement medical benefit scheme. The Scheme, Pension Builder and the Post retirement medical benefit scheme are included within the Company financial statements.

57 Related party transactions

Transactions with subsidiaries

Details of transactions, which comprise Group recharges and net interest receivable on intercompany balances between the Company and its subsidiary undertakings, are set out below:

	2009 £m	2008 £m
Group recharges	40.3	57.9
Net interest receivable	19.1	22.5
	59.4	80.4

The Group recharges include special pension contributions of £nil (2007/08: £22.0m).

A summary of the balances outstanding at the period end is shown below:

	2009 £m	2008 £m
Receivables from subsidiary undertakings due in less than one year	414.3	344.0
Long term loans due from subsidiary undertakings	155.5	207.8
	569.8	551.8
Payables due to subsidiary undertakings in less than one year	(205.8)	(86.8)
Long term loans due to subsidiary undertakings	(490.2)	(499.1)
	(696.0)	(585.9)
Total	(126.2)	(34.1)

Remuneration of key management personnel

The remuneration of the directors, who are the key management personnel of the Company, is set out within note 37.

Five year record

		2005	2006	2007	2008	2009
Continuing operations:						
Consolidated income statement						
Revenue	£m	878.9	862.0	888.5	931.9	975.2
Profit from operations* ^{††}	£m	69.6	55.4	45.7	48.4	52.7
Operating margin* ^{††}	%	7.9	6.4	5.1	5.2	5.4
Net finance (expense)/income* ^{††}	£m	(26.8)	(22.4)	(5.7)	1.7	(5.2)
Profit before taxation*	£m	42.8	33.0	40.0	50.1	47.5
Profit after taxation* ^{††}	£m	34.7	27.7	31.9	38.4	28.4
Earnings per share						
Adjusted earnings per share	pence	7.08	5.68	6.52	7.88	7.76
Return on operating assets						
Average net operating assets	£m		407.3	375.6	353.1	357.4
Return on net assets	%		13.6	12.2	13.7	14.7
Return on invested capital*^{††}						
Profit from operations*	£m			45.7	48.4	52.7
Average invested capital	£m			448.2	442.0	450.4
Return on continuing average invested capital	%			10.2	11.0	11.7
Discontinued operations:						
Consolidated income statement						
Revenue	£m	569.9	576.2	317.4	–	–
Profit from operations*	£m	19.4	121	1.3	–	–
Continuing and discontinued operations (as reported):						
Earnings per share						
Adjusted earnings per share	pence	10.27	7.77	6.72	7.88	7.76
Earnings per share	pence	4.66	(1.03)	(4.60)	7.08	0.54
Dividend per share	pence	9.05	4.25	4.25	4.50	4.50
Dividend cover*	times	1.1	1.8	1.6	1.8	1.7
EBITDA: Debt*	times	2.0	2.5	1.8	2.0	2.1
Capital expenditure	£m	62.2	55.3	28.1	19.3	30.4
Invested capital						
Net equity	£m	155.6	152.1	121.2	165.4	54.1
Add back deficit/(less surplus) on retirement benefit schemes	£m	171.2	90.2	8.6	(61.6)	71.5
(Less deferred tax asset)/add back deferred tax liability on retirement benefit schemes	£m	(50.4)	(26.4)	(6.5)	15.8	(19.7)
Adjusted net equity	£m	276.4	215.9	123.3	119.6	105.9
Net debt	£m	326.3	363.1	174.2	200.2	206.7
Trading capital employed	£m	602.7	579.0	297.5	319.8	312.6
Accumulated goodwill written off	£m	211.0	211.0	116.6	116.6	116.6
Total invested capital	£m	813.7	790.0	414.1	436.4	429.2
Total invested capital excluding net debt	£m	487.4	426.9	239.9	236.2	222.5
Return on invested capital						
Profit from operations* ^{††}	£m	89.0	67.5	47.0	48.4	52.7
Average invested capital	£m	840.1	801.9	602.1	425.3	432.8
Return on average invested capital	%	10.6	8.4	7.8	11.4	12.2

* Stated before restructuring items.

† The effective taxation rate for continuing operations for each period has been assumed to be the same as that for the Group.

* Continuing return on invested capital is calculated using continuing profit from operations divided by continuing average invested capital. Continuing average invested capital has been calculated using a 13 month average (used for Performance share plan). This includes the benefit of asset impairments.

†† Restated for the change in presentation of the pensions finance (charge)/credit from within profit from operations to net finance costs.