

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.

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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.

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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