

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).

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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

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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.