Horizons

Looking to your pensions future

Winter 2011 – 2012

Welcome

Welcome to the latest issue of Horizons, which includes a summary of the annual Trustee Report and Accounts for the years ended 31 March 2010 and 31 March 2011. Inside you will also find a summary of the recent changes to the Northern Foods Pension Scheme (the Scheme) and news of some Government changes affecting pensions.

Valuation Update

2010 and 2011 were important years for the Scheme because an actuarial valuation took place. The results of the valuation as at 31 March 2010 have now been finalised and you can read about them on pages 6 and 7. As well as the results of the latest actuarial valuation, the Valuation Update shows how the funding position has changed since the 2008 actuarial valuation and also gives an update of the funding position as at 31 March 2011.

Inside

Recent Changes

The takeover and funding discussions

In early 2011, Northern Foods plc was taken over by Boparan Holdings Limited. During the takeover, the Trustee reviewed the financial strength of Boparan Holdings Limited and as part of this process, agreed to carry out a full actuarial valuation of the Scheme as at 31 March 2010, one year earlier than normally required. Following the valuation, the Company agreed to pay contributions to the Scheme of £15.5m a year in 2012 and 2013 and £15m a year thereafter until 2021.

Closure of the Scheme to future pension accrual

The Scheme closed to future pension accrual on 31 October 2011. Active members were invited to join the 2 Sisters Pension Plan from 1 November 2011. In the 2 Sisters Pension Plan, members build up pension on a defined contribution basis. This means that the pension members build up depends on:

- the amount they and the Company pay into their individual accounts in the Plan;
- investment returns; and
- the cost of buying a pension on retirement.

The closure of the Scheme to future pension accrual does not affect deferred and pensioner members of the Scheme.

Take your pension and continue working

Your Normal Pension Date in the Scheme is the last day of the month before your 65th birthday. You can, however, take your pension at any time from age 55, with Trustee and Company consent. If you decide to retire before your Normal Pension Date, your pension will be reduced to take account of the fact that it is expected to be paid for longer.

You now also have the option to take your pension and continue working, providing the Company and the Trustee agree. This is known as flexible retirement. If you choose this option and you take your pension before your Normal Pension Date, a reduction will still apply. If you are thinking about retiring early, you should consider contacting an Independent Financial Adviser (IFA).

The Financials

Below is a brief summary of the money that has come into and gone out of the Scheme over the years ending 31 March 2010 and 31 March 2011.

2010

Fund value on 31 March 2009 = **£638.7m**

+

Money coming into the Scheme from contributions and transfers: **Total for the year = £9.9m**

Increase in value of investments: **Total for the year = £156.4m**

−

Money going out of the Scheme to pay pension benefits and other expenses: **Total for the year = £36.3m**

=

Fund value on 31 March 2010 **= £768.7m**

2011

Fund value on 31 March 2010 = **£768.7m**

+

Money coming into the Scheme from contributions and transfers: **Total for the year = £12.3m**

Increase in value of investments: **Total for the year = £62.9m**

−

Money going out of the Scheme to pay pension benefits and other expenses: **Total for the year = £89.9m***

=

Fund value on 31 March 2011 **= £754m**

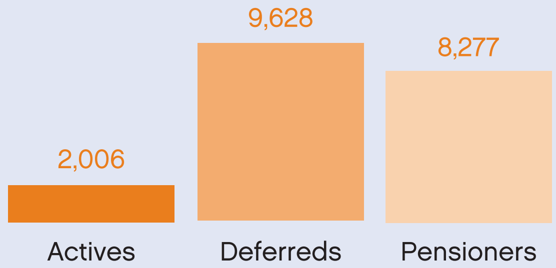
*This figure includes £52.8m paid by the Scheme in transfer values for 1,325 deferred members who transferred out of the Scheme under the Company's enhanced transfer value exercise. Enhancements to the normal transfer values were paid by the Company so this did not affect the amount paid out by the Trustee for these members.

Members

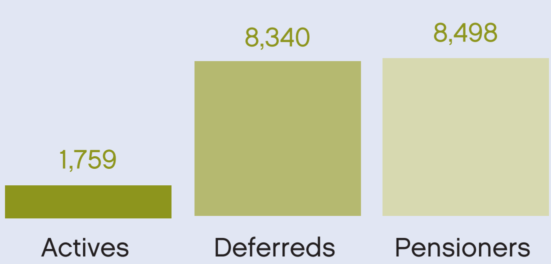
Until the recent closure of the Scheme to future pension accrual, there were three different categories of members in the Scheme.

- Active members – those who worked for the Company and made regular contributions of 7% or 10% (either direct or through pay exchange). Following the closure of the Scheme to future pension accrual, all active members became deferred members from 1 November 2011.
- Deferred members – those who no longer make contributions to the Scheme, but whose benefits remain in the Scheme until they retire.
- Pensioner members – those who already receive a pension from the Scheme.

Membership figures at 31 March 2010 and 31 March 2011 are shown in the bar charts below.



At 31 March 2010



At 31 March 2011

Investments

Investment strategy

The Northern Foods Pension Scheme is a mature pension scheme, holding a large pool of assets which are invested to provide current and future pension benefits for members. The Trustee sets the investment strategy and has delegated responsibility for day to day investment decisions to its Investment Committee, which meets at least quarterly.

The Trustee currently employs 36 fund managers to manage investments within its investment strategy, the aim of which is to achieve a target return of 2.8% above LIBOR (London Interbank Offered Rate – or in plain English the rate at which banks lend to each other) with a reasonable level of risk. There are two areas of risk; rewarded and unrewarded risk.

What is rewarded and unrewarded risk?

These are risks that affect the Scheme's investments. Rewarded risk means that the fund targets an investment return relative to the risk taken. So in general terms the higher the risk the greater the potential return. The Trustee seeks to reduce the level of risk by having a wide spread of investments over many assets classes. In this way the Trustee can achieve a reasonable rate of return but with an acceptable level of risk.

Apart from the investment risk there are two other key risks that affect the Scheme; interest rate risk and inflation risk. Interest rate risk (which affects the value of the fund's liabilities) and inflation risk (which affects the value of the pension benefits the Scheme pays) have no balancing reward and so these are known as unrewarded risks.

In order to reduce the interest rate and inflation risks, a series of Swap investments are used. Swaps are simply a promise to exchange cash flows with a counterparty (normally a bank) depending on the movement in interest and inflation rates.

Performance

The investment strategy consists of a 70% allocation to a highly diversified portfolio of return seeking assets, with the remaining 30% invested in a cash based collateral pool to back the interest rate and inflation Swaps. The Swap programme has not been fully implemented, however, due to the very low levels of interest rates currently available.

Return seeking assets

The Scheme's return seeking assets outperformed their target return by 2.9% a year in the three year period to 30 September 2011. This positive investment performance has been offset by the fall in interest rates over the last twelve months. As interest rates fall the value placed on the Scheme's liabilities increases.

Changes in Legislation

Changes to State Pension Age

The State Pension Age – the earliest age you can start to receive your State Pension – is increasing to age 66.

First, women's State Pension Age will increase to age 65 between April 2016 and November 2018. Then, from December 2018, the State Pension Age for both men and women will start to increase to reach age 66 in 2020.

These changes affect you if you are:

- a woman born on or after 6 April 1953
- a man born on or after 6 December 1953

The Government proposes a further increase to age 67, though the timescale for this is not yet agreed.

To find out your State Pension Age, use the State Pension Age calculator at **www.direct.gov.uk**

RPI to CPI

In April 2011, the Government changed the measure of inflation that can be used to increase pensions in payment and deferred pensions during the period up to retirement, from the Retail Prices Index (RPI) to the Consumer Prices Index (CPI).

Under the Scheme this affects you if:

- You have a deferred pension in the Scheme. Your deferred pension increases each year up to the date you retire to help it keep pace with inflation. These increases will be in line with RPI for the period from the date you left Company service up to April 2011 and in line with CPI for the period after April 2011. The increases will be subject to a cap of 5% for benefits earned up to 1 May 2009 and 2.5% for benefits earned on or after 1 May 2009.
- You earned a Guaranteed Minimum Pension (GMP) between 6 April 1988 and 5 April 1997, due to the Scheme being contracted out of the earnings related part of the State Pension. Increases to GMP built up between these dates are paid partly by the Scheme and partly by the State. From April 2011, these increases are based on CPI instead of RPI. Depending on the level of CPI, the Scheme pays up to 3% and the State pays anything above 3% if CPI is higher.

Increases to pensions in payment (except for GMP pension as mentioned above) are not affected as the Rules of the Scheme refer to RPI increases.

Default retirement age abolished

Until recently, there was a default retirement age, which meant that your employer could make you retire when you reached the age of 65. The default retirement age has now been abolished. This means that, unless you received notice from your employer before 6 April 2011, you can't be made to retire at the age of 65.

Your employer can only make you retire using the default retirement age if you were aged 65 or above before 1 October 2011 and your employer has given you 6 to 12 months' notice.

Equitable Life compensation

If you have with profit AVCs or with profit Group Transfer Plan benefits, you may be entitled to some compensation from the Equitable Life Payment Scheme. This has been set up by the Government to make payments to policyholders who suffered financial losses due to Government maladministration that occurred in the regulation of Equitable Life.

The Payment Scheme started making payments on 30 June 2011.

Who is eligible?

The Trustee may be eligible to receive a compensation payment for members who paid a with profits premium between 1 January 1993 and 31 December 2000.

If you are, or were, an Equitable Life policyholder, you don't need to take any action at this point. The Payment Scheme aims to contact all eligible policyholders directly before June 2012.

For further information or to find out if your policy is eligible for compensation, visit the Payment Scheme website at **http://equitablelifepaymentscheme.independent.gov.uk/**

Valuation Update

We are pleased to provide you with the results of the 31 March 2010 valuation. The following two pages contain the information normally contained in the Annual Funding Statement. As well as the valuation results, the Actuary has also prepared an update on the funding position as at 31 March 2011.

How does the Scheme work?

The Company pays money into the Scheme and until the recent closure of the Scheme to future pension accrual, active members also paid money into the Scheme. The money is held in a general fund for all members, not in separate funds. This fund is invested with the aim of producing a return each year and benefits for all members are paid from the fund.

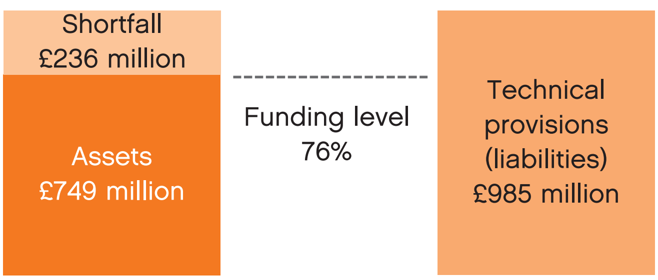
What is an actuarial valuation?

An actuarial valuation is an assessment of the financial security of the Scheme, carried out at least every three years by the Scheme Actuary, a qualified professional who is independent from the Company. An actuarial valuation makes a comparison of the Scheme's assets with its liabilities on both an ongoing and a solvency basis. If the Scheme's assets are less than its liabilities, there is a 'shortfall'. If the assets are more than the liabilities there is a 'surplus'.

Following each valuation, the Actuary advises the level of contributions that should be paid into the Scheme so that it can expect to be able to continue to pay all the pensions due from the Scheme in future. The Trustee then agrees a level of contribution with the Company to meet this target.

What were the results of the 2010 valuation?

The 2010 actuarial valuation showed that, as at 31 March 2010, the funding position on an ongoing basis was as follows:



How has the position changed since the 2008 valuation?

The funding position of the Scheme has worsened since the 31 March 2008 valuation, when the funding level was 91%. This is due to lower than expected returns on the Scheme's investments during the credit crunch and an increase in the value placed on the liabilities as a result of falling interest rates and increasing life expectancy.

Recovery plan

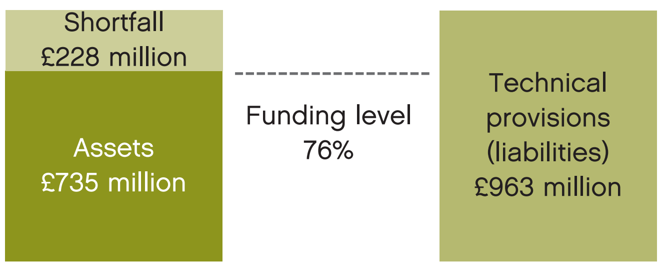
Following the valuation, the Trustee and the Company have agreed a recovery plan to address the shortfall. Under the recovery plan, the Company will pay contributions to the Scheme of £15.5m a year in 2012 and 2013 and £15m a year thereafter until 2021.

Solvency funding basis

On a solvency basis (sometimes called a discontinuance funding basis) the funding ratio at 31 March 2010 was 52% (compared with 72% at the 2008 valuation). This would be the position if the Scheme was wound up. We are legally obliged to advise you of the solvency position but it does not mean that the Company is thinking of winding up the Scheme.

What is the updated position?

The results of the latest actuarial update at 31 March 2011 are as follows:



The asset totals shown as at 31 March 2010 and 2011 include all fund assets except for members' money purchase investments (i.e. AVCs and Group Transfer Plan transfers in). The total fund value shown on page 3 includes these money purchase investments.

Your Questions Answered

Why is the funding level worse on the solvency basis?

On wind up, an insurance company would link the Scheme's liabilities to gilt investments (loans made to the Government). These produce lower investment returns, so the cost of securing the benefits goes up and the funding level down.

What are the funding objectives?

Our aim is for there to be enough money in the Scheme to meet the cost of members' benefits and other expenses both now and in the future. This depends, however, on the Company continuing to pay into the Scheme. If the Company became insolvent or decided to stop paying for the Scheme, the Scheme would have to be wound up (see below).

What happens if a scheme is wound up and there is not enough money to pay for all the benefits?

Pension legislation will generally require the company, if it is able, to ensure there is sufficient money in the scheme on winding up to meet the cost of benefits.

Additionally, the Government has set up the Pension Protection Fund (PPF) to pay benefits to members of schemes that have to be wound up if there isn't enough money to cover the cost of buying all members' benefits from an insurance company.

In broad terms, the PPF aims to provide:

- 90% of the benefits for active or deferred members, or for pensioners who have not reached the scheme's normal retirement age. (This is subject to an overall limit, currently of £29,897.42 a year for benefits coming into payment at the scheme's normal retirement age).
- 100% of the benefits for pensioners who are over the scheme's normal retirement age.
- Dependants' pensions of 50% of the member's pension.

The annual increases to pensions in payment provided by the PPF are lower than those of the scheme in some cases. You can find more information on the Pension Protection Fund's website at **www.pensionprotectionfund.org.uk**

Is there any other information I should be aware of?

We must tell you if the Company has taken any money out of the Northern Foods Pension Scheme, or if The Pensions Regulator has had to use its powers to intervene in the running of the Scheme in the last 12 months and we are happy to confirm that neither of these have occurred.

When Boparan Holdings Limited acquired Northern Foods, the Trustee ensured that the Scheme was protected by a legal agreement between the Trustee and the Company. This provides some important protections to the Scheme including the following:

- A payment of £15m per year in deficit contributions based on a recovery period of 11 years (£15.5m in the first two years)
- A series of negative pledges to protect the businesses, income streams and assets of the Northern Foods companies
- A set of cross guarantees between the employing Northern Foods companies for all amounts due from the employing Northern Foods companies to the Scheme
- A parental guarantee from Boparan Holdings Limited for the contributions due under the recovery plan
- An agreement from Boparan Holdings Limited to block the payment of dividend payments to its shareholders for a three year period (i.e. until the next valuation) unless the deficit contributions in the relevant year have been paid.

Your Trustees

The Scheme is run by Northern Foods Trustees Limited. The Trustee Board is made up of nine Trustee Directors.

We are pleased to welcome two new Member Nominated Directors (MNDs) to the Trustee Board. Matthew Gribbin and Geoff Pearson have recently been selected and Andy Wadley has been re-appointed as a MND. Their term of office will run until 31 December 2016. The Trustee Directors would also like to thank Lorna Andrews, who stands down as a MND, for the significant contribution she has made to the Trustee Board over many years.

The Directors are sad to report that Stuart Kennedy who was a Trustee Director and Chairman of the Operations Committee, died on 15 October 2011. We would like to record our thanks to Stuart for his highly valued professionalism, commitment and dedication whilst a Trustee Director.

Want more information?

The following Scheme documents are available on the pension website at **www.nfpensions.com**

- Full Trustee Report and Accounts
- Scheme updates sent to members – Horizons

If you have any questions or you would like to request a copy of the Actuarial Report as at 31 March 2010, please contact the Pensions Department at the following address:

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Priory Tec Park
Saxon Way
Hessle
East Yorkshire
HU13 9PB

Tel: 01924 831395

Email: pensions@2sfg.com

Website: **www.nfpensions.com**

Remember to keep us updated. We like to ensure we keep members up to date with Scheme news so it's important to let the Pensions Department know if you change address.