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too much of a good thing can be wonderful...

Thorntons PLC
Annual Report and Accounts 2009

TASTY!

Thorntons is the number one "Chocolate and Confectionery" brand in the UK.

Our delicious treats have been delighting customers for more than 90 years. Today Thorntons is a £200m+ turnover company and our products can be found across a strong commercial network that includes 379 shops and cafés and 197 franchises.

OUR BUSINESS CONSISTS OF:

UK Retail
379 Own Stores and Cafés across the UK and Ireland.

A franchise estate of nearly 200 stores.

Thorntons Direct – our online corporate and consumer delivery service.

Sales & operations
Comprising commercial sales, purchasing, manufacturing and distribution.

HIGHLIGHTS

Profit before tax decreased by 4.5% to £8.1m (2008: £8.5m)
Revenue increased by 3.2% to £214.8m (2008: £208.1m)
Earnings per share decreased 40.7% to 5.4p (2008: 9.1p)
Recommended final dividend of 4.85p (2008: 4.85p)

PROFIT BEFORE TAX
£8.1m

REVENUE
£214.8m

EARNINGS PER SHARE
5.4p

RECOMMENDED DIVIDEND
4.85p

Our values shape our success. To find out more turn to the following pages:

CHAIRMAN'S STATEMENT

GOOD PROSPECTS

We remain focused on driving the business forward and delivering sustainable growth in earnings per share supported by a strong balance sheet.

John von Spreckelsen Chairman

Three years ago we started to implement a new strategy, putting the customer at the forefront of our thinking and strengthening the foundations of the business in line with our long-term goals. Since then we have grown sales by almost £40 million, from £176 million to £215 million, introduced many successful new products, increased our multi-channel offer and invested significant sums in new point of sale systems and factory automation.

However, Thorntons has not been immune to the global economic downturn. The pressures, which were most evident during the first half of the financial year, resulted in us taking the prudent but difficult decision to reduce the first half dividend in line with the reduction in earnings. I am pleased to report however that, following the implementation of a number of management initiatives earlier in the year, performance in the second half improved significantly and we delivered net sales growth of 6.1% and reduced the loss before taxation and exceptionals by £2.5 million. We also reduced net debt over the year by £1.6 million. In August 2009, the Company agreed new committed bank facilities for three years and as a result the Company is well placed to continue its long-term growth strategy and I remain optimistic about the future.

Our strategy remains just as relevant now as it was before the recession and we remain focused on driving the business forward and delivering sustainable growth in earnings per share supported by a strong balance sheet.

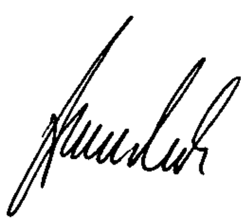
We will achieve this by:

- continuing to develop innovative new products
- improving our UK retail performance across all three channels (Own Stores, Franchise and Thorntons Direct)
- further expanding Commercial sales
- improving productivity in Operations (purchasing, manufacturing and logistics)
- selective development of export sales

In July we took a further step towards "decoupling" the business by creating two business units namely "Sales & Operations" and "Retail". Barry Bloomer, MD, Sales & Operations, will run Commercial sales in addition to his existing role in charge of Purchasing, Manufacturing and Distribution. The Retail Business Unit will continue to be headed by the Director of Retail, Lysanne McCallion, adding responsibility for Thorntons Direct to that for Store Operations, Trading, Property and Franchise. While there is still a clear interdependence between the two business units, the split will allow us greater clarity in communicating our strategy and an ability to benchmark our performance against other successful retailers and manufacturers. Marketing, Finance and HR remain as single functions supporting both businesses.

The progress we have made, most notably in the second half, would not have been possible without the hard work, dedication and commitment of all our staff and I would like to express my deep gratitude for all their efforts.

Earlier this year, John Wall, our Finance Director, informed us of his decision to step down from the Board by January 2010. On behalf of the Board I would like to thank John for his invaluable service to Thorntons over the past five years and for his commitment to ensuring an orderly transition prior to his departure. While we will be sorry to lose John, I am delighted that Mark Robson has agreed to join Thorntons as his successor. Mark has extensive experience in the retail and consumer goods sectors, most recently with Somerfield Ltd,



now part of the Co-operative Group. I would also like to thank Martin Davey, who retired from the Board as Non-Executive Director in December, for his valuable contribution to the Company and welcome Diana Houghton as a new Non-Executive Director to the Board. Diana brings with her a wealth of experience in branded product manufacturing and strategy consulting and has taken on the role of Chair of the Audit Committee.

I am pleased to report that the Board has recommended a final dividend of 4.85p per share unchanged from last year which, subject to shareholder approval, will be paid on 27 November 2009.

John von Spreckelsen
Chairman
8 September 2009

A selection from our delicious chocolate ranges.

IF YOU THOUGHT
YOU HAD A SWEET TOOTH...

TRY THIS FOR SIZE

imagination

- Because we see the world with wide-eyed wonder
- Because if we can dream it we can make it
- Because all that we do should be wonderful

1.
imagination

CHIEF EXECUTIVE'S REPORT

SOLID RESULTS

We make excellent products and by continuing to live up to our values of imagination, togetherness and excellence, I strongly believe that the prospects for Thorntons are good.

Mike Davies Chief Executive

Over the past year, we acted decisively to manage the business during the recession and I am pleased with the overall result. Sales increased by 3.2%, profit before taxation fell 4.5% to £8.1 million (including exceptional items) and we reduced our debt by £1.6 million by the year end. From a retail perspective the peak of the crisis in the eight to ten weeks before Christmas could not have hit us at a worse time, as historically 40% of Thorntons' annual sales and most of its profits are generated during the Christmas quarter. This reinforces the importance of our long-term goal to reduce our financial dependency on Christmas.

The decision to focus on the balance sheet, by discounting to clear stocks and collect cash before Christmas and by implementing further cost management initiatives to protect the business going forward, paid off in the second half of the year, supported by a 6.1% sales growth. The second half operating loss (excluding exceptionals) reduced from £2.8 million last year to £0.6 million and our debt was reduced by £1.6 million over the year to £26.7 million. All this was achieved despite losing Woolworths as a major customer before Christmas and incurring a bad debt of £0.5 million when our largest franchisee, Birthdays Ltd, was placed into administration in May.

Notwithstanding the impact of the recession we continued to focus on the implementation of our strategy as follows:

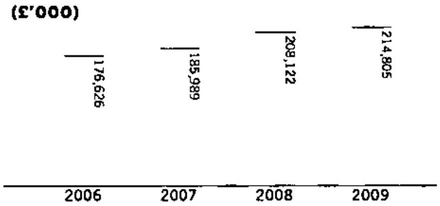
Product innovation

2009 has seen a series of product success stories for Thorntons, most notably amongst our leading sharing brand 'Thorntons Moments' and our stylish, luxury bar range 'Chocolate Blocks'. Family favourite 'Moments' hit £10 million sales in its first full year of trading and 'Chocolate Blocks' doubled the sales of the old range. However, the success of 'Chocolate Blocks' isn't just evident in its sales figures; new additions to the range in 2009 have picked up an impressive five industry awards from the prestigious Academy of Chocolate and the Great Taste Awards. These award winning bars have been created by Thorntons' Master Chocolatier, Keith Hurdman using the finest single origin chocolate and flavours that have surprised and delighted our customers, such as tonka bean, salted macadamia and salted pistachio. Other firm favourites such as hazelnut and raisin, strawberry and raspberry have recently been added to the range and we continue to look to introduce more new exciting flavours for our customers.

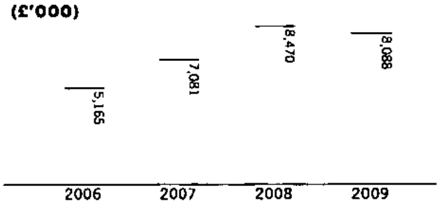
Thorntons will deliver sustainable, profitable growth by:

- Developing innovative new products
- Improving performance in UK Retail
- Further expanding commercial sales
- Improving productivity in operations
- Selective development of export sales

Revenue
(£'000)



Profit before taxation
(£'000)



The Spring 2009 seasonal products included new designs for Valentine's Day, Mother's Day and Easter, which were on trend with their bright, folk design and included new creations with personalisation at the heart, delivering improved sales and fantastic customer feedback.

With the aim of driving sales during the traditionally quieter summer months, we have invested in our ice cream offering. Firstly we have extended the range of both our sticks and scoops, and secondly we have increased awareness of the ice cream brand. New ice cream sticks launched this year include White Delight and Mint Choc Truffle. A Tropical Twist exotic fruit sorbet swirled with natural frozen yoghurt was added to the scoop range.

We also invested in an ice cream marquee, featuring a nostalgic seaside theme. The marquee has been on tour to several music festivals and countrywide events and has been a resounding success both in terms of sales and brand awareness.

Looking ahead, this Autumn is an exciting time for Thorntons. Not only will our new Christmas range, which includes some exciting product innovations and eye-catching packaging, be launched in our stores, but we also have two new product collections launching in store and online.

The 'Continental City Boxes', which include the milk chocolate 'Paris Collection' and dark chocolate 'Milan Collection', are a little taste of contemporary Europe and are inspired by the flavours from the cities themselves. They are the latest addition to the famous 'Continental' range.

'Metropolitan' is another exciting proposition from Thorntons. This stylish gift box is beautifully designed and is made with the finest Dominican Republic and Ecuador single origin chocolate, paired with unusual flavours such as cloudberry and quince, which will delight our discerning foodie fans.

With many other stimulating innovations in the pipeline for 2010, it is an exciting time for Thorntons.

2. excellence

WHETHER YOUR TASTES ARE
CONTINENTAL OR METROPOLITAN

IT'S A

WONDERFUL

WORLD

excellence

- Because we will fulfil our dream to be the best "sweetshop" in town
- Because we should never disappoint
- Because we inspire one another to do better

Orange blossom, quince, vanilla, salted caramel and cloudberry are just some of the delicious new flavours in our chocolates.

SOLID RESULTS

The second half operating loss (excluding exceptionals) reduced from £2.8 million last year to £0.6 million and our debt was reduced by £1.6 million.

UK Retail
Overall UK Retail sales, including Own Store, Franchise and Thorntons Direct, declined by 0.5% to £157.9 million from £158.6 million in 2008.

Own Store performance declined by 0.4% during the year with the vast majority of the shortfall occurring in the Christmas quarter. During the course of the year we opened five new stores, resited one and closed six. Therefore, the retail estate ended the year with 379 stores, unchanged from last year.

With the benefit of hindsight, the recessionary environment during the Autumn and Christmas 2008 selling season was not the ideal time to trial our new concept stores. More work is being done to further improve the concept before we proceed to roll it out.

The uncertainties in the property market are ongoing and we continue to pursue opportunities to reduce our costs at the time of lease renewals and rent reviews, as well as by renegotiating service charges. With 379 stores owned by more than 150 different landlords and the opportunity to review terms arising only once every five years for each store, this is a laborious process but one that should bear fruit in the long term.

Like for like sales declined by 2.0% for the year as a whole, again, mostly due to the poor trading in the Christmas quarter.

Franchise store sales grew by 2.2% during the year and I would like to thank all our franchisees for their hard work and commitment to Thorntons during this particularly difficult year. Unfortunately sales were adversely affected at the end of the year by the collapse of the Birthday stores that were placed into administration in May and accounted for 94 of our 254 Franchise stores. Clinton Cards PLC have since bought back a number of Birthday stores from the administrators including 37 that have a Thorntons franchise. These have now resumed business as usual. Negotiations are progressing swiftly to appoint new franchisees in the remaining locations and we would expect to have reopened most of them in time for Christmas.

Thorntons Direct delivered mixed results. Overall sales to consumers from the website and the call centre increased by 13.9% during the year but sales to corporate end users declined by 30.7%, resulting in an overall decline in sales of 5.2%. Historically, our growth in corporate sales was driven by our success in the financial services and automotive sectors, both of which were unfortunately hit hard by the economic downturn and all discretionary expenditure on gifts ceased. We have since redirected our sales efforts into other sectors and are beginning to see some recovery in corporate sales, particularly in the leisure and hospitality sectors.

Commercial sales
Commercial sales continued to outperform the rest of the business and grew by 14.9% to £56.8 million and now account for 26.5% of total Company sales. We achieved good growth in all major multiples and now have more than 25% of the inlaid box chocolate market in the UK (AC Nielsen, June 2009 excluding sales in Thorntons Retail).

In November Woolworths, one of our largest commercial customers, went out of business. As this had been anticipated well in advance, the resulting bad debt was minimal. I would like to express my particular thanks to the Commercial team for their quick response to the opportunities available to them at the time and for the growth achieved through the channel as a whole.

Operations
The Purchasing team have once again done an excellent job of mitigating the volatility of the cocoa bean market with prices reaching a 24-year high in February 2009. Fortunately, dairy prices remained low for most of the year, helping us avoid the need for any significant price increases.

An ongoing area of focus is the productivity of our manufacturing facility and a significant step was taken this year with the investment of more than £1.1 million in a second robotic packaging line. This is now fully operational and should improve productivity and gross margins in the coming year.

We took another step to reduce costs as well as to mitigate our impact on the environment by outsourcing distribution of our products to the south east of England, particularly within the M25, to a third party.

Overall, supply service levels to all our customers, including our own stores, improved further from 95% to 96%.

Export sales
Export sales have been on the radar for some time and we believe now is the right moment to dedicate resources to exploring this opportunity. This is a long-term objective and we will carefully evaluate the options and learn from past experience before embarking on a controlled expansion of export sales.

Outlook
As I write this report there are very early signs that the worst of the recession might be over and this, together with all the work we have put into product innovation, reducing costs and improving productivity, gives me confidence. We make excellent products and by continuing to live up to our values of imagination, togetherness and excellence, I strongly believe that the prospects for Thorntons are good.

Mike Davies
Chief Executive
8 September 2009

- Delivered sales growth in a difficult trading environment
- Continued to innovate and invest
- Added focus on cost management and efficiencies
- Substantially reduced losses in H2
- Reduced debt
- The strategy is delivering

WORKING TOGETHER LIKE...

SALT + PEPPER
UMBRELLA + RAIN
ICE CREAM + SUMMER
PICTURE + FRAME

togetherness

- Because our best ideas come from bringing different types of people together
- Because we take individual responsibility for our collective future
- Because we respect, appreciate and energise each other

3. togetherness

FINANCE DIRECTOR'S REPORT

SOLID RESULTS

Decisive steps were taken at that time to contain operating expenses.

John Wall Finance Director

Profits and tax
Operating profit in the second half improved significantly, which helped to limit the fall in the full year pre-exceptional operating profit of £7.9 million (2008: £9.7 million) to just 23.1%, compared to the decline of 35.2% seen at the interim stage. Thorntons historically generates an operating loss in the second half of the year but during 2009 this loss was reduced to £0.6 million (excluding exceptional items), down from £2.8 million the previous year. This was helped by a relatively modest 6.1% growth in sales over the period.

Percentage margins declined slightly in the second half but less so than in the first half of the year which was adversely affected by the downturn in consumer spending in the months before Christmas. Decisive steps were taken at that time to contain operating expenses with the result that second half expenses (excluding exceptional items) were 0.5% below last year's level.

Profit before taxation ("PBT") decreased by 4.5% to £8.1 million (2008: £8.5 million) and PBT pre-exceptionals decreased 25.8% to £6.3 million. The exceptional items which give rise to the £1.8 million net credit in the full year income statement consist of a one-off curtailment gain relating to the Group's defined benefit pension scheme of £2.3 million (which is described in more detail on page 17) and an unusually large write-off of a £0.5 million bad debt arising from the insolvency of Birthdays, our largest Franchise partner.

The £4.5 million tax charge for the year represents 55.4% of PBT compared with last year's tax charge of 28.4%. The main reason for the increase in the tax charge is that the Finance Act 2008 included legislation which had the effect of phasing out, over four years, the benefit of industrial buildings allowances ("IBAs") which are deductible for tax purposes. This change generated a one-off deferred tax charge in 2009 of approximately £2.0 million or 25.1% of PBT. A provision of £2.9 million was made in the interim accounts for the deferred tax consequences of the abolition of IBAs. Since then, however, we have taken steps to reclassify certain industrial building assets as plant and machinery for which capital allowances are available, thus reducing the interim deferred tax charge by £0.9 million. Once the IBA tax allowances are fully phased out the Group's annual tax cash cost will increase by some £150,000.

Prior year tax credits amounted to 0.7% of PBT, which left an underlying current year tax charge of 31.0%. This, as in previous years, is higher than the effective statutory rate of 28.0%, mainly because of a historic element of capital investment for which no tax allowances are available.

Shareholder returns and dividends
Basic earnings per share have decreased by 40.7% from 9.1p to 5.4p. If the exceptional items are excluded, the underlying decrease in earnings per share is 28.6%.

Dividends paid in the year amounted to 6.05p per share. As a result of the uncertain economic outlook, the Board felt it prudent to pay a reduced interim dividend of 1.2p (2008: 1.95p) during the financial year. It is the intention of the Board to recommend at the Annual General Meeting that a final dividend of 4.85p be paid to shareholders in November 2009, thus making a total dividend in respect of the year's earnings of 6.05p (2008: 6.80p).

Cash and debt

Cash generated from operations before taxation improved from £14.0 million in 2008 to £19.0 million this year. Operating cash flow before working capital movements was virtually unchanged from 2008 but management action to control inventory levels and receivables collection and to improve payment terms from suppliers reduced working capital outflows to £2.8 million, down from £7.9 million the previous year.

Cash investment in fixed assets totalled £10.0 million (2008: £7.5 million), of which £3.0 million was funded through finance leasing. The net balance sheet addition to fixed assets of £10.2 million was slightly more than the cash figure and included £3.0 million of expenditure on new EPOS systems described below, £1.1 million on a second robotic packing line, which will help to reduce product costs, and £1.7 million on new stores and store improvements. The balance was invested in new product tooling and other supply chain and IT improvements.

Shortly after the end of the financial year the Group negotiated new committed banking facilities with HSBC, Lloyds TSB Bank and Santander/Alliance & Leicester totalling £52.5 million for a three year period. The costs of these facilities are higher than those of existing facilities but are in line with market rates and provide certainty of funding for the medium term. Covenants are set at levels which are broadly similar to those in the previous agreements.

Thorntons online sweet shop – filled with your childhood favourites.

FINANCE DIRECTOR'S REPORT CONTINUED

Business performance
The Board continues to apply the following key performance indicators in order to measure progress towards achieving shareholder value:

- Net sales growth – the year on year increase in sales revenue excluding any impact from acquisitions or disposals.
- Like for like sales growth – the change in the sales of those of our own shops which are open for trading for corresponding periods comparing the current year with the previous year.
- Gross return on sales – gross margin as a percentage of net sales revenue.
- Profit before tax – current year profit before tax compared with the previous year.
- Operating cash flow – cash generated from operations before working capital movements, taxation, asset investment and financing activities.

Performance against these was as shown in the table opposite.

Sales
The Group's sales are made through a number of channels whose performance is summarised as shown in the table opposite.

Margins
There was a decrease in gross margin of £0.1 million which was caused by a decline in percentage margins from 50.5% in 2008 to 48.9% this year, more than offsetting the £6.7 million growth in sales over the same period. The main factor in the decline in margin was the need, in a recessionary trading environment, to attract customers to our own stores by offering higher levels of promotional discounts than in the previous year and to ensure that stock was cleared before Christmas. The change in the proportion of sales through the various channels, which is largely mitigated by the lower costs of serving the faster growing channels, also had an adverse effect on gross profit. We succeeded in increasing our prices during the year in order to offset increases in raw material and manufacturing costs.

Costs
Operating expense growth, excluding exceptional items, was 2.6%, a figure lower than the rate of sales growth, and this combination lead to a drop in operating expenses as a percentage of sales from 46.1% in 2008 to 45.8% this year. This was the result of a number of cost management initiatives that were put in place when it became apparent in the early part of the year that there would be a downturn in consumer spending caused by the banking crisis. These initiatives included freezing external recruitment, inviting staff to take unpaid leave, reducing discretionary spend wherever possible and tightly managing shop costs.

Profits on asset (mainly property) disposals declined from £143,000 last year to £16,000 in the current year.

KEY PERFORMANCE INDICATORS

	2009	2008	2007
Net sales growth	**3.2%**	11.9%	5.3%
Like for like sales growth	**(2.0)%**	2.9%	0.8%
Gross return on sales	**48.9%**	50.5%	53.7%
Profit before tax	**£8.1m**	£8.5m	£7.1m
Operating cash flow	**£21.8m**	£21.9m	£19.8m

A review of each of the above is included under the appropriate heading elsewhere in this report.

SALES PERFORMANCE BY CHANNEL

	2009 £m	2008 £m	% increase/ (decrease)
Own Stores	**134.5**	135.1	(0.4)%
Franchise	**15.3**	14.9	2.2%
Commercial	**56.8**	49.5	14.9%
Thorntons Direct	**8.2**	8.6	(5.2)%
Total	**214.8**	208.1	3.2%

A detailed review of the sales performance by channel is included in the Chief Executive's report.

Other operating income
There was a 23.8% improvement in other operating income during the year from £1.1 million to £1.4 million, which was mainly the result of increased sales into major multiples by existing licensees of Thorntons branded products, mainly cakes and ice cream.

Pensions
The IAS 19 pension scheme deficit increased from £16.0 million in 2008 to £21.3 million at the end of 2009. During the year the Group implemented a "career average" change to the terms of the defined benefit pension scheme which reduced liabilities for future pensions by £2.3 million and generated a corresponding income statement curtailment gain. However, a number of other factors contributed to the net increase in the deficit of £5.3 million. The general decline in the value of equity markets accounted for a £4.5 million reduction in the market value of the scheme's assets.

The liabilities of the scheme, excluding the effect of the one-off curtailment gain, have increased by £4.4 million which includes the effect of improving life expectancy.

The Company continues to inject funds into the scheme in order to reduce the scheme deficit over time and made deficit reduction payments totalling £1.7 million during the year.

Information systems
The major achievement of the year was the successful replacement of all our outdated store tills, credit card terminals and central supporting software with state of the art equipment and software which has provided us with a competitive advantage in many aspects of our retail operations. The improvements include a significant reduction in transaction times, helping to shorten customer queues at peak periods. The roll-out of this project was achieved in a challengingly short time period and enabled us to go live before Christmas 2008.

By the end of the financial year we had upgraded all our credit card systems both for our retail business and for Thorntons Direct such that they are fully compliant with the credit card industry's PCI-DSS standard which sets the security standards for handling credit card transactions.

We also successfully upgraded our Oracle systems which are the core of our financial, manufacturing and purchasing systems. This was achieved with minimum disruption to the business.

John Wall
Finance Director
8 September 2009

CORPORATE SOCIAL RESPONSIBILITY

COMMITTED TO INTEGRITY

We are committed to the welfare of our colleagues, customers, suppliers and the communities in which we operate.

Thorntons PLC recognises it has social, ethical and environmental responsibilities arising from its operations and is committed to the welfare of our colleagues, customers, suppliers and the communities in which we operate.

Marketplace

Manufacturing our products

Food safety is paramount to our manufacturing processes and our single site production facilities at Thornton Park are regularly independently audited against the exacting requirements of the British Retail Consortium's Global Standard for Food Safety and recently retained its highest Grade A status. Additionally our commercial and retailer brand customers regularly audit and monitor our performance against their own high standards.

Sourcing our materials

Our products use over 300 different raw materials, which are sourced by our suppliers from all around the world. The majority of our product range is made with natural colouring and flavours and our entire children's range contains no artificial colours or added preservatives. Our product range includes an organic range and we launched our first 'Fairtrade' products during the year.

We ensure ethical, social and environmental standards are maintained throughout the supply chain by auditing and visiting 95% of our suppliers on a regular basis. Our main concern is food safety but our audits also review ethics, health and safety, employee pay, employment conditions, use of child labour and environmental policies and practices.

Thorntons is a member of the World Cocoa Foundation ("WCF"). One of the WCF's objectives is to encourage responsible sustainable cocoa farming amongst small family run businesses and to help improve the conditions of cocoa farmers.

Customers

We believe in offering customers choices about what they purchase and offer both organic and diabetic ranges. During the year we introduced a range of Fairtrade products and Dairy-Free Easter Eggs. As our products are luxury gift items, they are not viewed as part of a balanced diet, but we can provide advice on consumption and do inform consumers about nutrients through the pack labelling, where size permits. Thorntons also provides information on specific ingredients on request, e.g. whether products are gluten-free, or contain alcohol.

We undertake regular consumer surveys, which include questions about ethics and respond to the results of these surveys when developing our products. In addition, we obtain feedback from staff serving customers in our stores of their perception of issues that affect customer satisfaction and build this feedback into our plans.

Customer complaints are handled centrally and we are proud of the process we have established. All complaint investigations are started within 24 hours of receipt and we attempt to resolve each one to the satisfaction of our customers. Our policy is to communicate with our customers in "plain English". All complaints are recorded so that we can undertake a detailed analysis, monitor trends and identify key issues to improve our performance.

Workplace

Our employees

In addition to providing core remuneration benefits (including annual incentive schemes), holidays, sick pay, life assurance and pension provision, Thorntons offers a flexible benefits programme, training and development programmes, discounts on products and services and participation in Company share scheme offers. Employees and their immediate families also have access to a confidential counselling and legal assistance helpline which operates 24 hours a day, 365 days a year and the Company has a published procedure ("whistle blowing policy") for employees to report any concerns confidentially.

We survey all of our employees covering a wide range of issues including Company benefits, working conditions and working relationships with the results of the survey fed back to all employees and used to identify and implement improvements.

The Company has a formal process for succession planning to ensure we develop the capability to grow the business in line with our long-term goals. Management performance and development reviews are conducted annually. We also regularly monitor our staff turnover rates and use exit interviews to understand the reasons why staff leave and ensure improvements are made where appropriate.

Training is available to all staff and we aim to develop both individuals and teams in line with our business needs such that we grow our organisational capability.

Health and safety

In order to ensure continual improvement in health and safety, Thorntons has a three-year safety improvement programme and central to this programme are regular health and safety risk assessments. Manual handling and slips, trips and falls are our major causes of lost-time accidents. Clear manual handling control measures introduced have resulted in the reduction of manual handling by up to 75% on one of our main production lines.

We monitor and review the incidents and accidents in the workplace so that we can take appropriate action to improve working conditions and we remain focused on reducing both the absolute number of accidents and the number of reportable accidents. In order to improve the safety of visitors, employees and contractors around the site we have introduced pedestrian and vehicle segregation in areas of high traffic flow. There are also formal procedures for accepting visitors and contractors on to the production site and into the Retail estate.

CORPORATE SOCIAL RESPONSIBILITY CONTINUED

ENVIRONMENT

The replacement of the air-conditioning equipment means that the estate should be completely free from ozone depleting refrigerants by the end of 2010.

Key issues/objectives	How we monitor our performance
Marketplace • Food safety • Sourcing our cocoa and other raw materials ethically • Customer service	Grade A BRC Global Standard for Food Safety Always use reputable global cocoa suppliers with proven track records in ethical standards; Member of World Cocoa Foundation; 95% of suppliers visited and/or audited regularly All complaints recorded, analysed and trends monitored to identify emerging patterns to improve our performance
Workplace • Wellbeing of our people	Business-wide employee satisfaction survey results monitored, fed back to employees and improvements made RIDDOR Accident Incident Rate down to 63 from 83 in 2007
Environment Waste • Using less material • Reducing waste to landfill • Recycling more Energy • Energy usage	Committed to continue reducing packaging -22% on core Easter 2009 range equivalent to 73 tonnes of packaging 721 tonnes waste to landfill 2009 (38%)* 1,191 tonnes waste recycled 2009 (62%)* Department of Energy and Climate Change reduction targets exceeded in each of last 4 years* * Figures excl. Retail estate
Community • Having a positive impact on the communities in which we operate	Staff raised in excess of £35,000 for Children with Leukemia, the elected charity for 2009

Thorntons is working closely with Business in the Community to further improve its processes and performance monitoring across all areas that its business touches.

Workplace continued

Health and safety continued

A health and safety site committee meets regularly to discuss unresolved health and safety matters and review accident statistics.

An independent external health and safety audit was conducted during the year and accident reporting procedures were significantly improved.

Occupational health

Whilst always aiming to minimise accidents occurring in the workplace, we also work with our insurers and have improved our occupational health service to employees by providing post accident access to private medical services, which will assist with the rehabilitation process. We also use an external occupational health company to provide us with health management services and a doctor attends Thornton Park weekly. Free eye tests and spectacles, where required, are provided for all users of VDUs. We have also introduced a wellbeing policy to help deal with stress at work. During the year noise assessments across Thornton Park were conducted together with audiometric screening for all relevant employees.

Environment

Energy and waste

Our major impact on the environment is waste management and energy use and our priorities lie in improving our environmental performance in these areas. Our usage of gas, electricity and water is regularly monitored, as is our waste recycling and landfill performance. Submeters for all utilities have been installed throughout our manufacturing facility during the year which will further improve our monitoring and aid us to target specific areas for improvements.

A number of initiatives helped reduce energy consumption at our production site such as reducing compressed air and steam leaks and high frequency battery chargers. Where possible, when replacing or purchasing new equipment, energy efficient equipment is selected.

A programme to replace the lighting in all our Retail stores was completed during the year and we took the opportunity to install energy efficient fittings and lamps throughout.

We also embarked on a rolling programme to replace our air conditioning with energy efficient equipment, delivering energy savings of around 20% per site; nearly 50% of the estate will have the new equipment by the autumn of this year with the balance planned to be finished during 2010. The replacement of the air-conditioning equipment means that the estate should be completely free from ozone depleting refrigerants by the end of 2010.

With regard to waste management, an integrated waste management contract with our contractor improved both the segregation and the proportion of waste recycled including plastic wrapping, sheets and moulds, metal straps and cardboard. Cardboard generated in our Retail outlets is returned to our production site at Thornton Park in the returning empty lorries. All staff are encouraged to recycle general office consumables including paper and printer toners.

We have introduced the back hauling of raw materials and packaging from suppliers, as well as cardboard for recycling from our Retail stores, in vehicles returning to our production site.

PACKAGING

A major initiative to reduce packaging on our 2009 Easter eggs and products successfully resulted in a 22% reduction.

Environment continued

Packaging

Packaging is also a key issue for the Company and we have developed environmental policies for the procurement of packaging and continue to progress towards sourcing Forest Stewardship Council ("FSC") approved materials for our cartons. We continue to monitor the overall environmental impact of using more recycled materials in all components.

A major initiative to reduce packaging on our 2009 Easter eggs and products successfully resulted in a 22% reduction (as measured by the percentage of cardboard packaging to product).

Transport

Initiatives to reduce the impact of our products on the environment are principally designed to reduce fuel consumption through improved efficiency of vehicles or their movements. As vehicles are replaced we purchase more fuel efficient and lower emission vehicles, which exceed current European emission requirements. The vehicle manufacturer also provides training to drivers on more efficient driving methods.

With regard to lorry movements we have introduced the back hauling of raw materials and packaging from suppliers, as well as cardboard for recycling from our Retail stores in empty vehicles returning to our production site. We also make use of 'thermal containers' in our trailers which are frozen at our production site and loaded onto vehicles at the last possible moment. As chiller units are not required, fuel efficiency increases and there is more efficient utilisation of space within the trailer.

The frequency of deliveries, fuel costs and consumption have all been reduced in the year by reviewing the mix of vehicles used and ensuring that, wherever possible, full loads are carried.

Community

The seasonal nature of our business means that we employ a large number of temporary staff from the local community in our production and indeed we have a policy to recruit staff locally in order to provide a benefit to the local community. We have been able to offer a number of temporary staff permanent positions.

Many of our ingredients are sourced from local, UK based suppliers and this factor is considered in our purchasing decisions for both ingredients and packaging of goods.

Thorntons retains links with its former staff through annual outings and dinners and builds new relationships through local school activities and work placement schemes.

A staff charity committee is actively involved in raising money for Children's charities. Last year the committee raised over £35,000 for Children With Leukaemia by co-ordinating a range of initiatives including sponsorship from suppliers and staff for runners in the London marathon, arranging collection points in stores and running a Charity Football Day for the Company's suppliers at Derby County's football ground. Our Retail stores are encouraged to support local charitable activities and another project raises money for Guide Dogs for the Blind through sponsorship of participants in the Coniston Challenge. It is the policy of the Board not to make any political donations.

BOARD OF DIRECTORS

Chairman

John von Spreckelsen
Non-Executive Chairman. N.
Joined Thorntons in June 2006. He was previously Chief Executive Officer of Budgens plc and Chairman of Somerfield plc. Currently his other appointments include those of an Operating Partner of Merchant Equity Partners LLP in the UK, and Chairman of But SAS in France. He is Chairman of the Nomination Committee.

Executive Directors

Mike Davies
Chief Executive.
Joined Thorntons in October 2006. Previously held a number of senior positions in Mars Inc., including Managing Director of the UK and Ireland, European Vice-President, Sales and latterly as President of Latin America sitting on Mars Inc.'s Worldwide Operating Board. Prior to joining Mars, Mr Davies spent three years with Procter & Gamble.

Barry Bloomer
Managing Director, Sales & Operations.
Joined Thorntons in July 2005 and was appointed to the Board in July 2006. He previously spent ten years at Black & Decker, latterly as European Operations Director and prior to that eight years in various positions including Manufacturing and Quality Director for Philips Components Ltd.

John Wall
Finance Director.
A chartered accountant, joined Thorntons in December 2004. Prior to this he had a number of Finance Director roles including Group Finance Director, Lee Cooper Group and Controller of the European Division of Thomas & Betts Corporation.

Peter Wright
Marketing Director.
Joined Thorntons in August 2007. Previously held a number of senior marketing positions in Tesco plc including UK Director for brand marketing, UK Director for stores and non-food marketing and latterly as Marketing Director for Tesco, Ireland. Prior to joining Tesco he held a number of senior marketing positions both in the UK and internationally with Diageo.

Key:
A. Audit Committee
N. Nomination Committee
R. Remuneration Committee

Non-Executive Directors

Diana Houghton
Non-Executive Director. A. R. N.
Joined Thorntons in December 2008. A corporate development and strategy specialist with broad experience of the consumer goods and leisure retail sectors and extensive corporate finance expertise. She spent six years as Corporate Development Director of Allied Domecq before working as a consultant to a number of companies, investment banks and private equity houses. She is Chair of the Audit Committee.

Paul Wilkinson
Non-Executive Director. A. R. N.
Joined Thorntons in August 2006. He holds a portfolio of executive, non-executive and advisory roles in the food, consumer and retail sectors as well as the public sector. Previous appointments include Chairman of Rank Hovis McDougall and prior to that he held management roles at Unilever and Grand Metropolitan. He was an independent Director of Aryzta AG, a major international food group based in Zurich until 31 July 2009 and other appointments include Produce World, Big Bear Group and First Day Lawson. Also chairs the National Skills Academy. He is Chairman of the Remuneration Committee and the Senior Independent Director.

CORPORATE INFORMATION

Secretary and registered office
Mark R. Henson FCIS
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Somercotes
Derbyshire DE55 4XJ

Tel: 0845 075 7565
www.thorntons.co.uk

Registered in the United Kingdom No. 174706

Independent auditors
PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Leeds

Registrars
Capita Registrars
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Woodsome Park
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Huddersfield HD8 0GA

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Principal bankers
Alliance & Leicester plc
Barclays Bank plc
Fortis Bank SA/NV UK Branch
HSBC PLC
Lloyds TSB Bank plc

Financial advisors and corporate brokers
Investec Investment Banking

Financial PR advisors
Cardew Group Limited

FINANCIAL CALENDAR

For 52 weeks ended 27 June 2009

22 October 2009	AGM
27 November 2009	Final dividend payable

For 52 weeks ending 26 June 2010

9 January 2010	Interim accounting period end (28 weeks)
February 2010	Interim results and dividend announced
April 2010	Interim dividend payable
26 June 2010	Accounting period end (52 weeks)
September 2010	Results and final dividend announced
September 2010	Annual Report circulated
October 2010	AGM

Share dealing service
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REPORT OF THE DIRECTORS

The Directors of Thorntons PLC have pleasure in presenting their Annual Report and the audited financial statements of the Company and Group for the 52 weeks ended 27 June 2009.

Principal activities and business review
The principal activities of the Group during the period were focused on the manufacturing, retailing and distribution of high quality confectionery and other sweet foods. A review of the Group's performance during the period, with commentary on the financial results, future development and principal risks and uncertainties facing the Company is contained in the Chairman's statement (pages 2 and 3), the Chief Executive's report (pages 6 to 11), the Finance Director's report (pages 14 to 17), the Corporate Responsibility report (pages 18 to 22), and the Corporate Governance Statement (pages 29 to 33), which are incorporated into this report by reference.

Results and dividends
The profit for the financial year, before tax, was £8.1 million. An interim dividend of 1.20p per share was paid on 30 April 2009 (2008: 1.95p). The Directors recommend a final dividend of 4.85p per share (2008: 4.85p), which is not reflected in the attached accounts, representing a total for the period of 6.05p (2008: 6.80p). Subject to shareholder approval, the final dividend will be paid on 27 November 2009 to shareholders on the register at the close of business on 30 October 2009.

Financial risk management
Details of the Group's financial risk management policies are set out in note 18 on pages 65 to 69.

Directors
The current Directors of the Company, together with their biographical details, are shown on page 23. The Directors during the year who served for the whole of the period and up to the date of signing the financial statements, except where stated, were:

Chairman
J A von Spreckelsen

Non-Executive Directors
M T P Davey (resigned 5 December 2008)
D J Houghton (appointed 5 December 2008)
P N Wilkinson

Executive Directors
B Bloomer
M R Davies
D Prendergast (resigned 1 August 2008)
J R Wall
P D J Wright

The Directors retiring by rotation at the Annual General Meeting ("AGM") are M R Davies and P D J Wright, who, being eligible, offer themselves for reappointment. D J Houghton having been appointed by the Board since the last AGM also offers herself for reappointment in accordance with the Company's Articles of Association. The interests of the Directors and their immediate families in the shares of the Company and in options over such shares granted under the Company's share option schemes are shown in the Report on the Directors' Remuneration on pages 34 to 41. No Director held a material interest, either during or at the end of the period, in any contract of significance in relation to the business of the Company or its subsidiaries.

REPORT OF THE DIRECTORS CONTINUED

Share capital

Details of the Company's voting and share capital structure and any changes during the year under review are shown in note 23 to the accounts on pages 76 to 78. No person has any special rights of control over the Company's share capital and all issued shares are fully paid.

The Directors were granted a general authority at the 2008 AGM to allot relevant securities up to a nominal amount of £1,665,176 and the authority applies until the conclusion of this year's AGM when shareholders will be asked to grant a similar authority in line with current investor guidelines. Separate authorities will also be proposed to renew the Directors' limited authority to disapply shareholders' pre-emption rights and to purchase a proportion of the Company's share capital in the market, again in line with investor guidelines.

Significant agreements

There are no agreements that the Company considers significant and to which the Company is a party, that would take effect, alter or terminate upon change of control of the Company following a takeover bid other than the Company is party to a number of banking agreements which upon a change of control of the Company are terminable at the banks' discretion.

Interests in voting rights

The Company has been notified of the following significant interests in voting rights of the Company's issued share capital as at 8 September 2009:

	Ordinary shares	%
SVG Capital plc (incl. Strategic Equity Capital plc below)	7,523,111	11.0
Oppenheimer Funds	6,974,640	10.2
Joseph Rowntree Charitable Trust	4,000,000	5.8
Ameriprise Financial Inc. (Threadneedle Asset Management)	3,430,955	5.0
Ms P A Thornton*	3,177,611	4.8
Mrs J S Harcus*	2,806,186	4.2
Fidelity International Ltd	2,794,616	4.1
Strategic Equity Capital plc	2,790,618	4.1
Highclere International Investors Ltd	2,054,956	3.0

* These include joint holdings as trustees and, consequently, certain shares are allocated against more than one name.

Employee share schemes

The Company operates a number of share option schemes for the benefit of employees. Information regarding the schemes and the number of options outstanding is given in note 23 on pages 76 to 78.

Employee involvement

It is the Group's policy to keep employees fully informed of matters affecting them as employees and to make them aware of the financial and economic factors influencing Group performance. The views of employees are taken into account in making decisions affecting their interests and information of relevance to all employees is communicated through a council system of employee representation and regular business updates. Encouragement is given to colleagues to contribute towards the Group's financial performance by annual bonus schemes and participation in the Company's share schemes.

Equal opportunities and employment of disabled persons
Employment policies are designed to provide equal opportunity, irrespective of age, gender, sexual orientation, disability, religion, race or marital status. Applications for employment by disabled persons are given full and fair consideration and, whenever practicable, provision is made for their special needs. The Group applies the same criteria to disabled employees for training, career development and promotion as to any other employee. If existing employees become disabled, every effort is made to ensure their continued employment.

Research and development
The Group continues an active programme of research and development in all areas of its activities, with the constant review of existing products and development of new products being an integral part of this programme.

Charitable and political contributions
During the period, the Group made charitable contributions of £1,000 (2008: £5,000), and gave £8,000 (2008: £3,000) to local causes. It is the policy of the Board not to make political donations and accordingly none were made in the period (2008: £nil).

Payment of suppliers
The Group does not follow any specific external code or standard on payment practice. Its policy is to:

- agree the terms of payment with suppliers when agreeing the terms of each transaction;
- ensure that those suppliers are made aware of the terms of payment by inclusion of the relevant terms in contracts; and
- pay in accordance with its contractual and other legal obligations.

The payment policy applies to all creditors for revenue and capital supplies of goods and services without exception. The Group and Company's average creditor payment period at 27 June 2009 was 31 days (2008: 27 days).

Auditors
Following a recommendation of the Audit Committee to the Board, a resolution to reappoint PricewaterhouseCoopers LLP as auditors to the Company will be proposed at the AGM.

Disclosure of information to auditors
In the case of each of the persons who were Directors at the date this report was approved:

- so far as each of the Directors is aware, there is no relevant audit information (as defined in the Companies Act 2006) of which the Company's auditors are unaware; and
- each of the Directors has taken all the steps that he or she ought to have taken as a Director in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

REPORT OF THE DIRECTORS CONTINUED

Statement of Directors' responsibilities in respect of the Annual Report, the Report on the Directors' Remuneration and the financial statements
The Directors are responsible for preparing the Annual Report, the Report on the Directors' Remuneration and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the Group and Parent Company financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU"). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRS as adopted by the EU have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements and the Report on the Directors' Remuneration comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Each of the Directors, whose names and functions are listed on page 23 confirm that, to the best of their knowledge:

- the Group financial statements, which have been prepared in accordance with IFRS as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- the Report of the Directors on pages 25 to 28 includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

Articles of Association
The Company's Articles of Association may only be amended by a special resolution at a general meeting of shareholders.

Annual General Meeting
The notice convening the Company's AGM on 22 October 2009 can be found in the separate Notice of AGM accompanying this Annual Report and includes full details of the business to be transacted.

Approved by the Board on 8 September 2009 and signed on its behalf by:

Mark R. Henson
Company Secretary

CORPORATE GOVERNANCE

Statement on compliance

The Company recognises the importance of and is committed to high standards of corporate governance. The Board is accountable to the shareholders for good corporate governance. This report describes how the Board applies the principles of good governance and best practice as set out in the Combined Code on Corporate Governance issued by the Financial Reporting Council in June 2008 (the "Combined Code").

Throughout the year under review, the Board considers that the Company has complied fully with all provisions recommended in Section 1 of the Combined Code.

The Board

The Company is headed by a Board of Directors collectively responsible for the success of the Company. The Board provides leadership within a framework of prudent and effective controls designed to enable risk to be assessed and managed. It sets the Company's strategy and is responsible for reviewing management performance and for ensuring the necessary financial and human resources are in place in order to meet the Company's objectives. The Board also sets the Company's values and standards mindful of its obligations to shareholders and other stakeholders.

The Board currently comprises the Chairman, four Executive Directors and two Non-Executive Directors. The Board regards P N Wilkinson and D J Houghton as being independent. The Chairman and Chief Executive both have clearly defined roles and responsibilities, which are set out in writing and approved by the Board. The Chairman has responsibility for the leadership and the running of the Board, including but not limited to ensuring that a fixed schedule of matters is exclusively retained for the Board's review and approval, and that a framework exists to allow the clear dissemination of relevant and timely information to all Directors for such discussion to occur. He is also responsible for communications with shareholders and for ensuring effective contributions from the Non-Executive Directors. The Chairman has commitments outside of the Company as detailed in his biography on page 23. All Directors are subject to reappointment by shareholders at the first AGM following their appointment and thereafter at intervals of no more than three years.

The Board meets regularly (normally nine times per financial year) and during the period under review there was full attendance at the nine Board meetings that took place by Directors eligible to attend, except for apologies received from B Bloomer in respect of one meeting. The Board regularly reviews the operational performance and plans of the Company and, as necessary, determines the Company's current and proposed strategy. The Executive Directors also meet under the chairmanship of the Chief Executive on a weekly basis to discuss operational matters. All Board members receive agendas and comprehensive papers prior to each Board meeting. All Directors have access to the services of the Company Secretary who is responsible to the Board for ensuring that Board procedures are followed and that applicable rules and regulations are adhered to. During the year the Board has maintained a register of potential conflicts of interest with its Directors, which is reviewed/updated as necessary. Directors may also obtain further information from any manager or employee of the Company and there is a procedure for Directors to obtain independent advice from external advisors, consultants or any such further professional individual or entity at the Company's expense. The Company maintains appropriate liability insurance for the benefit of its Directors.

The Chairman meets at least annually with the Non-Executive Directors without Executive Directors present and the Non-Executive Directors, led by the Senior Independent Director, P N Wilkinson, meet annually to consider the Chairman's performance, taking into account the Executive Directors' views. The Senior Independent Director is also available to shareholders if they have any concerns, which contact through the normal channels of the Chairman, Chief Executive or Finance Director has failed to resolve or for which such contact is inappropriate.

The terms and conditions of appointment of the Non-Executive Directors are available during normal business hours at the Company's Registered Office and will be available for inspection at the AGM.

New appointments to the Board receive an appropriate induction to gain an understanding of the Company's business, which includes meetings with senior management.

CORPORATE COVERNANCE CONTINUED

The Board continued

Given the skills and experience of the Non-Executive Directors, their general training requirements are left to their own discretion. The Company makes the necessary resources available to meet any identified requirements. The Chairman conducts a formal annual appraisal process for the Board, its Committees and individual Directors including those Directors due to offer themselves for reappointment at the AGM through submission of a questionnaire which facilitates a Board discussion and, where appropriate, agreed actions for improvements. The Executive Directors are also included in the Company's annual performance appraisal arrangements, which include development and training requirements.

The Board delegates its authority for certain matters to its Audit, Remuneration and Nomination Committees. The Board approves the terms of reference of each of the Committees and they are available on the Company's website, www.thorntons.co.uk, and upon request from the Company Secretary. During the period under review there were three meetings of the Audit Committee and two formal meetings of the Remuneration and Nomination Committees with full attendance of all eligible Directors. In addition to formal Committee meetings, ad hoc decisions of the Committees are taken after discussion throughout the year as necessary through the form of written resolutions.

Nomination Committee

The Nomination Committee is composed of the two independent Directors and the Chairman of the Board, J A von Spreckelsen. The Committee is chaired by J A von Spreckelsen and is responsible for reviewing the credentials of each and every potential Director before such nominee is proposed to the Board. In considering potential appointments to the Board the Committee evaluates the balance of skills, knowledge and experience on the Board when considering the role and capabilities required for a particular appointment. When appointments are being considered, the Committee uses professional external recruitment specialists as and when appropriate, as well as contacts of its Directors and the Company's advisors, as was the case in the appointment of D J Houghton. The Committee also reviews the contribution of Directors offering themselves for reappointment by shareholders.

Remuneration Committee

The Remuneration Committee is composed of the two independent Directors and is chaired by P N Wilkinson. The Board has delegated authority to the Committee for setting the Chairman's, the Executive Directors' and the Company Secretary's remuneration and performance-related awards. Further details of the Committee and Directors' remuneration are set out in the Report on the Directors' Remuneration on pages 34 to 41.

Audit Committee

The Audit Committee throughout the year comprised of the two independent Directors and is chaired by D J Houghton, who succeeded M T P Davey on his resignation in December 2008. It meets three times a year with the external auditors and considers any issues which are identified during the course of their audit work. The Board is satisfied that both Committee members have recent and relevant financial experience. Meetings are also attended, by invitation, by the Chairman, Chief Executive, Finance Director and Financial Controller. The Committee meets at least annually with the external auditors without the Executive Directors present.

The Audit Committee is responsible for monitoring the integrity of the Company's financial statements; reviewing the Company's internal financial controls and internal control and risk management systems; monitoring and reviewing the effectiveness of the internal audit function; making recommendations to the Board regarding the appointment, reappointment or removal of the external auditors and approving their remuneration and terms of engagement; reviewing and monitoring the external auditors' independence and objectivity and the effectiveness of the audit process; and developing and implementing a policy on the engagement of the external auditors to supply non-audit services.

In respect of safeguarding the objectivity and independence of the external auditors, the Committee has a formal policy regarding the provision of non-audit services by the external auditors including certain services which they cannot provide so as not to compromise their independence (for example, bookkeeping or other internal accounting services, internal audit, management roles or legal services). The policy also provides for tendering for services where appropriate and has specific pre-approved categories of work subject to the level of fees involved. A formal rotation policy of the audit partner also exists which limits tenure to a maximum of five years.

Audit Committee continued

The Committee also specifically reviews the levels of all fees paid to the auditors for audit and non-audit services annually. The external auditors report to the Audit Committee each year on the actions they have taken to comply with professional and regulatory requirements and best practice designed to ensure their independence. The Committee reviews whether the auditors believe there are any relationships that may affect their independence and additionally the auditors formally confirm their independence in writing to the Board in respect of the period covered by these financial statements.

The Committee also receives regular detailed reports from the internal audit function and, to ensure its activities are appropriate, reviews its proposed work-plan for future periods.

Internal controls

The Company's control environment is the responsibility of the Company's Directors and managers at all levels. The Board is therefore responsible for establishing and maintaining the Company's system of internal control and for reviewing its effectiveness. No control system can provide absolute protection against material misstatement or loss but it is designed to manage rather than eliminate the risk of failure to achieve business objectives and to provide the Directors with reasonable assurance that problems should be identified on a timely basis and dealt with appropriately.

The Board has delegated responsibility for reviewing the Company's system of internal control and its effectiveness to the Audit Committee. Due to the size of the Company, the Executive Directors are able to monitor performance and evaluate and manage on a continual basis the risks faced by the Company. The key procedures that have been established to provide effective internal control and to comply with the Financial Reporting Council's guidance on Internal Control: Revised Guidance for Directors on the Combined Code (October 2005) include:

- a formalised reporting structure which includes the setting of detailed annual budgets and key performance indicators which are updated on a regular basis to form forecasts which are reviewed at both management and Board meetings;
- regular Board meetings are held at which all key aspects of the business are discussed including comparison of actual performance with budgets;
- monthly reports are made to the Board by the Chief Executive, Finance Director and other Executive Directors;
- there is a weekly review of operational performance and operational matters by the Executive Directors;
- meetings are held by each Executive Director on a weekly and monthly basis to review the progress of specific financial and non-financial responsibilities within their functions;
- the control, review and monitoring of key business projects by specific steering committees, each headed by an Executive Director who sponsors the project;
- there are defined authorisation levels for capital expenditure;
- there are defined authorisation levels for the placing of orders and contracts;
- there are clear authorisation levels and segregation of accounting duties to control major financial risks;
- daily cash movements are reconciled and monitored by the Treasury Department and the Company's cash flow is monitored monthly in comparison to budget and forecast;
- the Company's reporting systems provide weekly updates on key statistics including sales, production and gross margin analysis;

CORPORATE COVERNANCE CONTINUED

Internal controls continued

- a committee comprising Executive Directors meets to identify and review key operational and compliance risks and then implement appropriate procedures to address those risks. A review of the committee's work is included in the Board's agenda;
- major commercial, technological and financial risks are assessed by the Board throughout each financial year. The conclusions are then incorporated in the Company's business strategy and adopted by the Board; and
- there is a formal arrangement for staff to raise any concerns over financial reporting or other matters in confidence.

The Board and Audit Committee review management reports prepared by the external and internal auditors and consider the suitability of suggested improvements to the system of internal controls.

The Board and Audit Committee have reviewed the effectiveness of the internal control system, including financial, operational and compliance controls and risk management, in accordance with the Code on an ongoing basis for the period from 29 June 2008 to the date of this report and have determined that they were not aware of any significant failings or weaknesses in the system of internal control.

Principal risks and uncertainties

As described above in the internal control procedures, key risks are reviewed by the Executive Committee. The assessment of risks on the basis of likelihood and potential impact, together with the controls and actions to manage or mitigate them, are passed to the full Board for approval. The key risks and uncertainties facing the business are considered to be as follows:

A very competitive market

The UK confectionery market has many strong players and maintaining our competitive position depends on our continued ability to offer products that have a strong appeal to consumers. Consumer preferences may shift due to a variety of factors, including changes in demographic and social trends. Any significant shift in consumer preferences coupled with our failure to anticipate and react to such changes could reduce the demand for certain products in our portfolio resulting in reduced sales or harm to the image of our brand. Product innovation is critical to maintaining consumer relevance and hence demand. The Company has a rigorous process for identifying, researching and developing new product ideas, which is regularly reviewed and improved. The Company's multi-channel strategy is also a means by which it can satisfy consumers' needs better than its competitors.

Sales may be disproportionately affected by an economic downturn or recession

We believe that during times of economic uncertainty or hardship consumers may choose to purchase lower value consumer goods as opposed to higher value consumer goods, which include our premium branded chocolates. The current economic climate may also result in the failure of customer businesses or customers defaulting on supply payments. Reduced sales as a result of an economic downturn or recession in the United Kingdom may have an adverse effect on the results of operations of our business.

The Company's products are prominent in the national debate on health

Thorntons has always sought to make products with wholesome recipes, for example, only using cocoa butter in its chocolate, in line with other premium confectionery. Developments in food science are monitored directly and via industry associations. Production changes arising from these types of concerns include the phase out of hydrogenated vegetable oil and artificial colours. Thorntons seeks to inform consumers about the strong provenance of its ingredients and beneficial effects of cocoa consumption.

Food products must have the highest integrity

Product contamination, accidental or malicious, is a risk faced by all food producers. Thorntons has extremely rigorous policies and security systems for guarding against accidental or malicious contamination of ingredients or finished products. In the unlikely event that these policies and systems fail, a robust process for product recall and consumer communication, in addition to comprehensive insurance cover is in place.

Principal risks and uncertainties continued

A substantial decrease in our ability to supply our customers with our products could adversely affect the results of our operations
An interruption or substantial decrease in our ability to supply customers of our brands could damage our sales and image as well as our relationships with customers and consumers. Most of the Company's products for sale are produced at Thornton Park in Alfreton, Derbyshire. The remainder is bought in from suppliers, who have a particular expertise or cost advantage over the Company's own facility. The operating site has been built up over the last 20 years, with varying standards of fire protection. Recognising this vulnerability, the Company invested over £2 million in firewalls and a sprinkler system to improve the protection of the site. Contingency and recovery plans for IT and utilities are also regularly reviewed.

Input prices are driven by commodity markets
The Company buys key inputs forward and works with suppliers to choose the optimal time and quantity for purchases. Whilst this policy may sometimes prevent the Company taking advantage of short-term dips in prices, it provides a sound cost base for the Company to make its trading decisions.

The business is dependent up on the skills, enthusiasm and wellbeing of its people
Management evaluates the balance of skills, knowledge and experience within the team when considering the role and capabilities required for a particular senior appointment. The Company uses professional external recruitment specialists as and when appropriate, as well as contacts of its Directors and the Company's advisors. Management aspires to keep colleagues informed of internal and external developments and regularly reviews how they are feeling through surveys and communication sessions. A channel outside the normal line structures for communication and resolution of issues exists through the Joint Industrial Council for Thornton Park and the Retail Council for store-based colleagues.

Relations with shareholders

Communications with shareholders are given high priority. Following the announcement of the Company's interim and final results, the Directors, normally represented by at least the Chairman, Chief Executive and Finance Director, make detailed business presentations to institutional shareholders. The Senior Independent Director is also available to all shareholders. Feedback via the Company's brokers after these regular analyst and shareholder meetings ensures the Board understands shareholder views and messages. Finally, the Company's website, www.thorntons.co.uk/investor, allows shareholders to view Company results and announcements and other relevant information, and also raise questions to put back to the Company.

The Board uses the AGM to communicate with private and institutional investors and welcomes their participation. Each year the Board reviews the governance and voting guidelines issued by the principle representative bodies of its shareholders. The Directors present at each AGM a business review to all attending shareholders who may ask any questions they wish. It is not a requirement that these be previously submitted to the Company in writing. Furthermore, at each AGM, the Chairman aims to ensure that the chairmen of the Board Committees are available. All Code provisions regarding constructive use of the AGM are complied with.

Going concern

The Directors are satisfied, on the basis of current financial projections and facilities available, that the Company and the Group have adequate financial resources to continue to operate for the foreseeable future. For this reason, the Directors continue to adopt the going concern basis in preparing the financial statements.

Approved by the Board on 8 September 2009 and signed on its behalf by:

Mark R. Henson
Company Secretary

REPORT ON THE DIRECTORS' REMUNERATION

Information not subject to audit

Remuneration Committee

The Remuneration Committee is composed of the Company's two independent Non-Executive Directors, P N Wilkinson (Chairman) and D J Houghton, who succeeded M T P Davey on his resignation in December 2008. J A von Spreckelsen was also a member of the Committee throughout the period and until 13 July 2009 when he resigned from the Committee.

The Committee is responsible for setting the Chairman's, Executive Directors' and Company Secretary's remuneration and performance-related awards. It also monitors the remuneration of the Company's Senior Managers. During the period, the Chief Executive attended Committee meetings by invitation and provided advice on issues other than those relating to his remuneration. The Company Secretary attends the meetings as secretary to the Committee. During the year, the Committee received independent general remuneration and share scheme advice from Deloitte LLP who were appointed by the Committee and also advised the Company on tax matters. The Committee also had access to professional market surveys on boardroom pay. No Director is involved in any decision relating to his own remuneration. The Terms of Reference of the Committee are available on the Company's website, www.thorntons.co.uk, and upon request from the Company Secretary.

Remuneration policy

The policy for the current and future periods for the remuneration and incentivisation of the Executive Directors is as follows:

- to ensure that individual rewards and incentives are aligned with the performance of the Company and the interests of shareholders;
- to ensure that performance-related elements of remuneration constitute a significant proportion of an executive's remuneration package; and
- to maintain a competitive remuneration package which enables the Company to attract, retain and motivate high calibre executives.

The Committee reviews the Company's executive remuneration arrangements and implements incentive arrangements to support the objective of rewarding those individuals who deliver real and genuine shareholder value. In developing the arrangements the Committee and its advisors carefully consider the best practice provisions in the Combined Code and current market practice.

Salaries

Salaries for the Executive Directors are targeted at remaining competitive for the market size of the business and, unless they fall below what the Committee considers to be competitive, will not normally be changed beyond a cost of living increase outside of this target. The level of salary of the Executive Directors is reviewed each year by the Remuneration Committee and takes into account a range of issues including primarily underlying Group performance and also comparative salary levels within the Company and externally. During the second half of the financial year Executive and Non-Executive Directors agreed to a temporary reduction in salary/fees of 5% until 27 June 2009 and, given the continuing uncertainty over the economic outlook and taking into account the awards under discussion for the general workforce, no increase in annual salary is being awarded to the Executive Directors for the new financial year.

Taxable benefits comprise principally healthcare insurance policies, a fully expensed company car or car allowance and a fuel allowance.

Annual incentive plan

The Remuneration Committee reviews and approves the annual bonus scheme targets each year. For the 2010 financial year, the bonus potential for Executive Directors is 20% of base salary for on-target profit performance and 100% of base salary for exceptional out-performance. There are clear financial targets based on the achievement of Group profit and the Committee is satisfied that these are challenging and, in order for the maximum bonus to be earned, will demonstrate significant improvement in the profit performance of the business.

Despite further sales growth achieved in the year in a very difficult trading environment, the profit targets set at the beginning of the year were understandably not met and consequently the Executive Directors will receive no bonus in respect of the 2009 year.

Information not subject to audit continued

Long-term incentive plan ("LTIP")

The Committee introduced long-term incentive arrangements, approved by shareholders in October 2007, which deliver genuine performance-related pay, with a clear line of sight for Executives and a direct alignment with shareholders' interests.

Under the LTIP, annual awards of share options will be granted with an exercise price equal to the market value of the shares at the date of grant. Executive Directors may receive an award under the LTIP in any financial year over shares worth 150% of their basic annual salary (excluding bonuses, commissions and benefits in kind) provided that to the extent that an award exceeds 100% of their basic annual salary, the vesting of such excess will be dependent on the achievement of a significantly more stretching performance target.

The participants will not be entitled to exercise their options for a period determined by the Committee, which is generally no earlier than three years from the date of award. The vesting of awards at the end of the performance period will be subject to the relevant participant remaining in employment and the achievement of specified stretching performance conditions.

There are currently two grants of awards in respect of the periods 2007 to 2010 and 2008 to 2011 under the LTIP with a performance target based on the Company's Total Shareholder Return ("TSR"). TSR will normally be averaged across a period of three months before the start of the performance period and three months before the date on which the performance period ends. This is in keeping with normal market practice and is a practical adjustment to smooth out the impact of short-term market influences and to provide a more robust measure of the Company's performance. Awards will vest, on a sliding scale between each step, as follows:

% of total award vesting	Annual TSR growth required	Compound equivalent over three year vesting period
150%	20%	73%
100%	15%	52%
25%	8%	26%

In order to reassure shareholders that Executives will not benefit simply from an upward turn in the market, the Committee will require underlying real EPS performance to increase by at least Retail Prices Index ("RPI") + 10% per annum, before any awards vest, even if the TSR targets are achieved. In addition, for any award above 100% to vest, the underlying annual growth in real EPS must be at least RPI + 12%.

Absolute TSR was chosen as the measure for awards under the LTIP because it creates a direct line of sight for Executives to increase shareholder value against the Company's current business position. The Remuneration Committee monitors the performance of existing awards against the above targets on an annual basis and reviews the performance conditions for future awards to ensure that the conditions continue to be appropriate for the Company and the prevailing market. Based on the Company's TSR performance to date since the operation of the LTIP, no options awarded would vest. The actual percentage of the award vesting will be determined by the Remuneration Committee at the end of the three year performance period.

REPORT ON THE DIRECTORS' REMUNERATION CONTINUED

Information not subject to audit continued

Share option scheme

Under the Thorntons PLC 2001 Executive Share Option Scheme, the Chairman and Executive Directors have all previously been granted share options. Subject to the achievement of performance targets, these options may be exercised between three and ten years after the date of grant. Following the introduction of the LTIP in 2007, no further awards under this scheme to Directors are anticipated.

Executive Directors with twelve months' service, along with all eligible employees, are also entitled to participate in the Company's All Employee Sharesave Scheme.

Supplementary notes regarding existing share scheme options and awards

The Thorntons PLC 2001 Executive Share Option Scheme ("the Scheme")

Options granted under the Scheme can be exercised at any time between three and ten years after the grant date, subject to the fulfilment of certain performance criteria.

Options granted in 2006 and 2007 were split into three equal tranches with a requirement that a share price of 160p (2006) and 200p (2007) be achieved within a minimum of three and a maximum of six years from the date of grant before the first tranche could be exercised. With regard to the second and third tranches, the share price is required to reach 185p (2006) and 225p (2007), and 210p (2006) and 250p (2007) respectively. In addition, before any tranche may be exercised, growth in earnings per share must exceed the RPI by at least 3% per annum cumulatively over at least a three year and a maximum six year period, the share price must have reached the relevant targets on the day prior to the exercise and the Remuneration Committee must be satisfied that there has been an improvement in the underlying performance of the Company.

Under the scheme rules, in the event of a change of control of the Company, options may be exercised within one month or such longer period as the Remuneration Committee determines and provided that such options have met their attaching performance criteria. The Remuneration Committee also has discretion but always acting fairly, reasonably and objectively, to determine whether, and if so, to what extent beyond that indicated by the performance condition, options shall be exercisable, having regard to all the circumstances.

Sharesave Scheme

Options granted under the HM Revenue & Customs approved Sharesave Scheme can be exercised at any time during the six month period commencing three or five years from the start of the savings contract. Options may be granted under the Sharesave Scheme at a discount of up to 20% of the market value of a share in the Company on the date immediately preceding the date on which employees are invited to participate in the Scheme. There are no performance criteria under the Sharesave Scheme.

Share price

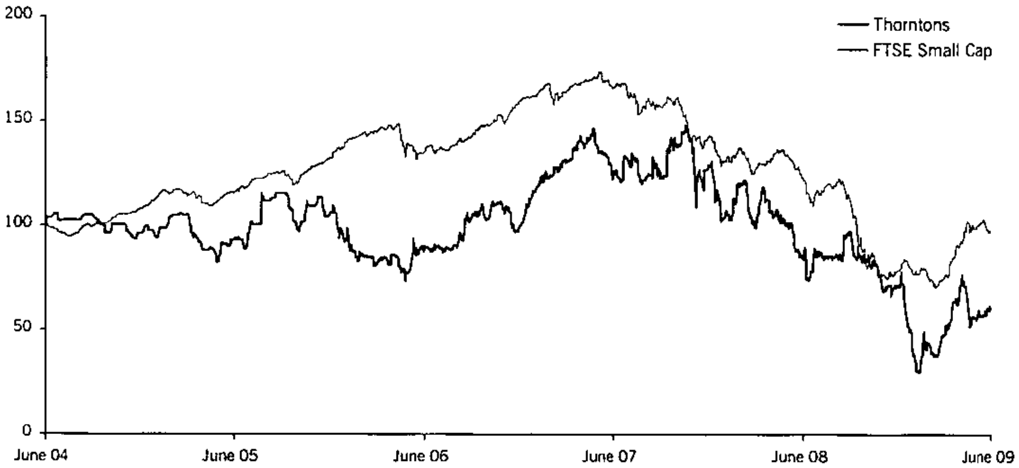
The mid-market price of the ordinary shares at 27 June 2008 (the last dealing day prior to 28 June 2008) was 114p and at 26 June 2009 (the last dealing day prior to 27 June 2009) was 74p and the range for the period was from 38p to 130p.

The Company's register of Directors' interests, which is open to inspection, contains full details of Directors' shareholdings and options to subscribe. During the period from 28 June 2009 to 8 September 2009, the interests of the Directors named in the table on page 40 in the shares of the Company were unchanged.

Information not subject to audit continued

Performance graph

The graph below shows the total shareholder return performance for the Company's shares in comparison to the FTSE Small Cap Index for the five years to 27 June 2009. For the purposes of the graph, total shareholder return has been calculated as the percentage change during the five year period in the market price of the shares, assuming that dividends are reinvested.



This graph shows the value, by the end of the 2009 financial year, of £100 invested in Thorntons over the last five financial years compared with £100 invested in the FTSE Small Cap Index which, given the Company forms a constituent part, the Directors believe is the most appropriate comparative index.

Pensions

The Executive Directors, with the exception of M R Davies who does not participate in any Company pension arrangement, have private pensions to which the Company contributes a fixed percentage of basic salary.

A table identifying the accrued benefits of Executive Directors who participate in the approved pension arrangements and the contributions made on behalf of Directors to defined contribution arrangements are identified in the Directors' pension benefits table on page 40.

Pensionable salary is based on basic salary only and excludes any other form of remuneration including bonus payments or benefits in kind.

REPORT ON THE DIRECTORS' REMUNERATION CONTINUED

Information not subject to audit continued

Contracts of service and early termination

All of the Executive Directors have service contracts with the Company. Currently, these contracts may be terminated by the Company or Director by giving one year's notice. The notice period of all Executive Directors' service contracts is kept under review by the Remuneration Committee. It is the Remuneration Committee's view that the notice period for the Executive Directors is appropriate and consistent with current market practice. It is the practice of the Committee that if the employment of an Executive Director is terminated, any compensation payment is calculated in accordance with normal legal principles, including the application of mitigation to the extent appropriate to the circumstances of the termination. There are no contractual obligations in the event of a change of control of the Company.

All Non-Executive Directors have initial fixed-term agreements with the Company of no more than three years. There is no entitlement to any compensation in the event of such agreement not being renewed or the agreement terminating earlier, save for a one year notice period required from either party in the case of the Chairman, J A von Spreckelsen.

Details of the Directors' service contracts, notice periods and, where applicable, expiry dates are set out below:

Name	Commencement	Expiry	Notice period
B Bloomer	18 July 2006	—	1 year
M R Davies	2 October 2006	—	1 year
D J Houghton	5 December 2008	5 December 2011	n/a
J A von Spreckelsen	5 June 2006	—	1 year
J R Wall	7 December 2004	—	1 year
P N Wilkinson	15 August 2006	15 August 2012	n/a
P D J Wright	13 August 2007	—	1 year

Non-Executive Directors' fees

The fees paid to Non-Executive Directors for their services are approved by the Board. These fees are paid on a pro rata basis if they hold office for part of the year. In recognition of increased legislative and corporate governance responsibilities, a supplement of £5,000 per annum is paid to the Senior Independent Director and Non-Executives who chair one or more Board Committees.

Information subject to audit

Directors' remuneration

The following table shows an analysis of the various elements of remuneration receivable by those Directors who served during the period to 27 June 2009:

	Salary and fees 2009 £'000	Taxable benefits 2009 £'000	Compensation for loss of office 2009 £'000	Performance related payments 2009 £'000	Total 2009 £'000	Total 2008 £'000	Basic annual salary/fees July^ 2009 £'000
Chairman							
J A von Spreckelsen*	**147**	—	—	—	**147**	95	150
Executive Directors							
B Bloomer	**161**	**17**	—	—	**178**	175	164
M R Davies	**333**	**20**	—	—	**353**	345	339
D Prendergast (resigned 1 August 2008)	**19**	**8**	**160**	—	**187**	177	n/a
J R Wall	**186**	**18**	—	—	**204**	195	186
P D J Wright	**167**	**18**	—	—	**185**	217	171
Non-Executive Directors							
M T P Davey† (resigned 5 December 2008)	**19**	—	—	—	**19**	43	n/a
D J Houghton (appointed 5 December 2008)	**20**	—	—	—	**20**	—	38
P N Wilkinson‡	**40**	—	—	—	**40**	38	43
	1,092	**81**	**160**	—	**1,333**	1,285	1,091

* J A von Spreckelsen received basic fees of £147,116 (2008: £91,667) with no further contributions (2008: £58,333) being paid directly by the Company into his personal pension.

† Fees paid in respect of the services provided by M T P Davey were paid directly to Cranswick Plc.

‡ Fees paid in respect of the services provided by P N Wilkinson were paid to Parkside Capital Limited.

^ The annual salaries/fees for 2010 have received no increase over 2009 but reflect a reversion to full annual salaries/fees following a temporary voluntary reduction of 5% during the second half of 2009.

REPORT ON THE DIRECTORS' REMUNERATION CONTINUED

Information subject to audit continued

Directors' pension benefits

	Gross increase in accrued pension £'000 pa	**Total accrued pension at 27 June 2009 £'000 pa**	**Transfer value of accrued pension at 27 June 2009 £'000[‡]**	Transfer value of accrued pension at 28 June 2008 £'000[‡]	Total change in value during period £'000[†]	Increase in accrued pension net of inflation £'000 pa	Transfer value of net increase in accrual over period £'000 pa[†]	**Pension contributions 2009 £'000**	Pension contributions 2008 £'000
Chairman									
J A von Spreckelsen	—	—	—	—	—	—	—	—	58
Executive Directors									
B Bloomer	—	—	—	—	—	—	—	**23**	22
M R Davies	—	—	—	—	—	—	—	—	—
D Prendergast* (resigned 1 August 2008)	3	**18**	**200**	149	51	2	20	—	—
J R Wall	—	—	—	—	—	—	—	**26**	25
P D J Wright	—	—	—	—	—	—	—	**24**	20

[†] Items are calculated after deducting the Directors' contributions.

[‡] These values have been prepared in accordance with the Pension Trustees' direction that the allowance for pre-6 April 1997 discretionary pension increases in payment is removed from the calculation of cash equivalent transfer values.

* The pension accrual shown above is the deferred pension at 27 June 2009 following D Prendergast leaving the scheme on 1 August 2008.

Pension accruals shown are the amounts to which the member would be entitled as a leaving service benefit based on service to the end of the financial year.

Directors' interests

The interests of the Directors and their immediate families in the Company's ordinary shares as at 28 June 2008 (or date of appointment if later) and 27 June 2009 were as follows:

Ordinary shares

The Directors' holdings in ordinary shares were:

	27 June 2009 Number	28 June 2008 Number
Chairman		
J A von Spreckelsen	**1,000,000**	650,000
Executive Directors		
B Bloomer	**5,512**	5,512
M R Davies	**190,000**	120,000
J R Wall	**6,000**	6,000
P D J Wright	**30,000**	5,000
Non-Executive Directors		
D J Houghton	**100,000**	—
P N Wilkinson	**25,000**	25,000

All the above are beneficial interests.

Information subject to audit continued

Ordinary shares continued

It is a policy of the Board that all Directors must hold a minimum of 1,000 shares. Such shares must be purchased as soon as practicable following the Director's appointment, subject to the restrictions imposed by the Model Code on Directors' Dealings.

Share options and awards

The interests of the Executive Directors in share options held under the Executive Share Option Schemes and the Sharesave Scheme were as follows:

Director	Scheme	Date of grant	Subscription price (pence)	Awards and options held at 28 June 2008 or date of appointment	Awards and options granted in period	Options exercised	Options lapsed	**Awards and options held at 27 June 2009**	Last date awards and options can be exercised
J A von Spreckelsen	2001 Executive	5 Jun 2006	116	1,200,000	—	—	—	**1,200,000**	5 Jun 2016
B Bloomer	2001 Executive	11 Jul 2006	128.5	500,000	—	—	—	**500,000**	11 Jul 2016
	LTIP 2007	23 Nov 2007	192	123,904	—	—	—	**123,904**	23 Nov 2017
	LTIP 2007	16 Oct 2008	113	—	218,038	—	—	**218,038**	16 Oct 2018
	Sharesave	9 Oct 2006	113	5,151	—	—	—	**5,151**	31 May 2010
	Sharesave	10 Oct 2007	148	4,358	—	—	—	**4,358**	31 May 2013
M R Davies	2001 Executive	2 Oct 2006	153	1,200,000	—	—	—	**1,200,000**	2 Oct 2016
	LTIP 2007	23 Nov 2007	192	255,849	—	—	—	**255,849**	23 Nov 2017
	LTIP 2007	16 Oct 2008	113	—	450,226	—	—	**450,226**	16 Oct 2018
J R Wall	2001 Executive	3 Apr 2006	119	500,000	—	—	—	**500,000**	3 Apr 2016
	LTIP 2007	23 Nov 2007	192	140,455	—	—	—	**140,455**	23 Nov 2017
	LTIP 2007	16 Oct 2008	113	—	247,164	—	—	**247,164**	16 Oct 2018
	Sharesave	9 Oct 2006	113	5,151	—	—	—	**5,151**	31 May 2010
	Sharesave	10 Oct 2007	148	2,490	—	—	—	**2,490**	31 May 2011
P D J Wright	2001 Executive	13 Sep 2007	170	500,000	—	—	—	**500,000**	13 Sep 2017
	LTIP 2007	16 Oct 2008	113	—	226,692	—	—	**226,692**	16 Oct 2018

There is no requirement for the Directors to pay any contributions on the granting of any options under any of the Company's share schemes.

The earliest date of exercise for the options set out in the table above are shown in note 23 on page 77.

Approved by the Board on 8 September 2009 and signed on its behalf by:

Paul Wilkinson
Chairman of the Remuneration Committee

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF THORNTONS PLC

We have audited the financial statements of Thorntons PLC for the year ended 27 June 2009 which comprise the Consolidated income statement, the Balance sheets, the Cash flow statements, the Statements of recognised income and expense, the Statement of accounting policies and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ("IFRS") as adopted by the EU and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Respective responsibilities of Directors and auditors

As explained more fully in the Statement of Directors' responsibilities, set out on page 28, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Sections 495 to 497 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the Parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 27 June 2009 and of the Group's profit and Group's and Parent Company's cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRS as adopted by the EU;
- the Parent Company financial statements have been properly prepared in accordance with IFRS as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006
In our opinion:

- the part of the Report on the Directors' Remuneration to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception
We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements and the part of the Report on the Directors' Remuneration to be audited are not in agreement with the accounting records.and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 28, in relation to going concern; and
- the parts of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

Steve Denison (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Leeds
8 September 2009

CONSOLIDATED INCOME STATEMENT
52 WEEKS ENDED 27 JUNE 2009

	Note	52 weeks ended 27 June 2009 Before exceptionals £'000	Exceptionals £'000	Total £'000	52 weeks ended 28 June 2008 Before exceptionals £'000	Exceptionals £'000	Total £'000
Revenue	1	**214,805**	**—**	**214,805**	208,122	—	208,122
Cost of sales		**(109,836)**	**—**	**(109,836)**	(103,017)	—	(103,017)
Gross profit		**104,969**	**—**	**104,969**	105,105	—	105,105
Operating expenses	2	**(98,439)**	**1,800**	**(96,639)**	(95,918)	—	(95,918)
Other operating income	3	**1,410**	**—**	**1,410**	1,139	—	1,139
Operating profit		**7,940**	**1,800**	**9,740**	10,326	—	10,326
Finance income	4	**38**	**—**	**38**	45	—	45
Finance costs	5	**(1,690)**	**—**	**(1,690)**	(1,901)	—	(1,901)
Profit before taxation	6	**6,288**	**1,800**	**8,088**	8,470	—	8,470
Taxation	7	**(1,946)**	**(2,537)**	**(4,483)**	(2,402)	—	(2,402)
Profit attributable to equity shareholders		**4,342**	**(737)**	**3,605**	6,068	—	6,068
Earnings per share	9						
Basic		**6.5p**	**(1.1)p**	**5.4p**	9.1p	—	9.1p
Diluted		**6.5p**	**(1.1)p**	**5.4p**	9.0p	—	9.0p

All activities in both the current and previous year relate to continuing operations.

The accounting policies and notes on pages 47 to 86 are an integral part of these consolidated financial statements.

STATEMENTS OF RECOGNISED INCOME AND EXPENSE
52 WEEKS ENDED 27 JUNE 2009

	Note	Group 52 weeks ended 27 June 2009 £'000	Group 52 weeks ended 28 June 2008 £'000	Company 52 weeks ended 27 June 2009 £'000	Company 52 weeks ended 28 June 2008 £'000
Actuarial loss recognised in the defined benefit pension scheme	21	**(8,629)**	(2,148)	**(8,629)**	(2,148)
Movement of deferred tax on actuarial loss	20	**2,416**	601	**2,416**	601
Net expense recognised directly in equity		**(6,213)**	(1,547)	**(6,213)**	(1,547)
Profit attributable to equity shareholders		**3,605**	6,068	**9,418**	5,984
Total recognised (expense)/income attributable to equity shareholders for the financial period	25	**(2,608)**	4,521	**3,205**	4,437

The accounting policies and notes on pages 47 to 86 are an integral part of these consolidated financial statements.

BALANCE SHEETS
AS AT 27 JUNE 2009

	Note	Group 2009 £'000	Group 2008 £'000	Company 2009 £'000	Company 2008 £'000
Assets					
Non-current assets					
Intangible assets	11	**4,850**	4,786	**4,850**	4,786
Property, plant and equipment	12	**62,759**	64,084	**35,174**	63,893
Investment in subsidiaries	13	—	—	**27,368**	18
Deferred tax assets	20	—	—	**2,991**	—
		67,609	68,870	**70,383**	68,697
Current assets					
Inventories	14	**25,370**	24,307	**25,363**	24,299
Trade and other receivables	15	**14,056**	15,155	**14,156**	15,501
Cash and cash equivalents		**588**	1,088	**680**	1,005
		40,014	40,550	**40,199**	40,805
Liabilities					
Current liabilities					
Trade and other payables	16	**(22,628)**	(22,014)	**(25,038)**	(24,455)
Borrowings	17	**(22,625)**	(24,057)	**(22,769)**	(24,224)
Current tax liabilities		**(1,043)**	(984)	**(1,000)**	(942)
Provisions for liabilities	19	**(254)**	(122)	**(253)**	(122)
		(46,550)	(47,177)	**(49,060)**	(49,743)
Net current liabilities		**(6,536)**	(6,627)	**(8,861)**	(8,938)
Non-current liabilities					
Borrowings	17	**(4,637)**	(5,295)	**(4,637)**	(5,295)
Deferred tax liabilities	20	**(2,917)**	(2,750)	—	(2,714)
Retirement benefit obligations	21	**(21,313)**	(15,965)	**(21,313)**	(15,965)
Other non-current liabilities	22	**(2,816)**	(2,612)	**(2,816)**	(2,612)
Provisions for liabilities	19	**(652)**	(586)	**(652)**	(585)
		(32,335)	(27,208)	**(29,418)**	(27,171)
Net assets		**28,738**	35,035	**32,104**	32,588
Shareholders' equity					
Ordinary shares	23	**6,835**	6,835	**6,835**	6,835
Share premium	25	**13,752**	13,750	**13,752**	13,750
Retained earnings	25	**8,151**	14,450	**11,517**	12,003
Total equity attributable to parent's equity holders		**28,738**	35,035	**32,104**	32,588

The accounting policies and notes on pages 47 to 86 are an integral part of these consolidated financial statements.

The financial statements on pages 44 to 86 were approved by the Board of Directors on 8 September 2009 and were signed on its behalf by:

Mike Davies
Chief Executive

John Wall
Finance Director

CASH FLOW STATEMENTS

52 WEEKS ENDED 27 JUNE 2009

	Note	**Group 52 weeks ended 27 June 2009 £'000**	Group 52 weeks ended 28 June 2008 £'000	**Company 52 weeks ended 27 June 2009 £'000**	Company 52 weeks ended 28 June 2008 £'000
Cash flows from operating activities	26a	**17,138**	11,481	**17,233**	11,465
Cash flows from investing activities					
Proceeds from sale of property, plant and equipment		**51**	262	**27,401**	262
Purchase of investments		**—**	—	**(27,350)**	—
Purchase of property, plant and equipment		**(7,112)**	(5,680)	**(7,008)**	(5,680)
Net cash used in investing activities		**(7,061)**	(5,418)	**(6,957)**	(5,418)
Cash flows from financing activities					
Net proceeds from issue of ordinary shares		**2**	223	**2**	223
Interest paid		**(1,469)**	(1,831)	**(1,470)**	(1,815)
Interest received		**27**	37	**27**	21
Capital element of finance lease rental payments		**(3,297)**	(3,712)	**(3,297)**	(3,712)
Borrowings (repaid)/advanced		**(1,800)**	2,000	**(1,800)**	2,000
Dividends paid	10	**(4,040)**	(4,550)	**(4,040)**	(4,550)
Net cash used in financing activities		**(10,577)**	(7,833)	**(10,578)**	(7,833)
Net decrease in cash and cash equivalents and bank overdrafts		**(500)**	(1,770)	**(302)**	(1,786)
Cash and cash equivalents at beginning of period	26b	**1,088**	2,858	**838**	2,624
Cash and cash equivalents at end of period	26b	**588**	1,088	**536**	838

STATEMENT OF ACCOUNTING POLICIES

Basis of preparation
These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and International Financial Reporting Interpretations Committee ("IFRIC") interpretations as adopted by the EU and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. These consolidated financial statements have been prepared under the historical cost convention with the exception of derivative financial instruments and share-based payments, which are recognised at fair value. A summary of the more important Group accounting policies adopted in the preparation of the consolidated financial statements is set out below, together with an explanation of where changes have been made to previous policies on the adoption of new accounting standards in the financial year. These policies have been consistently applied to all the years presented, unless otherwise stated.

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge, actual results may ultimately differ.

Interpretations effective in the period ended 27 June 2009 but which had no significant impact
The following interpretations to existing standards are mandatory for the accounting period ended 27 June 2009, but they have not had a significant impact on the Group or Company:

- IFRIC 10 'Interims and impairment'; and
- IFRIC 11 'IFRS 2 – Group and treasury share transactions'.

Standards, amendments and interpretations that are not yet effective and have not been early adopted
The following standard and interpretation have been published and are mandatory for accounting periods beginning on or after 27 June 2009 or later periods, but which the Group and the Company have not early adopted:

- IFRS 8 'Operating segments' – management have undertaken analysis of the operating segments within the business and have identified two reportable segments, 'Sales & Operations' and 'Retail'. This has been reflected in the management structure of the Group and will be reported in the financial statements for the period ended 26 June 2010; and

- IFRIC 14 'The limit on a defined benefit asset, minimum funding requirements and their interaction' – work is currently being undertaken to establish how this interpretation will impact on the value of the Group and Company's retirement benefit obligation going forward. This assessment will take account of the latest actuarial valuation, however it is expected that the adoption of IFRIC 14 will have no material financial impact.

Amendments and interpretations that are not yet effective and have not been early adopted, which are not expected to have an impact
The following amendments to existing standards and interpretations have been published and are mandatory for accounting periods beginning on or after 27 June 2009 or later periods and are not expected to have a significant impact on the Group or Company:

- Revised IAS 1 'Presentation of financial statements';
- Revised IAS 23 'Borrowing costs';
- Revised IAS 27 'Consolidated and separate financial statements';
- IAS 32 (Amendment) 'Financial instruments: Presentation' and IAS 1 (Amendment) 'Presentation of financial statements';

STATEMENT OF ACCOUNTING POLICIES CONTINUED

Basis of preparation continued

Amendments and interpretations that are not yet effective and have not been early adopted, which are not expected to have an impact continued

- IAS 39 (Amendment) 'Financial instruments: Recognition and measurement';
- IFRS 1 (Amendment) 'First time adoption of IFRS' and IAS 27 (Amendment) 'Consolidated and separate financial statements';
- Revised IFRS 3 'Business combinations';
- IFRS 2 (Amendment) 'Share-based payments';
- IFRS 7 (Amendment) 'Financial instruments: Disclosures';
- IFRIC 9 (Amendment) 'Re-assessment of embedded derivatives';
- IFRIC 12 'Service concession arrangements';
- IFRIC 13 'Customer loyalty programmes relating to IAS 18, Revenue';
- IFRIC 15 'Agreements for construction of real estates';
- IFRIC 16 ' Hedges of a net investment in a foreign operation';
- IFRIC 17 'Distributions of non cash assets to owners'; and
- IFRIC 18 'Transfer of assets from customers'.

Basis of consolidation

The consolidated financial statements incorporate the results of the Company and each of its subsidiaries for the financial year ended 27 June 2009. Subsidiaries are entities controlled by the Group where control is deemed to exist when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The results of subsidiaries are included in the consolidated financial statements from the date the control commences until the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Property, plant and equipment
Property, plant and equipment are stated at cost less accumulated depreciation. Cost comprises the purchase price of property, plant and equipment together with any incidental costs of acquisition.

Subsequent costs are included in the asset's carrying value 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 expenditure is charged to the income statement as incurred.

All property, plant and equipment, other than land and assets in the course of construction, are depreciated to write their cost down to residual value over their remaining useful lives by equal annual instalments, as follows:

Long leasehold and freehold premises	50 years
Short leasehold land and buildings	Period of the lease
Other plant, vehicles and equipment	3–15 years
Retail fittings and equipment	Up to 10 years

The assets' residual values and useful lives are reviewed and adjusted, if appropriate, at each balance sheet date. The need for an impairment write-down is assessed by comparison of the carrying value of the asset against the higher of its net realisable value or value in use.

Gains and losses on disposals are determined by comparing the proceeds (net of disposal costs) with the carrying amount and are recognised within operating expenses in the income statement.

Intangible assets
Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring into use the specific software. These costs are amortised over their estimated useful lives (three to five years).

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Group and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets.

Computer software development costs are recognised as assets and are amortised over their estimated useful lives (not exceeding five years).

Employee Share Option Schemes
Where share options are granted to employees as part of their remuneration, the fair value of options granted is recognised as an employee expense in the income statement with a corresponding increase in equity. The fair value is measured at the grant date and expensed through the income statement over the period during which the employees become unconditionally entitled to the options. The amount recognised in the income statement is adjusted each balance sheet date for the expected and actual number of options vesting with a corresponding entry in equity.

The fair value of the options is measured using a Black-Scholes option valuation model of options with non-market performance conditions and a Monte Carlo model for options with market performance conditions.

The proceeds received net of any directly attributable transaction costs are credited to share capital and share premium when the options are exercised. Exercised options are equity settled.

Own shares held by the Employee Share Ownership Plan ("ESOP") Trusts are carried at cost and disclosed within note 25.

STATEMENT OF ACCOUNTING POLICIES CONTINUED

Investments in subsidiaries
Investments in subsidiaries are stated at cost, provision being made where appropriate for impairment, assessed by comparing the carrying value to the higher of net realisable value or value in use.

Inventories
Inventories are stated at the lower of cost and net realisable value. Cost includes materials, direct labour and an attributable proportion of manufacturing overheads, based on normal operating capacity, according to the stage of production reached and valued on a FIFO basis. Net realisable value is the estimated value which would be realised after deducting all costs of completion, marketing and selling. Provision is made to reduce the cost to net realisable value having regard to the age and condition of inventory, as well as its anticipated saleability.

Trade receivables
Trade receivables are recognised initially at fair value and subsequently carried net of provisions for impairment. A provision for impairment is established where there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 60 days overdue) are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within operating expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in the income statement.

Cash and equivalents
Cash and cash equivalents include cash in hand, deposits on call with banks, other short-term liquid investments with maturities of three months or less and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

Trade and other payables
Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Borrowings
Borrowings are recognised initially at fair value, net of transaction costs. Subsequent measurement is based on amortised cost and any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest rate method.

Borrowing facilities are provided by a number of different banks and are subject to continued covenant compliance, these covenants being measured half yearly in line with the Annual and Interim reporting cycles. Use of these facilities is generally short-term in nature, with loan maturity dates ranging from less than one week to several months. Borrowings are actively monitored in order to manage their cost and level of exposure to each individual bank which, in the normal course of business, results in the settlement of these liabilities and the separate drawdown of new loans within twelve months of the balance sheet date. In light of this borrowings are classified as current.

Current taxation
The charge for current tax is based on the results for the period after making allowance for non-assessable or disallowable items. It is calculated using rates of tax that have been enacted at the balance sheet date.

Deferred taxation
Deferred tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements.

Deferred tax liabilities are recognised in full 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. However, if the deferred tax arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit, it is not accounted for. Deferred taxation is measured based on tax rates and laws enacted or substantively enacted at the balance sheet date, and are expected to apply when the related deferred income tax asset is realised or deferred income tax liability is settled.

Deferred tax assets and liabilities are offset when there is a legal, 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.

Provisions
A provision is recognised in the balance sheet when the Group has a legal or constructive obligation whereby, as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Share capital
Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds, when applicable.

Revenue
Revenue comprises the amounts receivable for goods and services provided outside the Group in the normal course of business, net of trade discounts and value added tax.

Retail sales and allowances are recognised at the date of the transaction with consumers. In addition, provisions are made for expected returns as necessary. For sales promotion purposes, Thorntons PLC operates a variety of schemes that give rise to goods being sold at a discount to the standard retail price. These include staff discounts and the redemption of promotional vouchers. Revenue is adjusted to show sales net of all related discounts.

Wholesale sales, including sales to franchise outlets, are recognised either when goods are dispatched to customers or the customer has accepted the products, depending on the sales channel. Provision is made for expected returns and allowances as necessary.

Other operating income
Other operating income comprises amounts receivable in respect of licensing income, franchise fees and rental income, net of value added tax where applicable. Licence income and rental income are recognised on an accruals basis in accordance with the risks and rewards of the relevant agreements. Franchise fees are non-refundable and are charged in return for the initial grant of a five year franchise and the income is therefore released to the income statement on a straight-line basis over this five year period. Fees in respect of subsequent renewals are likewise amortised over the renewal period.

STATEMENT OF ACCOUNTING POLICIES CONTINUED

Post-retirement benefits

Defined benefit pension scheme

The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation and unfunded liabilities as reduced by the fair value of defined benefit scheme assets. This scheme was closed to new entrants with effect from August 2002.

The defined benefit obligation is calculated annually by independent actuaries using the projected unit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

With effect from 6 April 2009, benefits under the scheme for active members were amended for service from that date from the previous basis of final salary accrual to a Career Average Revalued Earnings ("CARE") basis.

Actuarial gains and losses are recognised in full in the period in which they occur. They are recognised directly in equity and are presented in the Statement of recognised income and expense. Other income and administrative expenses associated with the defined benefit scheme are recognised in the income statement.

The contributions made by the employees and the Group are held in a trust fund separate from the Group's finances.

Defined contribution pension scheme

The Group also operates a defined contribution pension scheme which requires contributions to be made to a separately administered fund. Contributions to the fund are determined as a percentage of employees' earnings and are charged to the income statement as incurred. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

Foreign currencies

Transactions in foreign currencies are translated in Sterling at the exchange rate ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated to Sterling at the exchange rates ruling at the balance sheet date and any exchange differences arising are taken to the income statement.

Finance leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards of ownership to the Group. All other leases are classified as operating leases.

Property, plant and equipment held under finance leases are capitalised in the balance sheet at fair value of leased assets or if lower, the present value of the minimum lease payments. Assets are depreciated over the shorter of their lease term and their expected useful lives. The interest element of leasing payments represents a constant proportion of the capital balance outstanding and is charged to the income statement over the period of the lease.

Operating leases

The costs of all operating leases are charged against operating profit on a straight-line basis at existing rental levels. Incentives to sign leases, including reverse premiums and rent-free periods, are treated as deferred income and are credited to the income statement in equal instalments over the term of the lease.

Rental income from operating leases is recognised on a straight-line basis over the period of the lease at current rental levels.

New store expenditure

Pre-trading expenditure on new stores is charged to the income statement as incurred.

Derivatives and other financial instruments
Derivatives are initially recognised at fair value on the date the contract is entered into and are subsequently remeasured at fair value. Where appropriate, the Group enters into derivatives in order to minimise relevant currency and interest rate exposure. These are designated as hedges of the cost of a highly probable forecast transaction or commitment ("cash flow hedging instrument").

To qualify for hedge accounting the Group is required, at inception, to document in advance the relationship between the item being hedged and the hedging instrument, and to document and reassess at each reporting date whether the hedge will be highly effective in offsetting changes in cash flows of the hedged item on an ongoing basis.

The effective portion of changes in the fair value of cash flow hedging derivatives is recognised in equity within the hedging reserve. The change in fair value relating to the ineffective portion of the hedge is recognised in the income statement immediately within finance costs. Amounts accumulated within equity are recycled to the income statement in the periods when the hedged item will affect profit.

When a hedging instrument expires or is sold, or no longer meets the criteria for hedge accounting, any cumulative gain or loss on the hedging instrument previously recognised in equity is retained in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. If the hedged transaction is no longer expected to occur, the cumulative gain or loss that was recognised in equity is immediately transferred to the income statement.

Grants
Grants and other contributions towards the cost of property, plant and equipment are included in payables as deferred income and credited to the income statement over the life of the asset and recognised at fair value where there is a reasonable assurance the grant will be received and that the Group will comply with conditions of the grant.

Exceptional items
Exceptional items are material items which derive from events or transactions which individually or, if of a similar type, in aggregate need to be disclosed by virtue of their size or incidence if the financial statements are to give a true and fair view.

Dividends
Final dividends are recognised as a liability in the period in which they are approved by the Company's shareholders. Interim dividends are recognised when they are paid.

Net debt
Net debt is cash and cash equivalents, bank and other loans and finance leases.

Research and development
Expenditure in respect of research and development is written off against profits in the period in which it is incurred, unless the development costs meet the criteria for capitalisation under IAS 38 'Intangible assets'.

Critical accounting estimates and judgements
Provisions
Judgement is required in the areas of inventory and store dilapidation provisioning but the Directors do not consider the impact on reported results to be material.

Retirement benefit obligation
The valuation of the retirement benefit obligation is dependent upon a series of assumptions, the key ones being discount rates, mortality rates, investment returns, salary inflation and the rate of pension increases. These are set out in note 21 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1 Segmental reporting

The Group's operations consist of the vertically integrated manufacture, distribution and retail of confectionery products. Given this level of integration, the Directors consider that there is only one business segment and therefore the disclosures are given in the primary financial statements or related notes.

Two reportable segments, "Sales & Operations" and "Retail" have been identified by the business and reflected in the management structure of the Group and will be reported in the financial statements for the period ending 26 June 2010, in accordance with IFRS 8.

Revenue arises from UK operations and therefore no separate reporting for geographical segments is required.

2 Exceptional items

Exceptional items comprise:

	52 weeks ended 27 June 2009 £'000
Pension curtailment gain	**2,300**
Franchisee bad debt	**(500)**
	1,800
Tax charge attributable to exceptional items	**504**
Net tax impact of withdrawal of IBAs	**2,033**
	2,537

Pension curtailment gain

During the year the Group implemented a change to the defined benefit pension scheme from a final salary to a CARE basis. Under the CARE Scheme, pension benefits are built up each year linked to the members' pensionable salaries in that year. This reduction in pension benefits has resulted in a curtailment gain which, in line with IAS 19, has been valued at £2,300,000.

Franchisee bad debt

This charge relates to the creation of a provision against an unusually large bad debt following the insolvency of a major franchisee.

Tax charge attributable to exceptional items

This is the tax charge arising in relation to the exceptional profit and loss items calculated at the standard rate of 28%.

Net tax impact of withdrawal of industrial buildings allowances

This relates to a one-off charge of £3,053,000 arising from the withdrawal of IBAs. This is offset by a £1,020,000 tax credit arising from a revision of capital allowance claims made in respect of plant and machinery.

3 Other operating income

	52 weeks ended 27 June 2009 £'000	52 weeks ended 28 June 2008 £'000
Franchise fee income	**197**	209
Licensing income	**938**	648
Rent receivable	**275**	282
	1,410	1,139

4 Finance income

	52 weeks ended 27 June 2009 £'000	52 weeks ended 28 June 2008 £'000
Interest on bank deposits	**9**	37
Other finance income	**29**	8
	38	45

5 Finance costs

	52 weeks ended 27 June 2009 £'000	52 weeks ended 28 June 2008 £'000
Interest payable on bank borrowings	**1,118**	1,305
Net exchange differences on foreign currency payments	**74**	23
Interest payable on finance leases	**498**	540
Other finance costs	**—**	33
	1,690	1,901

6 Profit before taxation

	52 weeks ended 27 June 2009 £'000	52 weeks ended 28 June 2008 £'000
The following items have been included in arriving at profit before taxation:		
Employee benefits expense (note 28)	**64,607**	61,479
Exceptional curtailment gain (note 2)	**(2,300)**	—
Cost of inventories recognised as an expense	**64,845**	59,126
Depreciation of property, plant and equipment (note 12):		
– owned assets	**6,953**	6,933
– under finance leases	**2,356**	2,295
Amortisation of intangible assets (note 11)	**2,263**	2,018
Profit on disposal of property, plant and equipment	**(16)**	(143)
Operating lease rentals payable:		
– land and buildings	**21,255**	20,275
– other	**844**	976
Repairs and maintenance expenditure on property, plant and equipment	**4,775**	5,207
Trade receivables impairment	**223**	125
Exceptional trade receivables impairment (note 2)	**500**	—
Government grant income	**(21)**	(21)
Product research and development	**535**	412

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

6 Profit before taxation continued

Services provided by the Group's auditors

During the period the Group obtained the following services from the Group's auditors, as detailed below:

	52 weeks ended 27 June 2009 £'000	52 weeks ended 28 June 2008 £'000
Audit services:		
– audit of the parent and consolidated accounts	**93**	95
– audit of Thorntons PLC subsidiaries pursuant to legislation	**4**	3
– other services supplied pursuant to legislation	**28**	27
Advice in respect of the Company's pension scheme	**44**	18
	169	143

7 Taxation

Analysis of charge in period

	52 weeks ended 27 June 2009 £'000	52 weeks ended 28 June 2008 £'000
Current tax:		
– current period	**2,246**	2,517
– adjustment in respect of prior period	**(175)**	(444)
	2,071	2,073
Deferred tax (note 20):		
– current period	**261**	159
– adjustment in respect of prior period	**106**	170
– effect of change in law concerning IBAs	**3,053**	—
– effect of revision of capital allowances claimed in respect of plant and machinery	**(1,020)**	—
– effect of change in tax rate	**12**	—
	4,483	2,402

7 Taxation continued

Tax on items charged to equity

	52 weeks ended 27 June 2009 £'000	52 weeks ended 28 June 2008 £'000
Deferred tax charge on share-based payments	**(171)**	(510)
Deferred tax credit on actuarial gain	**2,416**	601
	2,245	91

The legislation removing IBAs from 1 April 2011 has resulted in a deferred tax charge of £3,053,000. Steps have been taken by the Group to reclassify assets previously classified as industrial buildings as plant and machinery, for which capital allowances are available, resulting in a credit of £1,020,000. The net impact on the deferred tax charge is therefore £2,033,000.

Tax reconciliation

The tax for the period is higher (2008: lower) than the standard rate of corporation tax in the UK 28% (2008: 29.5%). The differences are explained below:

	52 weeks ended 27 June 2009 £'000	52 weeks ended 28 June 2008 £'000
Profit on ordinary activities before tax	**8,088**	8,470
Profit on ordinary activities multiplied by rate of corporation tax in the UK of 28% (2008: 29.5%)	**2,265**	2,499
Effects of:		
– adjustments to tax provision in respect of prior periods	**(69)**	(274)
– expenses not deductible for tax purposes	**242**	177
– effect of reduction in tax rate	**12**	—
– effect of change in law concerning IBAs	**2,033**	—
Total taxation	**4,483**	2,402

8 Profit for the financial period

The Parent Company has not prepared its own profit and loss account as permitted by Section 408 of the Companies Act 2006. Of the Group profit attributable to shareholders, a profit after tax of £9,418,000 (2008: £5,984,000) has been dealt with in the accounts of the Company.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

9 Earnings per share

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period, excluding those held in the ESOP Trusts, which are treated as cancelled.

For diluted earnings per share the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. Dilutive potential ordinary shares are those share options granted to employees where the exercise price is less than the average market price of the Company's ordinary shares during the period.

Reconciliations of the earnings and weighted average number of shares used in the calculations are set out below:

	52 weeks ended 27 June 2009			52 weeks ended 28 June 2008		
	Earnings £'000	**Basic earnings per share**	**Diluted earnings per share**	Earnings £'000	Basic earnings per share	Diluted earnings per share
Profit before exceptional items	**4,342**	**6.5p**	**6.5p**	6,068	9.1p	9.0p
Effect of exceptional items	**(737)**	**(1.1)p**	**(1.1)p**	—	—	—
Profit attributable to equity shareholders	**3,605**	**5.4p**	**5.4p**	6,068	9.1p	9.0p

	2009	2008
Weighted average number of ordinary shares	**66,939,333**	66,810,143
Dilutive effect from share options	**824**	456,486
Fully diluted weighted average number of ordinary shares	**66,940,157**	67,266,629

10 Ordinary dividends

Group and Company	Note	**2009 £'000**	2008 £'000
Final dividend paid for the 52 weeks ended 28 June 2008 of 4.85p (53 weeks ended 30 June 2007: 4.85p)		**3,237**	3,235
Interim dividend paid in respect of the 52 weeks ended 27 June 2009 of 1.20p (52 weeks ended 28 June 2008: 1.95p)		**803**	1,315
Amounts recognised as distributions to equity holders	25	**4,040**	4,550

In addition, the Directors are proposing a final dividend in respect of the year ended 27 June 2009 of 4.85p per share which will absorb an estimated £3,200,000 of shareholders' funds. It will be paid on 27 November 2009 to shareholders who are on the register of members on 30 October 2009.

The trusts operating the Long-Term Incentive Plan Scheme ("LTIP 2007") have fully waived dividends on the 504,610 shares (2008: 504,610) held at 27 June 2009 and all but 0.01p per share on the 905,070 (2008: 905,070) shares held in respect of the 2001 Executive Share Option Scheme.

11 Intangible assets

Group and Company	Computer software £'000
Cost	
At 28 June 2008	23,570
Additions – externally acquired	2,320
Additions – internally generated	7
Disposals	(100)
At 27 June 2009	**25,797**
Aggregate amortisation	
At 28 June 2008	18,784
Charge for the year	2,263
Disposals	(100)
At 27 June 2009	**20,947**
Net book amount at 27 June 2009	**4,850**

Group and Company	Computer software £'000
Cost	
At 30 June 2007	22,716
Additions – externally acquired	848
Additions – internally generated	6
At 28 June 2008	23,570
Aggregate amortisation	
At 30 June 2007	16,766
Charge for the year	2,018
At 28 June 2008	18,784
Net book amount at 28 June 2008	4,786
Net book amount at 30 June 2007	5,950

Intangible assets held under finance leases were valued at £1,901,000 (2008: £2,465,000).

Amortisation costs for intangible assets directly involved in production are recognised in cost of sales within the income statement. All other amortisation costs are recognised within operating expenses.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

12 Property, plant and equipment

Group	Land and buildings: Long leasehold and freehold £'000	Land and buildings: Short leasehold £'000	Other plant, vehicles and equipment £'000	Retail fittings and equipment £'000	Total £'000
Cost					
At 28 June 2008	38,691	7,647	79,000	53,002	178,340
Additions at cost	50	448	3,672	3,744	7,914
Disposals	—	(51)	(435)	(4,412)	(4,898)
At 27 June 2009	**38,741**	**8,044**	**82,237**	**52,334**	**181,356**
Accumulated depreciation					
At 28 June 2008	9,744	4,780	53,746	45,986	114,256
Charge for the year	832	531	5,197	2,749	9,309
Disposals	—	(49)	(434)	(4,381)	(4,864)
At 27 June 2009	**10,576**	**5,262**	**58,509**	**44,354**	**118,701**
Net book amount at 27 June 2009	**28,165**	**2,782**	**23,728**	**7,980**	**62,655**

Group	Land and buildings: Long leasehold and freehold £'000	Land and buildings: Short leasehold £'000	Other plant, vehicles and equipment £'000	Retail fittings and equipment £'000	Total £'000
Cost					
At 30 June 2007	38,672	6,899	76,944	50,046	172,561
Additions at cost	19	820	2,581	3,631	7,051
Disposals	—	(72)	(525)	(675)	(1,272)
At 28 June 2008	38,691	7,647	79,000	53,002	178,340
Accumulated depreciation					
At 30 June 2007	8,913	4,386	48,947	43,937	106,183
Charge for the year	831	453	5,303	2,641	9,228
Disposals	—	(59)	(504)	(592)	(1,155)
At 28 June 2008	9,744	4,780	53,746	45,986	114,256
Net book amount at 28 June 2008	28,947	2,867	25,254	7,016	64,084
Net book amount at 30 June 2007	29,759	2,513	27,997	6,109	66,378

12 Property, plant and equipment continued

Company	Land and buildings: Long leasehold and freehold £'000	Land and buildings: Short leasehold £'000	Other plant, vehicles and equipment £'000	Retail fittings and equipment £'000	Total £'000
Cost					
At 28 June 2008	38,482	7,608	79,000	52,858	177,948
Additions at cost	44	448	3,672	3,743	7,907
Disposals	—	(51)	(435)	(4,412)	(4,898)
Intra-group transfers	(37,658)	—	—	—	(37,658)
At 27 June 2009	**868**	**8,005**	**82,237**	**52,189**	**143,299**
Accumulated depreciation					
At 28 June 2008	9,710	4,754	53,746	45,845	114,055
Charge for the year	828	528	5,197	2,748	9,301
Disposals	—	(49)	(434)	(4,381)	(4,864)
Intra-group transfers	(10,367)	—	—	—	(10,367)
At 27 June 2009	**171**	**5,233**	**58,509**	**44,212**	**108,125**
Net book amount at 27 June 2009	**697**	**2,772**	**23,728**	**7,977**	**35,174**

Company	Land and buildings: Long leasehold and freehold £'000	Land and buildings: Short leasehold £'000	Other plant, vehicles and equipment £'000	Retail fittings and equipment £'000	Total £'000
Cost					
At 30 June 2007	38,463	6,860	76,944	49,902	172,169
Additions at cost	19	820	2,581	3,631	7,051
Disposals	—	(72)	(525)	(675)	(1,272)
At 28 June 2008	38,482	7,608	79,000	52,858	177,948
Accumulated depreciation					
At 30 June 2007	8,883	4,362	48,947	43,797	105,989
Charge for the year	827	451	5,303	2,640	9,221
Disposals	—	(59)	(504)	(592)	(1,155)
At 28 June 2008	9,710	4,754	53,746	45,845	114,055
Net book amount at 28 June 2008	28,772	2,854	25,254	7,013	63,893
Net book amount at 30 June 2007	29,580	2,498	27,997	6,105	66,180

Depreciation costs for tangible fixed assets directly involved in production are recognised within cost of sales within the income statement. All other depreciation costs are recognised within operating expenses.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

12 Property, plant and equipment continued

Tangible assets held under finance leases have the following net book amount:

Group and Company	Land and buildings – long leasehold and freehold 2009 £'000	Other plant, vehicles and equipment 2009 £'000	Retail fittings and equipment 2009 £'000	Land and buildings – long leasehold and freehold 2008 £'000	Other plant, vehicles and equipment 2008 £'000	Retail fittings and equipment 2008 £'000
Cost	**784**	**9,608**	**13,570**	784	9,125	15,886
Aggregate depreciation	**(185)**	**(6,880)**	**(10,045)**	(133)	(6,052)	(12,680)
Net book amount	**599**	**2,728**	**3,525**	651	3,073	3,206

13 Investment in subsidiaries

	Company 2009 £'000	Company 2008 £'000
Cost		
At 28 June 2008	**19**	19
Additions at cost	**27,350**	—
At 27 June 2009	**27,369**	19
Provisions for impairment		
At 28 June 2008 and 27 June 2009	**(1)**	(1)
Net book value	**27,368**	18

The Company owns the whole of the issued ordinary share capital of the following principal operating subsidiaries. To avoid a statement of excessive length, details of investments in dormant companies included in the consolidated accounts have been omitted. A full list of subsidiaries can be obtained upon request from the Company's registered office.

Subsidiary	Country of incorporation	Principal activity	Country of operation
Strand Court Properties Limited	England	Property investment	United Kingdom
Thorntons (Jersey) Limited	Jersey	Retail trading company	Jersey

The Directors believe that the carrying value of the investments is supported by their underlying net assets.

14 Inventories

	Group 2009 £'000	Group 2008 £'000	Company 2009 £'000	Company 2008 £'000
Raw materials	**3,101**	2,557	**3,101**	2,557
Work in progress	**2,715**	2,963	**2,715**	2,963
Finished goods and goods for resale	**19,554**	18,787	**19,547**	18,779
	25,370	24,307	**25,363**	24,299

During the year £415,000 (2008: £80,000) relating to the write-down of inventory to net realisable value in prior years was released and reflected in cost of sales.

15 Trade and other receivables

	Group 2009 £'000	Group 2008 £'000	Company 2009 £'000	Company 2008 £'000
Trade receivables	**8,079**	7,597	**8,079**	7,597
Less: provision for impairment	**(855)**	(354)	**(855)**	(354)
Net trade receivables	**7,224**	7,243	**7,224**	7,243
Amounts owed by Group undertakings	**—**	—	**112**	359
Other receivables	**724**	1,199	**724**	1,199
Prepayments and accrued income	**6,212**	6,713	**6,096**	6,700
	14,160	15,155	**14,156**	15,501

The Group's exposure to credit risk and impairment losses related to trade receivables is disclosed in note 18.

Amounts owed from other Group companies are unsecured, interest free and have no fixed repayment terms.

Prepayments and accrued income include £4,800,000 (2008: £5,200,000) of property related rent, rates, insurances and surcharge prepayments.

16 Trade and other payables – current

	Group 2009 £'000	Group 2008 £'000	Company 2009 £'000	Company 2008 £'000
Trade payables	**11,206**	9,387	**11,206**	9,387
Other taxation and social security payable	**2,927**	3,149	**2,925**	3,147
Amounts owed to other Group companies	**—**	—	**2,426**	2,451
Other payables	**84**	97	**84**	97
Accruals and deferred income	**8,411**	9,381	**8,397**	9,373
	22,628	22,014	**25,038**	24,455

Amounts owed to other Group companies are unsecured, interest free and have no fixed repayment terms.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

16 Trade and other payables – current continued

Within accruals and deferred income is a balance in respect of Government grants within the Group and Company of £21,035 (2008: £21,035), primarily relating to a grant received in the year ending June 2004 in respect of the relocation of toffee manufacturing operations from the original Belper site to Thornton Park. This Government grant totalling £400,000 is being released to the income statement on a straight-line basis over 20 years.

17 Borrowings

Current	Group 2009 £'000	Group 2008 £'000	Company 2009 £'000	Company 2008 £'000
Bank loans and overdrafts due within one year or on demand:				
– unsecured bank loans and overdrafts	**19,200**	21,000	**19,344**	21,167
– finance lease obligations	**3,425**	3,057	**3,425**	3,057
	22,625	24,057	**22,769**	24,224

Non-current	Group 2009 £'000	Group 2008 £'000	Company 2009 £'000	Company 2008 £'000
Finance lease obligations	**4,637**	5,295	**4,637**	5,295

Bank loans and overdrafts are denominated in Sterling and bear interest based on LIBOR or UK base rates.

The effective interest rates at the balance sheet dates were as follows:

	2009 %	2008 %
Bank borrowings	**2.63%**	6.04%
Finance leases	**3.90%**	4.48%

The Group's borrowings of £27,262,000 (2008: £29,352,000) are all denominated in Sterling.

Maturity of financial liabilities

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table below are the contractual undiscounted cash flows:

	Debt £'000	Finance leases £'000	2009 Total £'000	Debt £'000	Finance leases £'000	2008 Total £'000
Less than one year	**19,425**	**3,776**	**23,201**	21,044	3,090	24,134
Between one and two years	**—**	**3,815**	**3,815**	—	5,129	5,129
Between two and five years	**—**	**1,199**	**1,199**	—	894	894
	19,425	**8,790**	**28,215**	21,044	9,113	30,157

Debt due in less than one year reflects the ongoing utilisation, on a short-term basis, of three year revolving facilities described in the following borrowing facilities note and in line with Group accounting policy. All loans in place at 27 June 2009 are classified as current on the basis that they will be settled within twelve months.

17 Borrowings continued

Borrowing facilities

The Group has the following undrawn committed floating rate borrowing facilities available at 27 June 2009. The Group must comply with the principal lending covenants in respect of interest cover, the net debt to Earnings Before Interest, Tax, Depreciation and Amortisation ("EBITDA") ratio and Earnings Before Interest, Tax, Depreciation, Amortisation and Rent ("EBITDAR") to fixed costs ratio. At 27 June 2009 none of these covenants had been breached.

	2009 £'000	2008 £'000
Expiring within one year	**5,000**	5,000
Expiring between two and five years	**30,800**	29,000
	35,800	34,000

The facilities in place at 27 June 2009 expire between two and five years being part of three year revolving facilities due for renewal prior to August 2010, their utilisation being managed via regular review during their term. All these facilities incur commitment fees at market rates.

The minimum lease payments under finance leases fall due as follows:

	27 June 2009			28 June 2008		
	Minimum lease payments £'000	**Future finance charges £'000**	**Present value of finance lease liabilities £'000**	Minimum lease payments £'000	Future finance charges £'000	Present value of finance lease liabilities £'000
Less than one year	**3,776**	**(351)**	**3,425**	3,090	(333)	2,757
Between one and two years	**3,815**	**(322)**	**3,493**	5,129	(380)	4,749
Between two and five years	**1,199**	**(55)**	**1,144**	894	(48)	846
	8,790	**(728)**	**8,062**	9,113	(761)	8,352

The fair value of obligations under finance lease equates to their carrying value as the interest rates being paid on these are substantially those prevailing in the open market. The fair values of other financial instruments are not materially different to their carrying value due to their relatively short maturity or small size.

18 Derivatives and other financial instruments

The Group's financial instruments comprise cash and cash equivalents, bank loans, liquid resources, finance leases, onerous lease and dilapidation provisions and other items such as trade payables and trade receivables that arise from its operations. The principal function of these financial instruments is to raise finance for the Group's operations. The main risks arising from the Group's financial instruments can be analysed as follows:

Interest rate risk

Funding received from banks is at floating rates fixed in the short term for the duration of each loan. Floating rate borrowings are exposed to the risk of rising interest rates. Borrowings of a longer-term nature, such as those required to fund fixed asset acquisitions, are funded through finance leases such that total finance lease exposure remains broadly constant from year to year and to this extent provides an element of fixed interest borrowing.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

18 Derivatives and other financial instruments continued

Liquidity risk

The Group uses banking facilities and finance leases as its primary sources of funding. The Group has historically been very cash generative. The bank position and headroom of the Group is monitored daily and capital expenditure has to be approved in accordance with its policy which defines the level of authorisation required. Since the end of the financial year the Group negotiated new committed banking facilities totalling £52.5 million for a three year period which consist of a revolving credit facility of £52.5 million shared among three banks and committed for three years. The Group also has a short-term committed overdraft facility of £2.5 million.

Capital risk

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

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. Further details on the Group's borrowings and the dividends proposed by the Group are outlined in the Finance Director's report on page 15 and the Chairman's statement on pages 2 and 3.

Consistent with others in the industry, the Group monitors capital on the basis of gearing ratio. This ratio is calculated as net debt divided by total equity. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the balance sheet) less cash and cash equivalents.

The Group's strategy is to seek to maintain or reduce the level of net debt and improve operating cash flow. The gearing ratios at 27 June 2009 and 28 June 2008 were as follows:

	2009 £'000	2008 £'000
Total borrowings	**27,262**	29,352
Less: cash and cash equivalents	**(588)**	(1,088)
Net debt	**26,674**	28,264
Equity	**28,738**	35,035
Gearing ratio	**92.8%**	80.7%

Price risk

The Group seeks to limit its exposure to volatility in raw material and energy costs by buying these forward, where possible, for a period of up to a year.

Foreign currency risk

The Group's exposure to foreign currency risk on trading transactions is not significant, however hedging arrangements are made in respect of the largest purchase contracts when placed. It is the Group's policy to hedge significant fixed asset or capital transactions where appropriate.

Credit risk

Retail sales represent a large proportion of the Group's sales and present no credit risk as they are made for cash. Where credit sales are concerned the Group operates effective credit control procedures in order to minimise exposure to overdue debts and also carries insurance against the cost of significant bad debts. Counter-parties involved in transactions are limited to high quality financial institutions.

18 Derivatives and other financial instruments continued

Credit risk continued

The carrying amount of financial assets representing the maximum credit exposure at the reporting date was:

	2009 £'000	2008 £'000
Trade receivables	**7,224**	7,243

The carrying amounts of the Group's trade and other receivables are denominated in Sterling.

The maximum exposure to credit risk for trade receivables at the reporting date by geographic region was:

	2009 £'000	2008 £'000
UK	**7,135**	7,119
Europe	**58**	124
Rest of world	**31**	—
	7,224	7,243

The maximum exposure to credit risk for trade receivables at the reporting date by sales channel was:

	2009 £'000	2008 £'000
Commercial	**5,641**	5,057
Franchise	**1,583**	2,186
	7,224	7,243

The aging of gross trade receivables at the reporting date was:

	2009		2008	
	Gross £'000	Impaired £'000	Gross £'000	Impaired £'000
Current	**5,905**	**2**	5,442	—
30 days past due	**1,095**	**82**	1,163	—
60 days past due	**390**	**277**	192	1
More than 60 days past due	**689**	**494**	800	353
	8,079	**855**	7,597	354

A significant proportion of the receivables less than 60 days past due relate to large corporate customers for which there is no objective evidence that the Group will not be able to recover amounts owing and therefore no impairment has been made.

Receivables more than 60 days not impaired of £nil (2008: £447,000). Equal and opposite payable and receivable balances were held in 2008 in respect of a major supplier and customer, negating the need for impairment.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

18 Derivatives and other financial instruments continued

Credit risk continued

The movement in impairment in respect of trade receivables during the year was as follows:

	2009 £'000
At 28 June 2008	**354**
Charged to profit and loss account	**723**
Utilised in period	**(222)**
At 27 June 2009	**855**

The impairment charge recognised in the income statement, net of amounts recovered previously written off, amounted to £723,000 (2008: £125,000).

The other classes within trade and other receivables do not contain impaired assets.

Currency exposure

Net monetary assets and liabilities of the Group that are not denominated in the local functional currency were as follows:

	Euro 2009 £'000	Euro 2008 £'000	**USD 2009 £'000**	USD 2008 £'000
Net foreign currency monetary assets/(liabilities)				
Cash and cash overdraft	**60**	70	**—**	—
Trade and other payables	**(825)**	(547)	**(27)**	—
	(765)	(477)	**(27)**	—

The following significant exchange rate applied during the year:

	Average rate		Reporting date spot rate	
	2009	2008	**2009**	2008
Euro	**1.1744**	1.3391	**1.1736**	1.2659
USD	**1.6182**	2.0044	**1.6464**	1.9887

Sensitivity analysis

The Group has used a sensitivity analysis technique that measures the estimated change to the income statement and equity, had a 10% weakening in Sterling occurred against all other currencies from the rates applicable at 27 June 2009. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis has been prepared on the same basis for 2008.

The amounts generated from the sensitivity analysis are estimates of the impact of market risk assuming that specified changes occur.

18 Derivatives and other financial instruments continued

Sensitivity analysis continued

A 10% weakening of Sterling against the following currencies at 27 June 2009 would have decreased profit and loss by the following amounts:

	Profit and loss 2009 £'000	Profit and loss 2008 £'000
Euro	**(85)**	(53)
USD	**(3)**	—

A 10% strengthening of Sterling against the above currency would have had an equal and opposite effect to the amounts shown.

Interest rate risk

The financial assets of the Group that were exposed to interest rate risk at 27 June 2009 consisted of cash and short-term deposits and financial liabilities consisted of short-term bank borrowings and finance leases. These are detailed, along with their effective interest rates, in note 17.

Sensitivity analysis

A 0.5% adverse movement in the effective interest rates applicable to these financial liabilities at 27 June 2009 would have decreased profit by the amounts shown below:

	Profit and loss 2009 £'000	Profit and loss 2008 £'000
Bank borrowings	**(38)**	(4)
Finance leases	**(17)**	(77)
	(55)	(81)

19 Provisions for liabilities

	Group onerous leases and dilapidation £'000	Company onerous leases and dilapidation £'000
At 28 June 2008	708	707
Charged to profit and loss account	287	287
Utilised in period	(23)	(23)
Released in period	(66)	(66)
At 27 June 2009	**906**	**906**

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

19 Provisions for liabilities continued

Provisions are analysed between current and non-current as follows:

	Group 2009 £'000	Group 2008 £'000	**Company 2009 £'000**	Company 2008 £'000
Current	**254**	122	**253**	122
Non-current	**652**	586	**652**	585
	906	708	**905**	707

The provision for onerous leases is held in respect of leasehold properties for which the Group is liable to fulfil rent and other property commitments for stores from which either the Group no longer trades, or for which future trading cash flows are projected to be insufficient to cover these costs. Amounts have been provided for the shortfall between projected cash flows and the property costs up to the lease expiry date on a discounted basis. Future rent reviews could require additional provisions to be made.

Obligations are payable within a range of one to eight years (2008: one to nine years), the weighted average being three years (2008: three years).

The Group provides for property dilapidations, where appropriate, based on estimated undiscounted costs of the dilapidation repairs spread over the period of the tenancy.

20 Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 28% (2008: 28%).

The movement on the deferred tax account is shown below:

Deferred tax liabilities/(assets)

	Group 2009 £'000	Group 2008 £'000	**Company 2009 £'000**	Company 2008 £'000
At beginning of period	**2,750**	2,512	**2,714**	2,476
Income statement charge	**379**	329	**125**	329
Taken to equity (employee benefits)	**171**	510	**171**	510
Actuarial loss	**(2,416)**	(601)	**(2,416)**	(601)
Effect of change in law concerning IBAs	**2,033**	—	**(3,585)**	—
At end of period	**2,917**	2,750	**(2,991)**	2,714

Of the total Group and Company deferred tax balance at 27 June 2009, £571,000 (2008: £86,000) is expected to be released within one year.

20 Deferred tax continued

The movements in deferred tax assets and liabilities (prior to the offsetting of balances within the same jurisdiction as permitted by IAS 12) during the period are as follows:

Deferred tax liabilities

Group	Accelerated capital allowances £'000	Other £'000	Total £'000
At 28 June 2008	7,215	36	7,251
Charged to income statement	1,620	12	1,632
At 27 June 2009	**8,835**	**48**	**8,883**

Deferred tax assets

Group	Provisions £'000	Retirement benefit obligations £'000	Other £'000	Total £'000
At 28 June 2008	8	4,470	23	4,501
(Charged)/credited to income statement	(7)	(920)	147	(780)
Deferred tax on share-based payments charged to equity	—	—	(171)	(171)
Deferred tax on actuarial loss credited to equity	—	2,416	—	2,416
At 27 June 2009	**1**	**5,966**	**(1)**	**5,966**

Deferred tax liabilities

Company	Accelerated capital allowances £'000	Other £'000	Total £'000
At 28 June 2008	7,215	—	7,215
Credited to income statement	(4,240)	—	(4,240)
At 27 June 2009	**2,975**	**—**	**2,975**

Deferred tax assets

Company	Provisions £'000	Retirement benefit obligations £'000	Other £'000	Total £'000
At 28 June 2008	8	4,470	23	4,501
(Charged)/credited to income statement	(7)	(920)	147	(780)
Deferred tax on share-based payments charged to equity	—	—	(171)	(171)
Deferred tax on actuarial loss credited to equity	—	2,416	—	2,416
At 27 June 2009	**1**	**5,966**	**(1)**	**5,966**

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

20 Deferred tax continued

Deferred tax liabilities

Group	Accelerated capital allowances £'000	Other £'000	Total £'000
At 30 June 2007	7,301	50	7,351
Credited to income statement	(86)	(14)	(100)
At 28 June 2008	7,215	36	7,251

Deferred tax assets

Group	Provisions £'000	Retirement benefit obligations £'000	Other £'000	Total £'000
At 30 June 2007	67	4,317	455	4,839
(Charged)/credited to income statement	(59)	(448)	78	(429)
Deferred tax on share-based payments credited to equity	—	—	(510)	(510)
Deferred tax on actuarial loss credited to equity	—	601	—	601
At 28 June 2008	8	4,470	23	4,501

Deferred tax liabilities

Company	Accelerated capital allowances £'000	Other £'000	Total £'000
At 30 June 2007	7,301	14	7,315
Credited to income statement	(86)	(14)	(100)
At 28 June 2008	7,215	—	7,215

Deferred tax assets

Company	Provisions £'000	Retirement benefit obligations £'000	Other £'000	Total £'000
At 30 June 2007	67	4,317	455	4,839
(Charged)/credited to income statement	(59)	(448)	78	(429)
Deferred tax on share-based payments credited to equity	—	—	(510)	(510)
Deferred tax on actuarial loss credited to equity	—	601	—	601
At 28 June 2008	8	4,470	23	4,501

21 Retirement benefit obligations

Pension arrangements are operated through a defined contribution scheme and a defined benefit scheme for both the Group and the Company.

Defined contribution scheme

Pension costs for defined contribution scheme are as follows:

	2009 £'000	2008 £'000
Defined contribution scheme	**219**	229

Defined benefit scheme

The Company operates a defined benefit pension scheme. With effect from 6 April 2009, the benefit structure changed from a final salary basis to a CARE basis. Pension benefits are built up each year, linked to the members' pensionable salaries in that year. The benefits are then increased each year in line with inflation. The scheme has been closed to new entrants since 31 July 2002.

The Company has opted to recognise all actuarial gains and losses immediately via the Statement of recognised income and expenditure.

A formal actuarial valuation is being carried out with an effective date of 31 May 2008. The preliminary results of this valuation have been updated to 27 June 2009 by a qualified independent actuary.

The Thorntons' Pension and Life Assurance Scheme was actuarially valued by an independent professionally qualified actuary as at 27 June 2009 under IAS 19. The principal actuarial assumptions at the balance sheet date were:

	2009 %	2008 %	2007 %
Rate of increase in pensionable salaries	**n/a**	4.95	4.30
Rate of increase to CARE benefits before retirement	**3.50**	—	—
Rate of increase in pensions:			
– in deferment	**3.50**	3.80	3.15
– pre-April 1997	**0.00**	0.00	0.00
– post-April 1997	**3.40**	3.60	3.10
Discount rate	**6.40**	6.30	5.50
Inflation assumption	**3.50**	3.80	3.15
Expected return on plan assets	**6.10**	7.00	7.10

The assumption as to how many members will take up the maximum tax-free commutation on retirement is based on the Scheme's own experience of commutation levels.

The sensitivities regarding the principal assumptions used to measure the Scheme liabilities are set out below:

	Change in assumption	Impact on scheme liabilities
Rate of increase in pensions post-April 1997	Increase by 0.1%	Increase by £0.3m
Discount rate	Increase by 0.1%	Decrease by £1.1m
Inflation assumption	Increase by 0.1%	Increase by £1.0m

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

21 Retirement benefit obligations continued

Defined benefit scheme continued

The mortality rates used are as follows:

		Life expectancy at age 65 (years)	
	Mortality table	Male	Female
Current pensioners	PA92mc (yob = 1935) +3	19.1	22.1
Future pensioners	PA92mc (yob = 1965) +3	21.3	24.4

The expected return on plan assets is a blended average of projected long-term returns for the various asset classes. Equity returns are based on a selection of an equity risk premium above the risk-free rate which is measured in accordance with the yields on Government bonds. Bond returns are selected by reference to yields on Government and corporate debt as appropriate to the Scheme's holdings of these instruments. Returns are projected over the entire life of the benefit obligation.

The assets of the Scheme were invested as follows:

	27 June 2009 £'000	**27 June 2009 %**	28 June 2008 £'000	28 June 2008 %	30 June 2007 £'000	30 June 2007 %
Equities	**20,977**	**60**	24,338	64	27,164	69
Bonds	**8,481**	**25**	6,845	18	5,905	15
Gilts	**5,211**	**15**	6,845	18	5,905	15
Other	**81**	**—**	—	—	394	1
	34,750	**100**	38,028	100	39,368	100
Actual return on plan assets	**(4,466)**		(2,975)		4,284	

Pensions and other post-retirement obligations

The amounts recognised in the balance sheet are determined as follows:

	2009 £'000	2008 £'000	2007 £'000	2006 £'000
Present value of funded obligations	**(56,063)**	(53,993)	(54,785)	(51,527)
Fair value of plan assets	**34,750**	38,028	39,368	33,586
Net deficit	**(21,313)**	(15,965)	(15,417)	(17,941)

21 Retirement benefit obligations continued

Pensions and other post-retirement obligations continued

The amounts recognised in the income statement are as follows:

	2009 £'000	2008 £'000
Current service cost	**676**	784
Interest cost	**3,381**	2,997
Expected return on plan assets	**(2,535)**	(2,662)
Past service cost	**32**	—
Curtailment gain	**(2,300)**	—
Total included within staff employment benefits expense (note 28)	**(746)**	1,119

Of the total charge, £1.1 million (2008: £0.7 million) and £1.8 million credit (2008: £0.4 million) were included in cost of sales and administrative expenses respectively.

Changes in the present value of the defined benefit obligations are as follows:

	2009 £'000	2008 £'000
Present value of obligation at beginning of period	**53,993**	54,785
Current service cost	**676**	784
Interest cost	**3,381**	2,997
Employee contributions	**880**	980
Past service cost	**32**	—
Curtailment gain	**(2,300)**	—
Benefit payments	**(2,227)**	(2,064)
Actuarial gains/(losses)	**1,628**	(3,489)
Present value of obligation at end of period	**56,063**	53,993

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

	2009 £'000	2008 £'000
Fair value of plan assets at beginning of period	**38,028**	39,368
Employer contributions	**2,535**	2,719
Employee contributions	**880**	980
Benefits paid	**(2,227)**	(2,064)
Actual loss on assets	**(4,466)**	(2,975)
Closing fair value of plan assets at end of period	**34,750**	38,028

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

21 Retirement benefit obligations continued

Analysis of the movement in the balance sheet deficit

	2009 £'000	2008 £'000
At beginning of period	**(15,965)**	(15,417)
Employer pension cost	**746**	(1,119)
Employer contributions	**2,535**	2,719
Net actuarial losses recognised in the period	**(8,629)**	(2,148)
At end of period	**(21,313)**	(15,965)

Cumulative actuarial gains and losses recognised in equity

	2009 £'000	2008 £'000
At beginning of period	**(3,372)**	(1,224)
Net actuarial losses recognised in the period	**(8,629)**	(2,148)
Cumulative loss	**(12,001)**	(3,372)

The contribution expected to be paid by the Group during the financial period ending 26 June 2010 amounts to £2,000,000.

22 Other non-current liabilities

Group and Company	2009 £'000	2008 £'000
Accruals and deferred income	**2,816**	2,612

Included in the above are amounts totalling £272,002 (2008: £293,037) held in respect of Government grants.

23 Ordinary shares

Group and Company	2009 £'000	2008 £'000
Authorised		
Ordinary shares of 10p each: 85,000,000 (2008: 85,000,000)	**8,500**	8,500
Issued and fully paid		
Ordinary shares of 10p each: 68,349,837 (2008: 68,349,234)	**6,835**	6,835

23 Ordinary shares continued

Allotments during the year

During the year no shares (2008: nil) were issued under the provision of the Company's Executive Share Option Schemes, and 1,603 shares (2008: 236,766) were issued under the Sharesave Scheme, representing a total nominal value of £160 (2008: £23,677).

The average price of shares issued under the Sharesave Scheme in the year was £1.00 (2008: £0.94) and the aggregate consideration received under this scheme was £1,603 (2008: £222,867).

Since the end of the year no shares have been issued under the provisions of the Executive Share Option Schemes (2008: nil) and no shares (2008: nil) have been issued under the Sharesave Scheme.

Rights and restrictions attaching to shares

Holders of the Company's ordinary shares of 10p each are entitled to participate in the payments of dividends pro rata to their holdings. The Directors may propose and pay interim dividends and recommend a final dividend for shareholders' approval for any accounting period out of the profits available for distribution under English law.

At any general meeting a resolution put to the vote of the meeting is decided on a show of hands unless, before or on the declaration of the result of a show of hands, a poll is properly demanded. On a show of hands every member who is present in person at a general meeting of the Company has one vote. Proxies may not vote on a show of hands. On a poll every member who is present in person or by proxy has one vote for every share of which he is the holder.

Share options

Options outstanding (including those held by Directors) are listed below:

Executive Schemes

		Number of options during the 52 weeks ended 27 June 2009						Exercisable	
Date of grant	At 28 June 2008	Granted or reinstated	Exercise forfeited	Exercised	Lapsed	**At 27 June 2009**	Exercise price	From	To
22 Nov 2001	166,666	—	—	—	—	**166,666**	90p	22 Nov 2004	22 Nov 2011
12 Mar 2002	16,516	—	—	—	—	**16,516**	111p	12 Mar 2005	12 Mar 2012
02 Oct 2002	49,550	—	—	—	(33,034)	**16,516**	111p	02 Oct 2005	02 Oct 2012
03 Oct 2003	88,000	—	—	—	(44,000)	**44,000**	125p	03 Oct 2006	03 Oct 2013
03 Apr 2006	544,000	—	—	—	—	**544,000**	119p	03 Apr 2009	03 Apr 2016
05 Jun 2006	1,200,000	—	—	—	—	**1,200,000**	116p	05 Jun 2009	05 Jun 2016
11 Jul 2006	500,000	—	—	—	—	**500,000**	129p	11 Jul 2009	11 Jul 2016
02 Oct 2006	1,200,000	—	—	—	—	**1,200,000**	153p	02 Oct 2009	02 Oct 2016
13 Sep 2007	500,000	—	—	—	—	**500,000**	170p	13 Sep 2010	13 Sep 2017
23 Nov 2007	644,112	—	—	—	(123,904)	**520,208**	192p	23 Nov 2010	23 Nov 2017
16 Oct 2008	—	1,142,120	—	—	—	**1,142,120**	113p	16 Oct 2011	16 Oct 2018
	4,908,844	**1,142,120**	—	—	**(200,938)**	**5,850,026**			

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

23 Ordinary shares continued
Share options continued
Sharesave Scheme

		Number of options during the 52 weeks ended 27 June 2009						Exercisable	
Date of grant	At 28 June 2008	Granted or reinstated	Forfeited	Exercised	Lapsed	**At 27 June 2009**	Exercise price	From	To
18 Oct 2002	30,321	—	—	—	(30,321)	**—**	94p	01 Jan 2008	30 Jun 2008
16 Oct 2003	273,572	—	(9,046)	(1,603)	—	**262,923**	100p	01 Jan 2009	30 Jun 2009
12 Oct 2004	207,945	—	(28,857)	—	—	**179,088**	150p	01 Jan 2010	30 Jun 2010
09 Oct 2006	191,502	—	—	—	(36,883)	**154,619**	113p	01 Jan 2010	30 Jun 2010
09 Oct 2006	242,229	—	—	—	(55,289)	**186,940**	113p	01 Jan 2012	30 Jun 2012
10 Oct 2007	237,569	—	—	—	(66,604)	**170,965**	148p	01 Jan 2011	30 Jun 2011
10 Oct 2007	284,790	—	—	—	(62,469)	**222,321**	148p	01 Jan 2013	30 Jun 2013
	1,467,928	**—**	**(37,903)**	**(1,603)**	**(251,566)**	**1,176,856**			

24 Share-based payments

Under the Company's Executive Share Option Schemes, the Remuneration Committee can grant options over shares in the Company to Directors and employees of the Company. Options are granted with a fixed exercise price equal to the market price of the shares under option at the date of grant. The contractual life of an option is ten years. Awards of options under the Scheme are generally reserved for employees at senior management level and above. Details of the performance conditions attaching to awards of options are described in the Report on the Directors' Remuneration on pages 34 to 41. Fair value is measured by the use of the Black-Scholes model for options with internal performance criteria and the Monte Carlo model for options with external performance conditions.

The Thorntons Sharesave Scheme enables eligible employees to acquire options over ordinary shares of the Company at a discount of up to 20% to the market price in conjunction with a Save As You Earn contract. The options are exercisable within a period of six months commencing three or five years from the date of the savings contract.

24 Share-based payments continued

The fair value per option granted during the year and the assumptions used in their calculation are as follows:

	2009 Executive 1	2008 Executive 1	2008 Executive 2	2008 Sharesave 1	2008 Sharesave 2
Grant date	**16 Oct 08**	13 Sep 07	23 Nov 07	10 Oct 07	10 Oct 07
Share price at grant date	**110p**	185p	193p	172p	172p
Exercise price	**113p**	170p	192p	148p	148p
Number of employees	**4**	1	4	201	144
Shares under option	**1,142,120**	500,000	644,112	270,794	292,281
Vesting period (years)	**3**	3	3	3	5
Expected volatility	**33.71%**	26.19%	27.37%	26.55%	26.55%
Option life (years)	**10**	10	10	3	5
Expected life (years)	**3**	3	3	3	5
Risk-free rate	**4.10%**	5.00%	4.35%	5.09%	5.03%
Expected dividends expressed as a dividend yield	**6.18%**	3.90%	3.53%	3.90%	3.90%
Possibility of ceasing employment before vesting	**n/a**	n/a	n/a	44.94%	47.23%
Fair value per option	**41p**	41p–45p	30p	40p	45p

The expected volatility is based on historical volatility over the last three years. The expected life is the average expected period to exercise. The risk-free rate of return is the yield on zero-coupon UK Government bonds of a term consistent with the assumed option life.

A reconciliation of Executive Share Option movements over the period to 27 June 2009 is shown below:

	2009		2008	
Executive Share Options	**Number**	**Weighted average exercise price**	Number	Weighted average exercise price
Outstanding at start of period	**4,908,844**	**125p**	4,345,820	125p
Granted	**1,142,120**	**113p**	1,144,112	182p
Forfeited	**—**	**—**	(33,034)	111p
Exercised	**—**	**—**	(16,516)	111p
Lapsed	**(200,938)**	**164p**	(531,538)	98p
Outstanding at end of period	**5,850,026**	**135p**	4,908,844	125p
Exercisable at end of period	**243,698**	**93p**	199,698	93p

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

24 Share-based payments continued
For share options outstanding at the end of the period, the range of exercise prices and weighted average contractual life is disclosed below:

	2009			2008		
Range of exercise prices	**Number**	**Weighted average exercise price**	**Contractual weighted average remaining life Years**	Number	Weighted average exercise price	Contractual weighted average remaining life Years
90p–111p	**199,698**	**112p**	**2.5**	232,732	96p	3.6
116p–153p	**4,630,120**	**127p**	**7.6**	3,532,000	131p	8.0
170p–192p	**1,020,208**	**181p**	**8.3**	1,144,112	182p	9.3

The weighted average share price during the period for options exercised over the period was nil (2008: nil). The total charge for the period relating to employee share-based payment plans was £440,000 (2008: £369,000). After deferred tax, the total charge was £269,000 (2008: £266,000).

A reconciliation of Sharesave Scheme Option movements over the period to 27 June 2009 is shown below:

	2009		2008	
Sharesave Scheme Options	**Number**	**Weighted average exercise price**	Number	Weighted average exercise price
Outstanding at start of period	**1,467,928**	**128p**	1,305,223	99p
Granted	**—**	**—**	563,075	148p
Forfeited	**(37,903)**	**138p**	(141,561)	124p
Exercised	**(1,603)**	**100p**	(236,766)	94p
Lapsed	**(251,566)**	**129p**	(22,043)	67p
Outstanding at end of period	**1,176,856**	**160p**	1,467,928	128p
Exercisable at end of period	**262,923**	**100p**	30,321	94p

24 Share-based payments continued

For share options outstanding at the end of the period, the range of exercise prices and weighted average contractual life is disclosed below:

	2009			2008		
Sharesave Scheme	**Number**	**Weighted average exercise price**	**Contractual weighted average remaining life Years**	Number	Weighted average exercise price	Contractual weighted average remaining life Years
Oct 2002	—	—	—	30,321	94p	—
Oct 2003	**262,923**	**100p**	—	273,572	100p	1.0
Oct 2004	**179,028**	**150p**	**1.0**	207,945	150p	2.0
Oct 2006	**154,619**	**113p**	**1.0**	191,502	113p	2.0
Oct 2006	**186,940**	**113p**	**3.0**	242,229	113p	4.0
Oct 2007	**170,965**	**148p**	**2.0**	237,569	148p	3.0
Oct 2007	**222,321**	**148p**	**4.0**	284,790	148p	5.0

The weighted average share price during the period for options exercised over the period was 100p (2008: 164p). The total charge for the period relating to employee share-based payment plans was £81,000 (2008: £87,000). After deferred tax, the total charge was £58,000 (2008: £62,000).

25 Statement of changes in shareholders' equity

Group	Note	Share capital £'000	Share premium £'000	Retained earnings £'000	Total £'000
At 30 June 2007		6,811	13,551	14,524	34,886
Total recognised income and expense		—	—	4,521	4,521
New share capital issued	23	24	199	—	223
Share-based payment charge		—	—	447	447
Effect of tax on share option movement	7	—	—	(510)	(510)
Movement in investment in own shares		—	—	18	18
Dividends	10	—	—	(4,550)	(4,550)
At 28 June 2008		6,835	13,750	14,450	35,035
Total recognised income and expense		—	—	(2,608)	(2,608)
New share capital issued		—	2	—	2
Share-based payment charge		—	—	520	520
Effect of tax on share option movement		—	—	(171)	(171)
Dividends		—	—	(4,040)	(4,040)
At 27 June 2009		**6,835**	**13,752**	**8,151**	**28,738**

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

25 Statement of changes in shareholders' equity continued

Company	Note	Share capital £'000	Share premium £'000	Retained earnings £'000	Total £'000
At 30 June 2007		6,811	13,551	12,161	32,523
Total recognised income and expense		—	—	4,437	4,437
New share capital issued	23	24	199	—	223
Share-based payment charge		—	—	447	447
Effect of tax on share option movement	7	—	—	(510)	(510)
Movement in investment in own shares		—	—	18	18
Dividends	10	—	—	(4,550)	(4,550)
At 28 June 2008		6,835	13,750	12,003	32,588
Total recognised income and expense		—	—	3,205	3,205
New share capital issued		—	2	—	2
Share-based payment charge		—	—	520	520
Effect of tax on share option movement		—	—	(171)	(171)
Dividends		—	—	(4,040)	(4,040)
At 27 June 2009		**6,835**	**13,752**	**11,517**	**32,104**

Deducted from Retained Earnings are investments in own shares of £2,163,000 (2008: £2,163,000) being held by trusts operating the following plans:

- 2007 LTIP with 504,610 shares (2008: 504,610) at an original cost of £1,035,000 (2008: £1,035,000); and
- 2001 Executive Share Option Scheme with 905,070 shares (2008: 905,070) at an original cost of £1,128,000 (2008: £1,128,000).

26 Cash flow from operating activities

a) Cash generated from operations

	Group 2009 £'000	Group 2008 £'000	Company 2009 £'000	Company 2008 £'000
Continuing operations				
Operating profit	**9,739**	10,326	**9,657**	10,215
Adjustments for:				
Depreciation and amortisation	**11,572**	11,246	**11,564**	11,238
Amortisation of Government grants received	**(21)**	(21)	**(21)**	(21)
Profit on disposal of property, plant and equipment	**(16)**	(143)	**(69)**	(143)
Share-based payment charge	**520**	447	**520**	447
Operating cash flow before working capital movements	**21,794**	21,855	**21,651**	21,736
Changes in working capital				
Increase in inventories	**(1,063)**	(6,105)	**(1,064)**	(6,106)
Decrease/(increase) in trade and other receivables	**1,072**	(2,520)	**1,318**	(3,479)
Increase in payables	**430**	2,309	**714**	3,366
Increase/(decrease) in provisions	**198**	49	**(115)**	48
Decrease in post-employment benefit obligations	**(3,281)**	(1,600)	**(3,281)**	(1,600)
Cash generated from operations before taxation	**19,150**	13,988	**19,223**	13,965
Corporate taxation	**(2,012)**	(2,507)	**(1,990)**	(2,500)
Cash flows from operating activities	**17,138**	11,481	**17,233**	11,465

b) Cash and cash equivalents for the cash flow statement

	Group 2009 £'000	Group 2008 £'000	Company 2009 £'000	Company 2008 £'000
Cash and cash equivalents	**588**	1,088	**680**	1,005
Bank overdraft	**—**	—	**(144)**	(167)
Net position	**588**	1,088	**536**	838

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

27 Reconciliation of movement in net debt

	Group 2009 £'000	Group 2008 £'000	Company 2009 £'000	Company 2008 £'000
Decrease in cash and cash equivalents	**(500)**	(1,770)	**(302)**	(1,786)
Cash flows from decrease in debt	**5,097**	1,712	**5,097**	1,712
Change in net debt resulting from cash flow	**4,597**	(58)	**4,795**	(74)
Inception of new finance leases	**(3,007)**	(1,795)	**(3,007)**	(1,795)
Movement in net debt in the period	**1,590**	(1,853)	**1,788**	(1,869)
Net debt at beginning of period	**(28,264)**	(26,411)	**(28,514)**	(26,645)
Net debt at end of period	**(26,674)**	(28,264)	**(26,726)**	(28,514)

28 Employees and Directors

Employee benefit expense during the period	Group 2009 £'000	Group 2008 £'000	Company 2009 £'000	Company 2008 £'000
Wages and salaries	**57,074**	54,638	**57,019**	54,585
Social security costs	**4,881**	4,679	**4,878**	4,676
Health cover, medical and life assurance	**226**	195	**226**	195
Staff incentives and relocation costs	**133**	163	**133**	163
Share-based payments	**520**	456	**520**	456
Pension costs (note 21)	**1,773**	1,348	**1,773**	1,348
	64,607	61,479	**64,549**	61,423
Exceptional curtailment gain (note 2)	**(2,300)**	—	**(2,300)**	—
	62,307	61,479	**64,549**	61,423

Average monthly number of people (including Executive Directors) employed	Group 2009 Number	Group 2008 Number	Company 2009 Number	Company 2008 Number
Management and administration	**254**	221	**253**	220
Selling and distribution	**2,693**	2,775	**2,688**	2,771
Manufacturing	**1,537**	1,570	**1,537**	1,570
	4,484	4,566	**4,478**	4,561

28 Employees and Directors continued
Group and Company

Key management compensation	2009 £'000	2008 £'000
Salaries and short-term employee benefits	**1,751**	1,732
Post-employment benefits	**78**	136
Termination benefits	**160**	—
Share-based payments	**440**	369
	2,429	2,237

The key management figures given above include Directors and all other members of the Executive Committee.

Directors	2009 £'000	2008 £'000
Aggregate emoluments	**1,154**	1,204
Aggregate gains made on the exercise of share options	**—**	—
Company contributions to money purchase pension schemes	**73**	125
	1,227	1,329

Pension scheme contributions above represent the total contributions made by the Company on behalf of all Directors in respect of approved pension arrangements.

Retirement benefits are no longer accruing to Directors (2008: one) under defined benefit schemes.

Further detail in respect of Directors' remuneration can be found in the Report on the Directors' Remuneration on pages 34 to 41.

29 Operating lease commitments – minimum lease payments

	2009		2008	
Group	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000
Commitments under non-cancellable operating leases:				
Within one year	**19,556**	**709**	18,770	628
Later than one year and less than five years	**59,122**	**1,692**	62,803	1,429
After five years	**37,501**	**18**	43,428	80
	116,179	**2,419**	125,001	2,137

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

29 Operating lease commitments – minimum lease payments continued

Company	2009 Land and buildings £'000	2009 Other £'000	2008 Land and buildings £'000	2008 Other £'000
Commitments under non-cancellable operating leases:				
Within one year	**19,496**	**709**	18,710	628
Later than one year and less than five years	**58,882**	**1,692**	62,563	1,429
After five years	**37,285**	**18**	43,151	80
	115,663	**2,419**	124,424	2,137

The Group has entered into operating leases in respect of Retail stores, vehicles, fork lift trucks and equipment. Retail store leases have remaining terms of between three months and 22 years, with renewal by mutual agreement at the expiry of the lease term and commonly with five year upwards only rent review periods. Contingent rentals are payable on approximately 13% of Retail stores where leases contain a store revenue based component. Standard institutional restrictions common to those in place with other high street retailers are applicable to the Group's Retail leases. Non-store leases have remaining lease terms of between one month and five years.

30 Contingent liabilities

As at 27 June 2009 the Group had provided guarantees in respect of Customs and Excise duty deferment of £100,000 (2008: £100,000).

31 Capital and other financial commitments

	Group 2009 £'000	Group 2008 £'000	Company 2009 £'000	Company 2008 £'000
Contracts placed for future capital expenditure not provided in the financial statements	**362**	754	**362**	754
Bulk supplies of raw ingredients	**10,132**	15,687	**10,132**	15,687
	10,494	16,441	**10,494**	16,441

The majority of bulk raw material supply contracts are denominated in Sterling and therefore carry no foreign currency exposure.

Major non-cash transactions

During the period the Group and Company entered into finance lease agreements in respect of various shop fitting costs and plant and equipment with capital values at the inception of the leases of £3,007,000 (2008: £1,795,000).

32 Related party transactions

Group

There are no related party transactions requiring disclosure in the financial statements (2008: £nil).

Company

Funds are transferred within the Group, dependent on the operational needs of individual companies. The Directors do not consider it meaningful to set out the gross amounts of transfers between individual companies. Balances owed by and to other Group undertakings are shown in notes 15 and 16 to the financial statements.

FIVE YEAR SUMMARY

The figures below are extracted from this Annual Report and are prepared under IFRS:

	IFRS 2009 £'000	IFRS 2008 £'000	IFRS 2007* £'000	IFRS 2006 £'000	IFRS 2005 £'000
Consolidated income statement					
Revenue	**214,805**	208,122	185,989	176,626	187,704
Operating profit	**9,740**	10,326	8,852	7,307	10,445
Net finance costs	**(1,652)**	(1,856)	(1,771)	(2,142)	(2,366)
Profit before taxation	**8,088**	8,470	7,081	5,165	8,079
Taxation	**(4,483)**	(2,402)	(1,785)	(1,517)	(2,529)
Profit attributable to equity shareholders	**3,605**	6,068	5,296	3,648	5,550
Balance sheet					
Net assets	**27,738**	35,035	34,886	31,954	31,575
Net borrowings	**(18,612)**	(19,912)	(16,142)	(15,998)	(18,063)
Net debt	**(26,674)**	(28,264)	(26,411)	(27,571)	(28,391)
Gearing ratio	**92.8%**	80.7%	75.7%	86.3%	89.9%
Additions to intangible assets and property, plant and equipment	**10,243**	7,905	7,938	7,513	11,204
Other financial data					
Basic earnings per share (excluding exceptional items)	**6.5p**	9.1p	8.0p	6.4p	10.3p
Dividends per share	**6.1p**	6.8p	6.8p	6.8p	6.8p
Number of outlets – continuing operations					
Own stores	**379**	379	368	367	369
Franchises	**197**	250	218	212	216
Stock market ratios					
Year end share price	**74p**	114p	175p	131p	142p
Shares in issue	**68.3m**	68.3m	68.1m	67.2m	66.6m
Market capitalisation	**£50.5m**	£77.9m	£119.2m	£87.8m	£94.4m
Dividend yield	**8.2%**	6.0%	3.9%	5.2%	4.8%

* 53 week period.

SHAREHOLDER ANALYSIS

SHAREHOLDER OWNERSHIP ANALYSIS AT 27 JUNE 2009

Shareholding range	Shareholders Number	Shareholders %	Shares Number	Shares %
Up to 500	5,562	57.9	1,452,896	2.1
501–1,000	1,591	16.6	1,311,336	1.9
1,001–10,000	2,196	22.8	6,473,881	9.5
10,001–100,000	184	1.9	6,074,130	8.9
100,000+	73	0.8	53,037,594	77.6
	9,606	100.0	68,349,837	100.0

Category of shareholding	Shareholders Number	Shareholders %	Shares Number	Shares %
Corporate bodies and nominees	568	5.9	51,869,719	75.9
Private shareholders	9,038	94.1	16,480,118	24.1
	9,606	100.0	68,349,837	100.0

Thorntons' commitment to environmental issues is reflected in this Annual Report which has been printed on Revive 50:50 Silk and Revive 50:50 Offset, both recycled paper stocks containing 50% recovered waste and 50% virgin fibre.

This document was printed by Beacon Press using pureprint, their environmental print technology which minimizes the impact of printing on the environment. All energy used comes from renewable sources, vegetable based inks have been used and 98% of all dry waste associated with this production is diverted from landfill.

Beacon press is a CarbonNeutral® printer.

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