Associated British Foods plc

ANNUAL REPORT AND ACCOUNTS

2008

PRODUCTS people *love*

A look at ABF's brand portfolio

WE ARE NOW OPEN

Primark's expansion across Europe gathers pace

FARMING IN HARMONY WITH THE COUNTRYSIDE

AB AGRI'S WINNING FORMULA IN VOLATILE TIMES

YEAST: A BEGINNER'S GUIDE TO THE MAGIC INGREDIENT

WHAT IS IT AND HOW IS IT MADE?

£8.2bn
up 21%
Group revenue

£664m
up 7%
Adjusted operating profit*

£632m
up 3%
Adjusted profit before tax**

54.9p
up 4%
Adjusted earnings per share**

20.25p
up 4%
Dividends per share

£710m
Net investment in capital expenditure and acquisitions

£791m
Net debt

£554m
level
Operating profit

£527m
up 4%
Profit before tax

45.2p
down 3%
Basic earnings per share

Business highlights

- KR Castlemaine acquired in Australia – meat and dairy reorganisation announced
- Patak's and Blue Dragon integration complete
- Jordans merged with Ryvita
- Beet sugar business built in north east China
- Zambian sugar expansion well under way
- Primark expansion in Spain

* before amortisation of non-operating intangibles, profits less losses on the sale of PP&E and exceptional items
** before amortisation of non-operating intangibles, profits less losses on the sale of PP&E, profits less losses on the sale and closure of businesses and exceptional items

Associated British Foods is a diversified international food, ingredients and retail group with global sales of £8.2bn, and 96,000 employees in 44 countries.

Our aim is to achieve strong, sustainable leadership positions in markets that offer potential for profitable growth.

We look to achieve this through a combination of growth of existing businesses, acquisition of complementary new businesses and achievement of high levels of operating efficiency.

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The group operates through strategic business segments: Sugar & Agriculture; Retail; Grocery and Ingredients.

£2,134m
Revenue

£186m
Adjusted operating profit

26%
% of total revenue

Sugar & Agriculture

Sugar, Europe
British Sugar's UK beet sugar factories produce over one million tonnes of sugar annually. Its factory in Poland is that country's largest, producing more than 200,000 tonnes of sugar annually.

Sugar, China
We have majority interests in four cane sugar factories in Guangxi Province and 12 beet sugar operations in the north east of the country. Continuous investment has raised annual sugar production to more than 750,000 tonnes.

Sugar, southern Africa
Illovo is Africa's largest sugar producer with agricultural and production facilities in six countries. Annual sugar output is 1.8 million tonnes produced from 5.5 million tonnes of sugar cane.

Agriculture
AB Agri sells animal feeds and feed micro-ingredients to farmers and purchases grain and oilseeds from them. It has facilities in the UK and China and markets products in over 40 countries worldwide.

Retail

Primark
Primark is a major value retail group employing over 25,500 people. It operates stores in the UK, Ireland and Spain.

Targeted at the fashion conscious under 35s, Primark offers customers high-quality merchandise at value for money prices, backed by its service promise. Primark prides itself on its loyal customer base.

Buying and merchandising teams in Reading (UK) and Dublin (Republic of Ireland) travel internationally to source and buy up-to-the-minute fashion items that best reflect each season's key fashion trends. Primark's range of departments includes womenswear, lingerie, childrenswear, menswear, footwear, accessories, hosiery and homeware.

£1,933m
Revenue

£233m
Adjusted operating profit

24%
% of total revenue

Grocery

Hot beverages and sugar and sweeteners
Twinings and Ovaltine comprise our global hot beverages business. We are market leaders in UK sugar with Silver Spoon and Billington's.

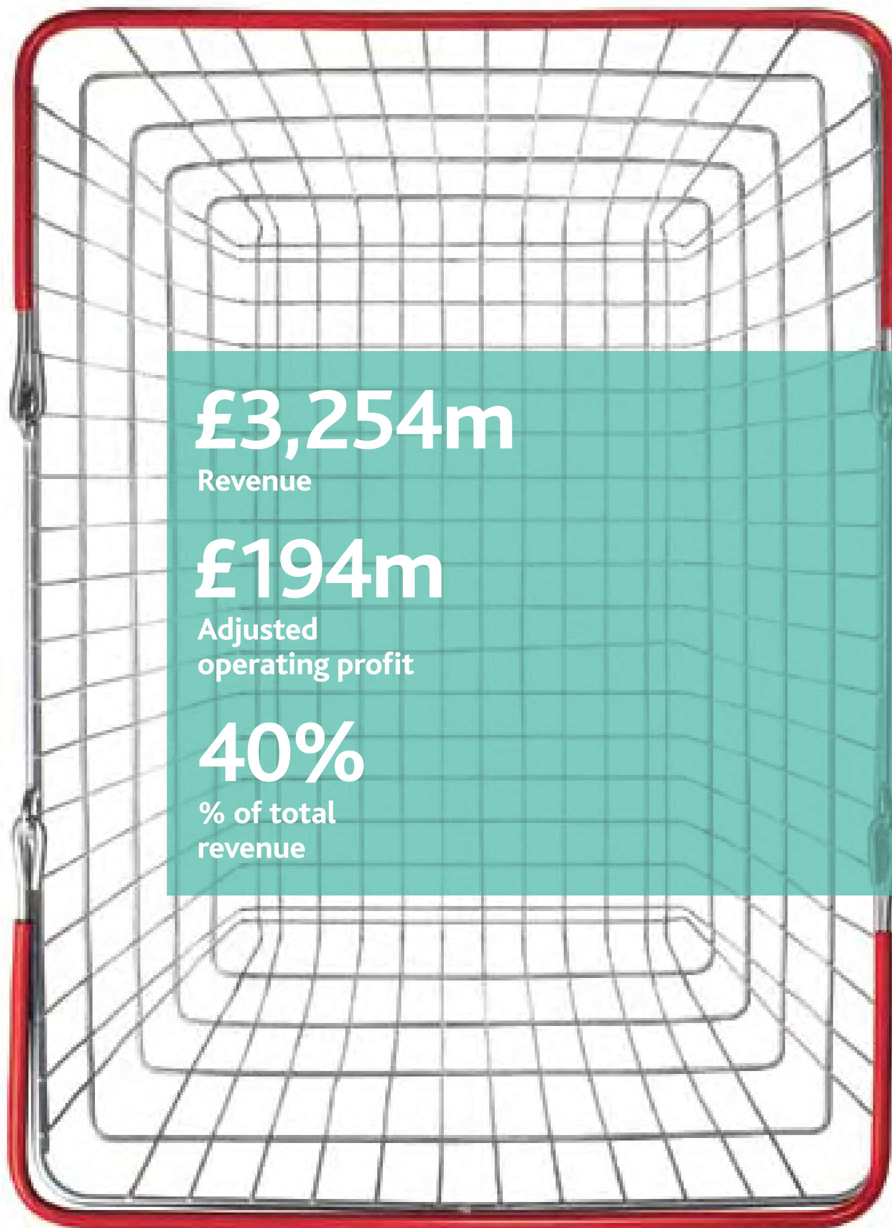
Vegetable oils
In the US, Mazola is the leader in premium corn oil. In Mexico, Capullo leads the premium canola oil sector.

Bread, baked goods and cereals
We produce Jordans cereals in the UK and leading bakery brands, Kingsmill, Ryvita, Tip Top and Noble Rise in the UK and Australia.

World Foods
World Foods comprises our authentic pan-Asian food brands, Patak's and Blue Dragon.

Herbs and spices
We are a leading US producer of herbs and spices through the Tone's, Spice Islands and Durkee brands.

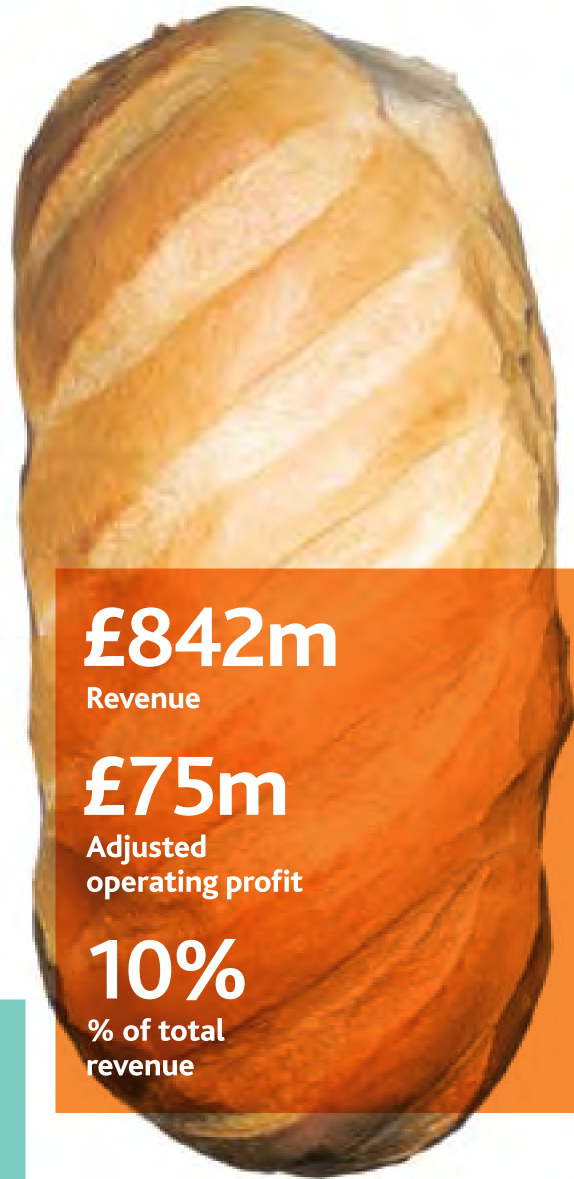
Meat and dairy
In Australia we supply sausages, hams, salami and dairy products under strong regional brands.



£3,254m
Revenue

£194m
Adjusted operating profit

40%
% of total revenue



£842m
Revenue

£75m
Adjusted operating profit

10%
% of total revenue

Ingredients

Yeast and bakery ingredients
AB Mauri operates globally in yeast and bakery ingredient production with 43 plants in 28 countries, supplying plant and artisanal bakers and the foodservice and wholesale channels. It is the technology leader in bread improvers, dough conditioners and bakery mixes.

Speciality ingredients
ABF Ingredients focuses on high-value ingredients for food and non-food applications. It is an international supplier to plant and artisanal bakers and the foodservice and wholesale channels.

The group has strong market positions in cereal specialities, enzymes, extruded ingredients, lactose, lipids, flours, yeast extracts and whey protein isolates and concentrates.

The year saw steadily worsening economic conditions with sharp rises in input costs, particularly raw materials and energy, and falling consumer confidence. In these circumstances the group delivered good results and adjusted operating profit increased by 7%. If the results of the businesses which were affected by EU sugar regime change are excluded, profits were ahead by 18%, an excellent achievement.

Considerable further investment was made during the year, particularly in the expansion of our sugar interests in China and Africa and in Primark's retail space, and also in our grocery and ingredients businesses. Additional investment and higher working capital, together with higher interest rates, resulted in a substantial increase in interest payable. Adjusted profit before tax rose by 3% and, with a slightly lower rate of tax than last year, adjusted earnings per share increased by 4%.

This year's result includes a net exceptional charge of £46m arising from major restructuring initiatives. This comprises a provision for the rationalisation of our Australian meat business, following the acquisition of KR Castlemaine at the end of March, less a net gain on the renunciation of sugar quota in the UK and Poland.

Revenue grew by 21% to £8.2bn driven, in good part, by our ability to recover rising input costs, but also by volume increases reflecting our past capital investment, acquisitions and favourable currency translation.

The year has seen further development for the sugar businesses. In Europe the transition to the new EU sugar regime is largely over and there is now the prospect of reasonable equilibrium in a market where consumption will exceed domestic production. In China, development plans for the north east have been taken forward and major phased expansion will take place over the next few years. These plans will lead to the development of factory operations and are expected to achieve marked improvements in agricultural performance in the region. Illovo has also extended capacity through various projects and has well-developed plans for further increases in the next few years. Across the three major regions in which the group operates, sugar production in the year amounted to some 3.85 million tonnes and will be substantially increased over the next few years. The joint venture with BP and DuPont has commenced construction of the bioethanol plant in Hull and is on schedule for commissioning in 2010.

The profits of the European sugar businesses fell sharply in the year, caused by an increase in the restructuring levy and the temporary reduction of quota, and the results in China were adversely affected by lower prices after an exceptional crop. By contrast, Illovo's results were very good.

Primark achieved strong growth in both sales and profits. Like-for-like sales growth was very satisfactory in a marketplace which, as a whole, became progressively tighter during the year. Selling space was expanded further, although not at the exceptional rate of the previous year. In the increasingly difficult economic environment, Primark is well placed to compete. Expansion is continuing in the UK, Ireland and on the Continent, where the results of the Spanish stores have been very encouraging. Another major UK distribution centre was opened recently and we have strengthened management further in light of the significant expansion of the business.

The group's grocery businesses made excellent progress in the year, delivering substantially higher profits against a background of sharply rising commodity costs. In most cases, successful steps were taken to adjust sales prices, although there was a lag in the ability of the US oils business to recover, fully, quite exceptional rises. Twinings and Ovaltine made advances both in major established markets and other markets where there is much scope for development. There was strong improvement in the performance of Allied Bakeries following the very successful relaunch of Kingsmill in 2007. The integration of the World Foods businesses, Patak's and Blue Dragon, proceeded well and good sales growth was achieved by both brands. It was also pleasing to move forward with the merger of Ryvita and Jordans where we now have a 62% stake. Our grocery businesses are a major strength of the group.

SUGAR PRODUCTION IN THE YEAR AMOUNTED TO SOME 3.85 MILLION TONNES.

Among our other businesses, AB Agri had an exceptional year. While part of the success was due to its ability to operate well in extremely volatile commodity markets, long-term improvements in fundamentals played a major role. The ingredients businesses posted sound growth in difficult conditions.

Net capital expenditure and investment in new businesses net of disposals amounted to £710m. Over £500m was incurred to expand plant capacity and on new Primark stores. Major acquisitions in the year included beet sugar factories in north east China, the KR Castlemaine meat business in Australia, which is being integrated with our existing meat business, and further expansion of our European yeast operations.

The recent and planned capital investment positions the group well for the longer term.

Working capital at the financial year end was some £340m higher than last year end driven, in part, by the acquisitions in the year but mainly as a consequence of the rises in input prices referred to throughout this statement. This much higher working capital was one of the major reasons for the increase of £480m in year end net debt to £791m, the other major contributors being acquisition spend net of disposal proceeds, and higher capital expenditure. Although the group was well within its borrowing facilities at year end, we have secured additional borrowing capacity since the year end in anticipation of further investment.

NET CAPITAL EXPENDITURE AND INVESTMENT IN NEW BUSINESSES NET OF DISPOSALS AMOUNTED TO £710M.

The group is becoming increasingly involved with developing countries, both through ownership of local manufacturing operations and through sourcing from local, third-party manufacturers. The value of economic growth to developing countries of both local operations and third-party sourcing is generally accepted. In our own manufacturing operations we are the employers of the local workforce. As a consequence, we are able to set employment standards and agree benefits directly with the workforce. As an example, in several countries in southern Africa, Illovo provides housing, education, healthcare, infrastructure and other benefits for employees and their dependants. Where we source from third-party manufacturers, the position is different as the group does not have an employer/employee relationship. This is particularly the case for Primark which, with other major European and US retailers, sources large quantities of goods from developing countries. Primark sets contractual requirements with suppliers for workplace standards and monitors their application. It is, however, much more difficult to ensure the required standards are consistently observed where Primark is not the employer. As a group, we are committed to high standards in the supply chain and will continue to work to achieve them.

Board changes

I reported a year ago that Lord MacGregor and Mike Alexander would retire as directors on 7 December 2007 and paid tribute, at that time, to their contributions to the board.

On 1 October 2008 Charles Sinclair was appointed to the board as an independent non-executive director. Until 30 September 2008, Mr Sinclair was chief executive of Daily Mail & General Trust. He is also a non-executive director of SVG Capital Plc. I am confident Charles will make a valuable contribution to the board's work.

Employees

The group now employs 96,000 people in 44 countries. Their skills, ingenuity and hard work, often in very demanding conditions, deliver the results covered in this report. When I visit our operations in the UK and abroad, I am always impressed by the ability and enthusiasm of the people who work in the group. I am grateful to them all for their continued efforts over the past year.

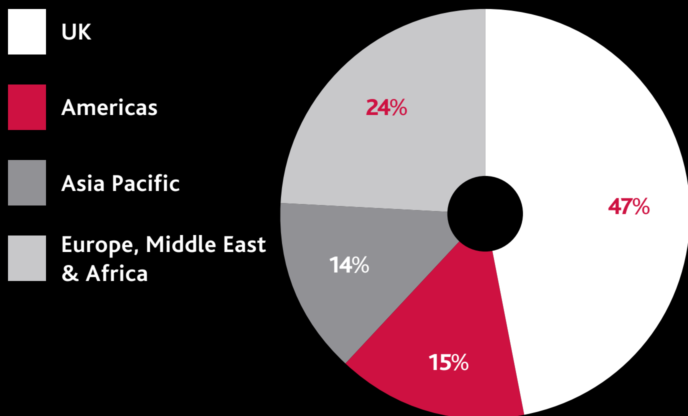
Dividends

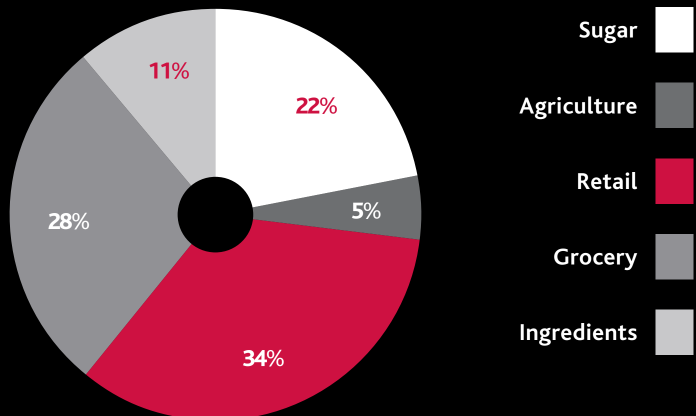
A final dividend of 13.5p is proposed, to be paid on 9 January 2009 to shareholders on the register on 5 December 2008. Together with the interim dividend of 6.75p paid on 3 July 2008, this will make a total of 20.25p for the year, an increase of 4%.

Outlook

The economies in which the group operates face extremely testing conditions. There is also very great uncertainty about how these conditions will develop over the coming year. The group's businesses will not be immune to a worsening economic climate. However, by virtue of the nature, range and market position of the group's businesses we are well placed to face this demanding environment. We expect to maintain capital investment at planned levels in spite of the economic outlook. We anticipate some progress in operating profits over the coming year but little change in net earnings due to additional interest expense. I am confident that the recent and planned capital investment positions the group well for the longer term.

Martin Adamson
Chairman


OPERATING PROFIT BY GEOGRAPHY
UK
Americas
Asia Pacific
Europe, Middle East & Africa
24%
47%
14%
15%


OPERATING PROFIT BY SECTOR
Sugar
Agriculture
Retail
Grocery
Ingredients
11%
22%
5%
28%
34%

These good results demonstrate the resilience of the group when faced with a number of challenges.

Group revenue increased by 21% to £8.2bn and adjusted operating profit increased by 7% to £664m. These good results again demonstrate the resilience of the group when faced with a number of challenges, most notably the continuing impact of EU sugar regime reform, the pressure on consumer spending in many parts of the world and sharply higher commodity costs.

Our sugar operations performed well. The businesses in Europe are now emerging from the restructuring that has taken place over recent years in response to regime reform and will benefit from greater stability in their operations and certainty in their markets. Illovo has gone from strength to strength and has continued to build its capability, and our business in China has taken on an entirely different shape with the creation of a new beet sugar business in the north east.

Agriculture had a quite extraordinary year and demonstrated its agility by responding quickly to an extremely volatile market. It has developed its customer and supplier relationships with its strong market position providing confidence in difficult economic conditions.

The excellent increases in sales and profit at Primark are the result of good like-for-like sales growth and the substantial investment in retail selling space in recent years. They are also a testament to its continued success in delivering the latest fashions, manufactured to good quality and ethically sourced, at affordable prices.

Our grocery businesses grew strongly last year with profits up 27%. The substantial improvement at Allied Bakeries was enormously encouraging and Twinings Ovaltine, Westmill and milling and baking in Australia all delivered excellent results.

Our commitment to the group's expansion and development is underlined by the continuing strong investment in capital expenditure and acquisitions in all businesses, most notably in sugar and Primark. We have embarked upon a number of important projects that will see several hundred million pounds invested over a two or three year timeframe that will change the scale of our operations, notably in sugar production in southern Africa, particularly Zambia, and north east China, in meat and dairy in Australia, enzymes in Finland, yeast and yeast extracts in China, biofuels in the UK and further new stores for Primark.

There have been a number of significant developments in the grocery business over the last few years, which have strengthened the portfolio considerably. The acquisition of Patak's and its integration this year with Blue Dragon created a major retail ethnic foods business with a strong UK presence and potential for expansion elsewhere in Europe. The completion of the Jordans merger with Ryvita has produced a strong player in the growing 'better for you' category and in Australia, the acquisition of KR Castlemaine and the plans for its integration with our existing operation there has created a market-leading business. Since the year end we have announced the creation of a packaged oil joint venture with Archer Daniels Midland in the US and this new entity has exciting prospects for growth, particularly in the foodservice sector. The ACH business that remains will be more brand focused and consumer orientated.

Sugar & Agriculture

SUGAR: Revenue £1,267m
(2007, £1,151m)
Adjusted operating profit £153m
(2007, £199m)

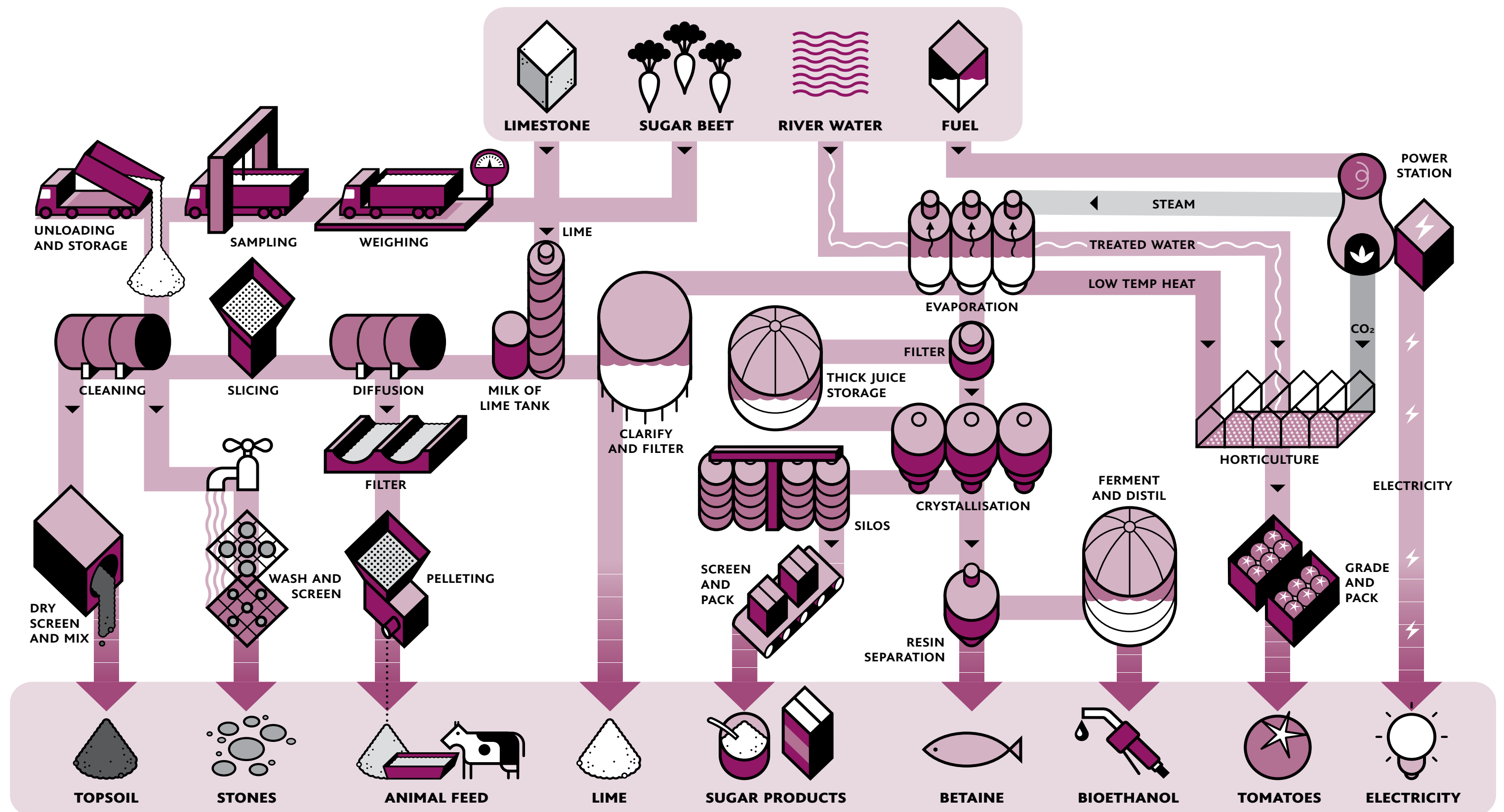
Sugar profit was substantially lower than last year reflecting the further effects of EU sugar regime reform on our UK and Polish operations which amounted to £50m. Furthermore, profits were reduced in China with lower sugar prices as a result of a record crop despite earlier fears of the effects of frost damage to the cane in the south. Illovo continued to trade well with higher volumes and the benefit of higher domestic and world sugar prices.

Profit in the UK and Poland was impacted by an increase in the restructuring levy per tonne from €126 last year to €174 and an increase in the temporary quota reduction from 152,000 tonnes to 191,000 tonnes. The UK campaign was successful but profit was also lower as a result of higher energy costs and a smaller crop of 1.05 million tonnes of sugar which was affected by the heavy mid-summer rains in 2007. A number of projects have been successfully implemented in the UK which improve energy efficiency at our factories and underpin the new manufacturing configuration following the closure of York and Allscott. Poland had an exceptionally good campaign with production of 227,000 tonnes and new operating records set at Glinojeck. The strengthening of the euro benefited the profitability of the UK business with some offset from the strength of the zloty against the euro on the Polish business.

The European Commission has confirmed that a total of 5.65 million tonnes of quota for sugar, inulin and isoglucose has been permanently renounced

From beet to bowl:
The beet sugar production process

We all take it for granted, but do we all know where it comes from and how it makes its way into our sugar bowls?



STAGE ONE – BEET PROCESSING

Sugar beet is washed in large rotary drums. Stones and soil are caught for later use. Clean beet enters the factory, and is sliced into thin slices called 'cossettes'.

Sugar is extracted from the beet by diffusion. This process takes place in a large vessel and is often described as being akin to brewing tea in a teapot. The cossettes are mixed with hot water at around 70°C and the sugar simply passes from the plant cells into the water.

The vegetable material left behind is pressed to extract as much remaining sugar and water as possible and, after the addition of molasses, is dried to produce animal feed. The liquid resulting from the diffusion process is dark in colour and is called raw juice.

STAGE TWO – PURIFICATION AND CONCENTRATION

The juice is passed through a purification stage called carbonatation. Juice is mixed with milk of lime and carbon dioxide gas. The carbon dioxide and the milk of lime re-combine to produce calcium carbonate which precipitates out, removing most of the impurities from the juice.

The pale yellow juice which remains is called thin juice and while much purer it is still relatively low in sugar content. It passes to the next stage of the process – evaporation – where water is boiled off in a series of evaporator vessels to increase the solids content of the juice from 16% in thin juice to 65% as thick juice.

The concentrated juice passes through filters, after which it is ready for the final stage of the process.

STAGE THREE – CRYSTALLISATION AND STORAGE

The crystallisation process takes place in vacuum pans which boil the juice. When the juice reaches the correct concentration it is 'seeded' with tiny sugar crystals which provide the nucleus for larger crystals to grow.

When the crystals reach the required size the process is stopped and the resultant mixture of crystal sugar and syrup – known as massecuite – is spun in centrifuges to separate the sugar from the 'mother liquor'. The sugar crystals are washed and, after drying and cooling, are conveyed to storage silos.

CO-PRODUCTS

Nothing is wasted during production. Stones removed during beet cleaning are used in civil engineering, while soil is graded and conditioned and marketed as TopSoil for use by landscapers, architects and farmers. Lime used in the purification process is sold under the LimeX brand for soil conditioning.

At Wissington factory, the Combined Heat and Power (CHP) plant exports enough electricity to the grid to power a large town. The hot water and carbon dioxide from the CHP boiler is utilised to propagate over 70 million tomatoes each year.

Bioethanol is also produced by the fermentation of sugar followed by distillation to produce a pure alcohol. Close integration with the sugar factory yields savings in excess of 60% in CO_2 emissions compared to petrol.

Finally, betaine is produced, a valuable animal feed supplement.

across the EU, virtually achieving its targeted reduction of six million tonnes in EU sugar production. Almost all of this reduction is effective from October 2008 and, given that Least Developed Countries (LDC) tariff-free imports will not flow into the EU until October 2009 in any significant quantity, there is an expectation that the coming year will see the EU market in deficit. The final changes of reform to sugar reference price, levies, beet prices and access for LDC will become effective in October 2009 and have already been announced. No further changes are expected until the next review of the regime which is scheduled to be effective from October 2015.

British Sugar received confirmation during the year that its application to renounce permanently 206,000 tonnes of UK and Polish sugar quota had been accepted. The resulting EU quota for these businesses is now 1.21 million tonnes. The income statement includes an exceptional credit of £25m comprising compensation receivable from the EU less factory closure costs and the write-off of the unamortised cost of quota purchased in 2006.

Wissington has been fully operational in the production of bioethanol from beet sugar for over a year. Yields were ahead of expectation and the price of ethanol in Europe firmed during the year. Vivergo, our joint venture with BP and DuPont, is building a world-scale bioethanol plant that will use wheat as its feedstock. Full planning consent has now been granted for the site at Hull and construction has commenced. Engineering contracts for the major plant items have been placed and it is anticipated that the site will be commissioned during 2010.

This year has seen noteworthy development in our sugar business in China. Our cane sugar crop in the south exceeded earlier expectations, we built a significant business in beet sugar in the north east and the combined crop yielded 755,000 tonnes of sugar. However, profit was held back by much lower sugar prices. National production of sugar in China increased from 12 million tonnes in 2006/7 to 14.9 million tonnes in 2007/8 and so, despite strong growth in demand, which was up 8% year-on-year, and even government measures to remove volume, sugar prices fell sharply in the second half of the year. Construction of the Jinchengjiang mill in Guangxi is well underway and is due to be completed by the end of this calendar year.

We have created a business in north east China comprising 11 beet sugar factories operating in Heilongjiang, Hebei and Inner Mongolia. The business was formed by the acquisition of factories that were previously independently owned and operated and which have been combined into a single, co-ordinated entity, ideally positioned to supply the important Beijing and Harbin markets. At the year end we held a 51% shareholding in the business which has since been increased to 65%. A five-year development plan for the factories and for the advancement of beet growing technology in the region is in place, the first part of which will be completed in December 2008 with the expansion of Qianqi and Yi'an factories. In addition a joint venture, BoCheng, has been created which operates the factory at Beifeng in Heilongjiang province. The businesses have established strong links with both local and provincial government and are investing in technical colleges to support this long-term development programme.

WE HAVE CREATED A BEET SUGAR BUSINESS IN NORTH EAST CHINA WHICH IS IDEALLY POSITIONED TO SUPPLY THE IMPORTANT BEIJING AND HARBIN MARKETS.

Profit at Illovo grew strongly and the crop increased to 1.82 million tonnes of sugar. Strengthening world sugar prices, which favourably impact world sugar sales out of South Africa, higher downstream product prices and a favourable rand/US dollar exchange rate all benefited the performance in the year. Strong domestic revenues and higher sales to neighbouring markets also had a favourable impact on the results in Malawi and Zambia and offset a difficult start-up at the Nakambala mill in Zambia following completion of the first phase of its expansion.

This initial phase involved the development of additional irrigated cane by private growers and an increase in milling capacity. The final phase of the expansion programme is currently underway which will greatly increase the power generation capability as well as extend milling capacity further and develop additional acreage of irrigated cane. On completion we will have almost doubled sugar production at Nakambala. Smaller expansion schemes in Malawi and Tanzania have also been completed with strong performances from both countries.

Germains, our seed coating business, performed well. Its seed priming technology is now firmly established with the European and US beet sugar industries as providing a yield advantage over unprimed variants.

AGRICULTURE: Revenue £867m (2007, £645m) Adjusted operating profit £33m (2007, £18m)

AB Agri, our agriculture business, had a very strong year during which the combination of its trading skills, market knowledge and customer relationships enabled it to outperform a market characterised by extremely volatile raw material prices. European grain prices doubled during the first half of the year and low grain stocks worldwide, unpredicted weather events and heavy trading in the commodity markets resulted in unprecedented levels of daily price volatility. Stronger feed prices were sufficient to offset higher raw material and energy costs, lower volumes of molassed sugar beet feed and increased production costs in our ruminant feeds business.

Frontier is our grain supply joint venture. It has a strong balance sheet, access to working capital and superior market knowledge which differentiate it from its competitors. Through its leading market position, unique centralised operating structure and national trading system, it was ideally placed to manage the extreme price volatility during the year on behalf of its grain customers and farmer suppliers. Moreover, higher cereal and oilseed prices encouraged an increase in UK sowings resulting in a more buoyant market for Frontier's fertilisers, seed varieties and crop protection products. As expected, the business has now concluded an agreement to supply Vivergo with over one million tonnes of feed wheat for its bioethanol facility.

We are establishing an increasingly international presence in the high technology, high added-value feeds market which specialises in micro-feed ingredients that enhance nutrient absorption and provide a better return for farmers. Sales of feed enzymes by AB Vista were particularly buoyant with several new products launched and a doubling of the number of countries served over the last two years. New sales offices in the US, Mexico, India and China were established during the year.

Our feeds business in China was relatively untouched by the widely reported natural disasters that occurred there. We achieved strong sales growth in each of the species markets that we supply. Our mill building programme is continuing and on completion will deliver a 20% increase in production capacity.

Primark:
The story so far

The remarkable story of Primark's success goes all the way back to 1969, with the first store opening in Dublin. Now, with new store openings across Europe, we take a look at the key factors that played a part in getting the brand to where it is today.

Where it all began, 1969

1. THE EARLY YEARS: At the end of the sixties, Penneys commenced business in Dublin and within its first year of trading had opened five stores with turnover of around **£1m**. By **1973**, Ireland had **18** stores and the company started trading in the UK…

2. RAPID GROWTH ACROSS THE UK AND IRELAND: By **1984**, sales had grown to **£86m** from **44** stores equally split across the UK and Ireland. Over the next ten years, the number of stores increased by **50%**…

…and sales rose by over

240%

3. 1995 – A MILESTONE YEAR: The strategic acquisition of the BHS One-Up discount chain added **16** sizeable stores to its UK business, primarily in the Greater London area. Within a year these new outlets had increased sales in the UK by **40%**…

4. NEW MILLENNIUM HERALDS FURTHER ACQUISITION: The turn of the century saw the acquisitions of **11** stores from the Co-op, and the purchase of the same number of outlets from C&A. Expansion continued in **2005** with the acquisition of the total Littlewoods estate. After the subsequent refurbishment programme was complete, an additional **41** stores were opened by **2007**…

5. SPAIN: With expansion in Ireland and the UK continuing apace, May **2006** saw the opening of a 'test' store in a brand new continental European market. Primark Tiendas opened at the Plenilunio shopping mall near Madrid's International Airport and was an instant hit. Further stores followed and currently there are nine, with more in the pipeline…

6. EUROPEAN EXPANSION: Primark's successful foray into Spain has demonstrated that the Primark value proposition travels well. The next countries to enjoy the Primark experience will be the Netherlands and Germany.

Total sales at the end of

2008:£1.9bn

AB Agri is taking a central role in a number of schemes to promote sustainable agricultural practice. The first Carbon Trust accredited, greenhouse gas reduction model for dairy farms was launched to Sainsbury's dairy suppliers and our WildCare scheme on biodiversity, which we operate in conjunction with Waitrose, was awarded the Green Apple Award for 'Environmental Best Practice'.

Retail

Revenue £1,933m
(2007, £1,602m)
Adjusted operating profit £233m
(2007, £200m)

Primark achieved excellent growth in sales and profit again this year. Sales increased by 21% as a result of growth in retail selling space and like-for-like sales growth of 4% for the full year. This organic growth was remarkably strong given the already reported weak trading in April when poor weather this year contrasted with warm weather and the benefit of Easter trading in the comparative period last year. This performance was against a background of declining consumer confidence which highlights both the continued growth of the value clothing sector's share of the retail market and Primark's ability to thrive in difficult economic circumstances.

Profit increased by 17% to £233m but operating profit margin reduced from 12.5% to 12.1%. Although gross margins were broadly the same, overheads were impacted by higher distribution costs, including the cost of supporting the new stores in Spain, and higher occupancy costs driven by increased depreciation. As a consequence of recent and anticipated further expansion, we opened another major distribution centre at Thrapston, Northamptonshire, at the end of the financial year, increasing our UK capacity by some 50%.

We opened 12 stores during the year; seven in Spain, one in the Republic of Ireland and four in the UK; but we also closed the smaller store in Brighton to bring the total to 181 stores at the year end. Retail selling space increased by 13% over the period to 5.4 million sq ft.

9

The number of prestigious awards won by Primark this year including

- **UK Retailer of the year (Prima High St Fashion Awards)**
- **Best Value (LK Today High St Fashion Awards)**
- **Best Town Centre Retailer (Property Week Retail Awards)**

In Ireland we carried out two major store refits, extended our Galway store and opened a new store in Cork. In the UK, we opened a third floor at our largest store in Manchester, increasing selling space to 136,000 sq ft, and extended sales floors in Nottingham and Newcastle. We opened new stores in Ealing, Basingstoke and Brighton and, following the compulsory purchase of our old store, made a return to Derby, one of the first cities in the UK to enjoy the Primark experience when it arrived in 1974. Our Spanish stores performed well. We opened new stores in Jerez, Bilbao, Oviedo and Zaragoza and a further three stores in Madrid, bringing our total there to four. Our arrival in Spain gathered momentum this year and began to enjoy the same critical acclaim from the retail trade that we have experienced in the UK and Ireland, culminating in the receipt of our first major Spanish award, 'Best Shopping Centre Retailer 2008'.

We expect to add at least a further four stores in Spain in the coming year and have announced plans to open test stores to explore the potential in the Netherlands and Germany, the first of which is expected to open early in 2009. There are still great opportunities for growth in the UK and Ireland where the pipeline of new stores is strong and plans are already in place to open stores in Cambridge, Corby, Edinburgh and High Wycombe in the coming year.

During the year we ceased to trade with three suppliers in the Tirupur garment producing area of India. This area is a major production centre for the world's garment retailers and has experienced rapid expansion and development in recent years. It has therefore become a major centre for wealth creation and employment and Primark spent some £100m last year in the region. Buying from developing countries is an important catalyst for their social and economic development. However, there are additional complexities when sourcing products from developing economies.

All our suppliers are required to comply with a strict code of conduct which lays down, amongst other things, minimum standards of health and safety, welfare, human rights and wages that we are prepared to accept in relation to the treatment of their employees. We employ our own in-region ethical managers as well as third-party auditors to check that our suppliers meet their contractual obligations and that proper standards are being maintained. Where we find shortcomings we work closely with suppliers to remedy the deficiencies and, in this way, seek to play our part in the general improvement of working conditions. The three suppliers, whose contracts were not renewed during the year, were engaged with us in such an improvement programme when it came to light that these suppliers were subcontracting without Primark's knowledge. Our own extensive investigations concluded that the breach of trust in this case was so serious as to make further attempts at remediation impossible. Our presence in the garment industries of the developing world is a force for good but we are acutely aware of our responsibility to ensure that all activity within our supply chain meets acceptable ethical standards. We are dedicated to working towards this goal with all stakeholders: suppliers, governments – regional and national – and Non-Governmental Organisations (see www.ethicalprimark.com for more information).

NEW STORE OPENINGS:

UK: Basingstoke, Brighton – relocation, Derby, Ealing

Ireland: Cork

Spain: Madrid (Islazul, Parque Corredor, Xanadu), Bilbao, Jerez, Oviedo, Zaragoza

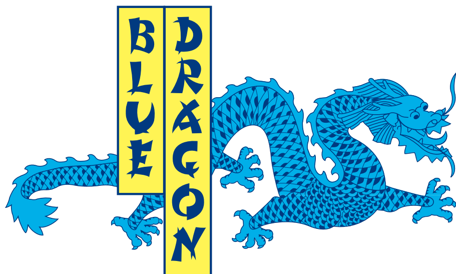
Strategic investment:
A great UK brand portfolio

ABF has continually built upon its focused portfolio of UK brands to deliver a strong grocery offering…

Ovaltine's traditional products are largely unchanged from their original recipes but are now consumed in a far broader way throughout the day…
ovomaltine.com

For nearly 300 years, Twinings has been using its blending expertise to create a wide range of high quality teas enjoyed in over 100 countries across the world…
twinings.com

Silver Spoon is the number one supplier to the UK retail sugar and sweetener market and a major sugar supplier to the foodservice market…
silverspoon.co.uk



Blue Dragon offers authentic ingredients for customers to create delicious dishes from China, Thailand, Japan and Vietnam…
gcosta.co.uk

Patak's is recognised as authentic Indian food that is quick to prepare. Its cooking sauces, curry pastes, chutneys, pickles, breads and pappadums make it easy to prepare authentic Indian dishes at home… pataks.co.uk

Jordans specialises in natural wholegrain foods with minimal processing. It launched the UK's first cereal bar and also makes breakfast cereals… jordanscereals.co.uk

From the creation of its first crispbread in the 1930s, Ryvita has continually grown its range of wholegrain foods made from rye…
ryvita.co.uk

Kingsmill's relaunched bread range features standard and premium products to satisfy every family's needs…
alliedbakeries.co.uk

Dr Thomas Allinson set up his first flour mill in 1892. He was passionate about natural products, a tradition we have kept alive to this day in our wholemeal flour and bread…
allinsonbread.com & bakingmad.com

Grocery

Revenue £3,254m
(2007, £2,605m)
Adjusted operating profit £194m
(2007, £153m)

Revenue for the year increased 25% on last year. This was driven through a combination of acquisitions, price increases to recover commodity cost inflation and volume growth. Profit was ahead 27% as a result of the substantial improvement at Allied Bakeries and good growth from Twinings Ovaltine, Westmill and milling and baking in Australia.

Commodity cost inflation has been a feature for all of our grocery businesses this year. Some had seen costs rise at the end of summer last year and had already begun pricing negotiations with customers. Twinings Ovaltine experienced increases in barley and dairy costs, substantial increases in wheat costs affected our bakery businesses in the UK and Australia, and very strong demand for vegetable oils saw the price of corn, soy and canola oils rise sharply in the US. Commodity price increases continued into this financial year together with steeply rising energy costs. Our businesses reacted quickly to recover these costs by raising prices although price increases at ACH in the US were delayed until after the high demand period running up to Christmas.

Twinings Ovaltine had another very good year with revenue up 17% on last year. Twinings in the UK benefited from the continued growth of Everyday Tea and a strong performance in green teas. Our flavoured infusions range was relaunched containing only natural ingredients which is a unique position in the market. In the US, Twinings was the fastest growing tea brand, supported by the national rollout of our successful regional media campaign. In Australia, we launched Simply Twinings, our everyday offering in that market, and sales and market share increased following television advertising featuring Nigella Lawson.

Sales of Ovaltine increased 12% this year with growth across the range of powder, ready-to-drink and brand extensions. Growth in the North ASEAN region was led by another excellent performance in Thailand where we strengthened our number one position. Ready-to-drink and the successful launch of Ovomaltine crunchy biscuits drove strong sales growth of the brand in Switzerland.

Good progress was made in improving access to certain key markets. We established a new joint venture in Japan, signed new distribution agreements in Indonesia and established new and more-targeted routes to market in Russia (Twinings) and Brazil (Ovaltine). Supply chain efficiencies were achieved during the year. The Ovaltine factory in Manila was closed and production was transferred to existing factories in Thailand and China where we have made significant investments in increased capacity. The tea packing plant in Belfast was also closed with production consolidated into our UK facilities.

The merger of Ryvita and Jordans was completed on 29 August 2008. We have a 62% interest in the combined entity and integration of these businesses is now underway. Ryvita's sales were driven by a strong performance in UK crispbread with continued growth of premium variants, pricing to recover raw material inflation and marketing support. New product launches included flatbreads, branded Ryvita Thins, and baked wholegrain savoury snacks, Ryvita Limbos. Significant work has been undertaken on a major relaunch of the Jordans brand including new packaging formats, formulations and increased marketing support. This is being rolled out in the UK this autumn.

The performance of Allied Bakeries improved significantly year-on-year. Bread volumes increased with a strong focus on quality, availability and customer service. After several years of volume decline, the UK bread market has now stabilised and following its successful relaunch in 2007, the Kingsmill brand continued to gain market share. A strong advertising campaign focused on the core range and drove the portfolio, most notably in Great Everyday White and 50/50, a white bread with wholemeal flour. We launched new premium Kingsmill products under the 'Seeds and Oats' range. Allinson benefited from its national relaunch with new products and packaging and advertising support.

AB World Foods delivered encouraging growth in its Blue Dragon and Patak's brands both in the UK and international markets, particularly Australia and Russia. Market share increased in pastes and sauces in glass, and stir fry and dipping sauces. Meena's, a premium Indian sauce range, was launched this summer and is performing well at this early stage. The integration of Blue Dragon and Patak's was successfully achieved during the year. The combined business now operates with a single UK distribution system, a common IT platform and a unified sales force. The Blue Dragon factory in Poland was commissioned and production was transferred from the factories in Wales that were then closed.

Profit at Westmill Foods increased despite significant rises in the cost of edible oils, rice, flour and spices. These higher costs were successfully recovered whilst maintaining volume growth in the key brands with Green Dragon, Tolly Boy rice and Lucky Boat noodles performing particularly well.

Refined sugar volumes increased significantly at Silver Spoon but profits declined reflecting the lower margins in the very competitive UK retail sugar market. Good growth was achieved in our Fairtrade business with a highlight being the conversion of Sainsbury's own label sugar to Fairtrade in partnership with Illovo. Fairtrade proceeds benefited farmers' co-operatives in Malawi and Zambia. The Billington's brand of unrefined sugars also experienced strong growth.

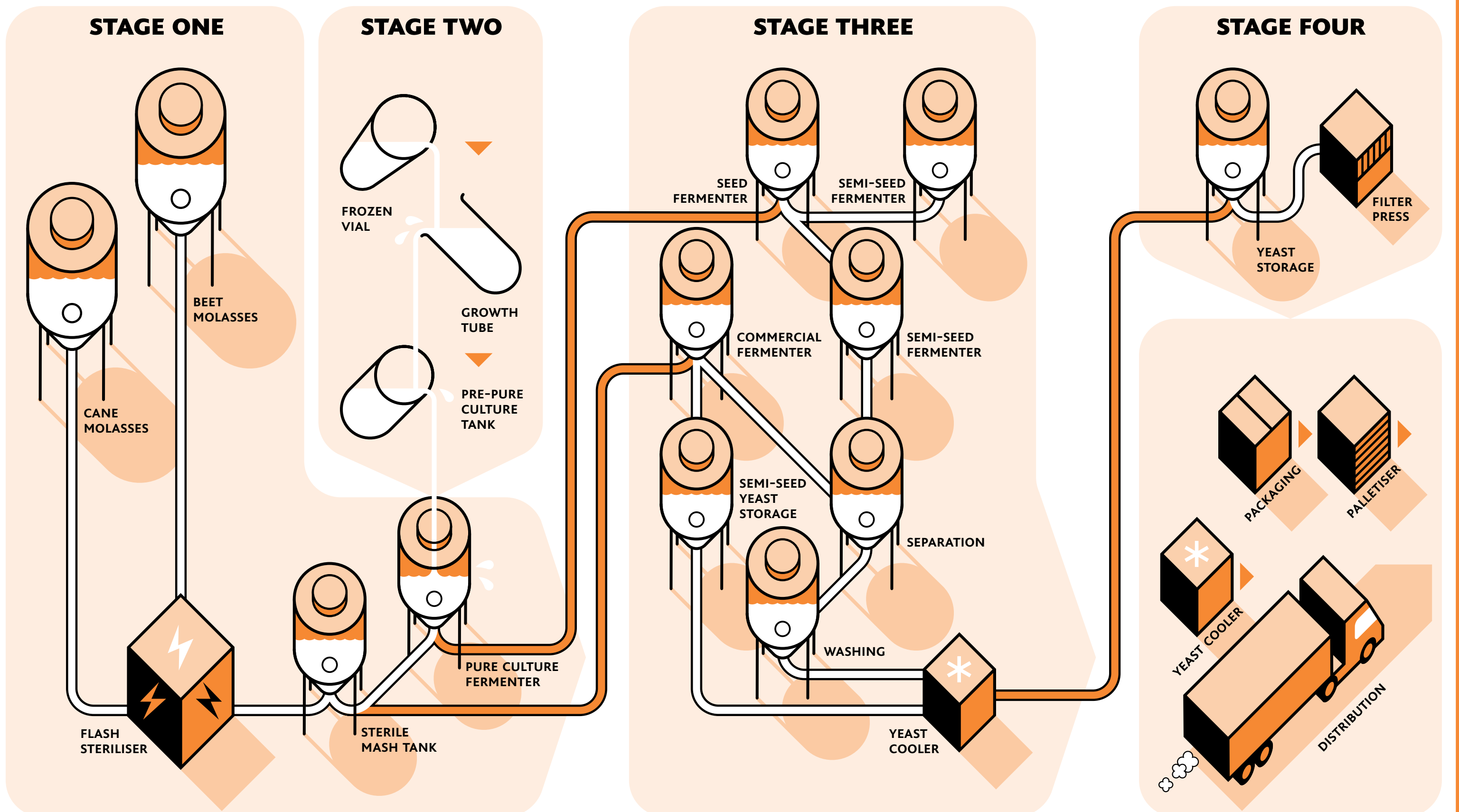
At ACH in the US, the Mazola vegetable oil brand experienced some volume decline following sharp price increases to recover higher corn oil costs. The baking brands, Argo, Karo and Fleischmann's, and gourmet spices, Spice Islands, Weber Grill and Tone's all delivered volume growth supported by increased marketing. In Mexico, Capullo performed well with volumes held despite price increases.

THE GROUP'S GROCERY BUSINESSES MADE EXCELLENT PROGRESS IN THE YEAR DELIVERING SUBSTANTIALLY HIGHER PROFITS AGAINST A BACKGROUND OF SHARPLY RISING COMMODITY COSTS.

On 28 October 2008 we announced the creation of Stratas Foods, a joint venture with Archer Daniels Midland Company ('ADM') for the manufacture, marketing and distribution of packaged oil products in the US and Canada. ABF and ADM will each hold a 50% share in the joint venture which will be headquartered in Memphis, Tennessee. ABF will contribute US$38m of assets from the ACH oils business, primarily in the form of trademarks, whilst ADM will contribute packaging equipment at four of its facilities in the US.

The magic ingredient:
The yeast production process

The essential ingredient in the production of so many of our day-to-day products. But how is it made?



STAGE ONE – MOLASSES AND RAW MATERIAL PREPARATION

Yeast production takes approximately five days from start to finish and begins with the energy source for yeast growth – sugar. Beet and cane molasses are commonly used because the sugars present in molasses are readily fermentable. Yeast also needs minerals, vitamins and salts for growth, which are often added to the molasses prior to flash sterilisation which produces the mash or wort used to feed the yeast as it grows.

STAGE TWO – CULTURE OR SEED YEAST PREPARATION

Yeast production starts with a pure culture tube or frozen vial of the appropriate yeast strain. This yeast serves as the inoculum for the pre-pure culture tank where seed is grown under sterile conditions before being transferred to a larger pure culture fermenter. From the pure culture vessel, the grown cells are transferred to a series of progressively larger seed and semi-seed fermenters. These later stages are conducted as fed-batch fermentations where the yeast is fed molasses, phosphoric acid, ammonia and minerals.

STAGE THREE – FERMENTATION AND HARVESTING

At the end of the semi-seed fermentation, the spent molasses are removed and the yeast is washed with cold water and held in a storage tank at 34 degrees Fahrenheit (1 degree Celsius) before it inoculates the commercial fermentation tanks. These commercial fermenters are up to 50,000 gallons in size and are the final step in the fermentation process.

Following addition of the seed yeast, aeration, cooling and nutrient additions are started to begin a 15–20 hour fermentation. At the beginning of the fermentation, the liquid seed yeast and additional water may occupy only about one third to one half of the fermenter volume. Constant additions of nutrients during the course of fermentation bring the fermenter to its final volume. The rate of nutrient addition increases throughout the fermentation and by the end of the process the number of yeast cells will have increased by between five and eight times. During fermentation the temperature is kept at approximately 86 degrees Fahrenheit (30 degrees Celsius) and the pH in the range of 4.5–5.5.

STAGE FOUR – FILTRATION AND PACKAGING

At the end of fermentation, the resultant broth is separated, washed with water and re-centrifuged to yield a yeast cream, which is then cooled to about 45 degrees Fahrenheit (7 degrees Celsius). Cream yeast can be loaded directly into tankers for delivery direct to customers or can be pumped to a plate and frame filter press and dewatered to a cake-like consistency, which is crumbled into pieces and refrigerated. Bags of yeast can then be distributed to customers in refrigerated trucks.

Stratas Foods will serve the foodservice, speciality food ingredient and retail private label bottled oil markets. It is expected to produce 2.5 billion lbs of oil in its first full year of operation with revenue of some US$1.4bn. Its broad portfolio of products includes vegetable oil, shortening, margarine and pan spray and its foodservice brands include Whirl and Frymax. The joint venture combines the strengths of two leaders in the packaged oils industry. It will build on the sales and marketing expertise of ACH, and the origination and processing capabilities of ADM. It will offer an integrated supply chain, exceptional processing capabilities and industry-leading product development.

The remaining ACH business will focus on its retail consumer brands. Brands are now expected to account for virtually all of ACH's revenue compared to only half before the formation of the joint venture.

Our Australian grocery business delivered strong sales growth with significantly improved performances from milling, baking and bakery ingredients. In baking, price increases were successfully achieved in November 2007 and July 2008. Noble Rise bread was relaunched with five new variants under the slogan 'Take a stand against the Bland' and Burgen was upgraded to facilitate a stronger health claim backed by the 'Biggest Loser' campaign. Manufacturing efficiences will be achieved with the announced closures of the Canberra and Orange bakeries in New South Wales.

The acquisition of KR Castlemaine, a leading meat and smallgoods manufacturer, was completed at the end of March. It is located in a large, modern facility at Castlemaine, 70 miles northwest of Melbourne. We have announced the proposed rationalisation of our meat business for which an exceptional provision has been included in the income statement. This will allow the closure of our existing factories in Perth and Melbourne in 2009 and 2010 and the transfer of production to the newly acquired, low-cost factory at Castlemaine which will be expanded to accommodate the higher volume. The combined business will be the market leader in smallgoods in Australia and will double the size of our existing business with sales of over £300m.

Ingredients

Revenue £842m
(2007, £698m)
Adjusted operating profit £75m
(2007, £71m)

Revenue increased by 21% driven by organic growth in the yeast business and the acquisition of the Gilde Bakery Ingredients business in Italy. There was sustained upward pressure on energy costs and key raw material prices, notably molasses and phosphates. Some cost recovery was achieved through price increases, but was inadequate in the very competitive milk proteins business. Profit margins fell as a result.

Good profit progress was made across the world in yeast and bakery ingredients with good volume growth in South America and China. Brazil had an exceptional year. We continued to grow our bakery ingredients businesses, both through craft bakery and industrial channels. In particular, we have been able to exploit our proprietary enzyme technology and continue to build strong partnerships with the world's largest bakeries.

In October 2007 we acquired, from Gilde Bakery Ingredients, their sales and distribution operations in France and Benelux and the Italian business, including the Casteggio wet and dry yeast plant. The sales and distribution operations have been successfully integrated and we have been able to deliver significant cost savings at the Italian plant. Since the year end the European Commission has approved the completion of the acquisition of a 50% shareholding in the Uniferm yeast and bakery ingredients business in Germany.

IN BAKERY INGREDIENTS WE CONTINUED TO SHARE TECHNOLOGY ACROSS THE GROUP AND HAVE STARTED TO SEE THE BENEFIT IN OUR GLOBAL ACCOUNTS.

The expansion of the Chinese yeast plant in Harbin has progressed well. This expansion is to meet increasing domestic demand and to provide a low cost base for the supply of dry yeast globally. A new yeast extracts plant is also being constructed alongside the yeast plant to provide additional capacity now that the existing German plant is fully utilised. We have seen the continuation of the trend towards tighter environmental controls around the world and have been investing to upgrade our facilities to keep pace with changing regulatory requirements.

At ABF Ingredients, enzyme profits grew strongly with sales to the food and beverage and animal feeds markets performing particularly well. The increased demand for enzymes has led to further investment to expand capacity at our plant in Finland by some 40%. This is due to be commissioned early next summer. Profitability declined at our speciality protein business in the US with an inability to fully recover milk and dairy commodity price increases in a very competitive market. Since the year end we have announced the decision to close the loss-making milk protein factory in Norfolk, Nebraska, and the remaining business will concentrate on the production of whey proteins at Juda, Wisconsin. The sale of Abitec, our small, UK-based, emulsifier business, was completed in August.

George Weston
Chief Executive

Group performance

Group revenue increased by 21% to £8,235m. This substantial increase was driven mainly by the continued growth at Primark and price rises across our other businesses to recover the major increases in commodity costs. Volume growth and the benefit of acquisitions and the translation effect of the weakening of sterling also contributed. At constant currency, and excluding the benefit of acquisitions, revenue increased by 13%.

Operating profit, adjusted to exclude exceptional items, the amortisation of non-operating intangibles and profits on the sale of property, plant and equipment, increased by 7% to £664m. This was achieved in the face of a number of challenges. The impact of the changes in the EU sugar regime was £56m and higher commodity prices added some £390m to our cost base. At constant currency, and excluding the benefit of acquisitions and EU sugar regime changes, adjusted profit increased by 12%.

The disposal of properties, plant and equipment resulted in a profit of £10m. A net profit of £5m, including goodwill written off of £21m, arose on the sale of businesses including the yeast business in Germany, which was sold as a condition of acquiring the German yeast business of Gilde Bakery Ingredients, our UK-based emulsifier business and a small animal feeds business in Northern Ireland.

Finance expense less finance income of £53m compares with a charge of £35m last year. This year-on-year increase resulted from the continued significant level of capital investment to develop opportunities in our existing businesses, many of which are of a long-term nature, the acquisition of new businesses and the impact of much higher commodity prices on working capital. Other financial income of £21m was primarily net pensions financing income, being the expected return on assets in the group's pension schemes less the charge on pension scheme liabilities.

Profit before tax increased from £508m to £527m. This year's result includes an exceptional charge of £46m arising from major restructuring initiatives. The permanent renunciation of sugar quota for the UK and Poland agreed with the European Commission was 206,000 tonnes. Compensation receivable for this renunciation, net of the write-off of the unamortised cost of quota purchased in 2006 and provision for the associated factory closure costs, resulted in a gain of £25m. We have also provided for the proposed rationalisation of our Australian meat business following the acquisition of KR Castlemaine at the end of March. Adjusted to exclude these exceptional items, the amortisation of non-operating intangibles and profits and losses on the sale of businesses and fixed assets, profit before tax increased 3% from £613m to £632m.

Taxation

The tax charge of £136m included an underlying charge of £154m, an effective tax rate of 24.4% on the adjusted profit before tax. This was slightly lower than last year's 25.0% as a result of the mix of profits in different tax jurisdictions.

The net tax credit of £23m on the exceptional items described above has also been treated as exceptional in the income statement together with a tax charge of £17m to reflect the increase in the group's deferred tax liability following a change of tax law in the UK Finance Act 2008 which will phase out Industrial Buildings Allowances.

The overall tax charge for the year benefited from a £21m (2007 – £30m) credit for tax relief on the amortisation of non-operating intangible assets and goodwill arising from asset acquisitions. A tax charge of £9m was incurred on the profits arising on the sale of businesses and fixed assets.

Earnings and dividends

Earnings attributable to equity shareholders of £357m were £12m lower than last year and the weighted average number of shares in issue remained at 790 million. Earnings per ordinary share fell by 3% from 46.7p to 45.2p. A more consistent measure of performance is provided by the adjusted earnings per share which excludes exceptional items, profits on the sale of businesses and property, plant and equipment and the amortisation of non-operating intangibles net of any tax benefit. Adjusted earnings per share increased by 4% from 52.9p to 54.9p.

The interim dividend was increased by 4% to 6.75p and a final dividend has been proposed at 13.5p which represents an overall increase of 4% for the year. In accordance with IFRS, no accrual has been made in these accounts for the proposed dividend which is expected to cost £107m and will be charged next year. The dividend is covered 2.7 times on an adjusted basis.

Balance sheet

Non-current assets increased by £652m to £5,371m including £3,110m of property, plant and equipment. The increase was driven by acquisitions which added £209m and capital expenditure of £502m. Working capital increased by £340m primarily due to considerably higher inventory values as a result of the substantial increases in commodity costs. Net borrowings at the year end were £480m higher than last year at £791m.

A currency gain of £302m arose on the translation into sterling of the group's foreign currency denominated net assets. This resulted from the fact that sterling was weaker against all major currencies at the end of this year than at the end of the previous year. The group's net assets increased by £380m to £4,844m.

We continue to invest strongly in the future growth of the group with a net £710m spent on property, plant and equipment, intangibles and acquisitions during the year.

Return on capital employed for the group fell from 18.8% to 16.6%. This is largely a consequence of the substantial level of investment made this year in expenditure, on a number of long-term capital projects which have yet to yield a return but also the lower profitability of the European sugar businesses. Return on capital employed is defined as operating profit before exceptional items and the amortisation of non-operating intangibles expressed as a percentage of average capital employed for the year.

Cash flow

Net cash flow from operating activities was £553m compared with £696m last year. This reduction mainly reflects an adverse working capital movement year-on-year of £165m moving from an inflow of £55m last year to an outflow of £110m this year, the major driver being the increase in commodity prices.

We continue to invest strongly in the future growth of the group with a net £710m spent on property, plant and equipment, intangibles and acquisitions during the year. £70m was spent on intangible assets of which £49m related to the purchase of sugar quota negotiated in 2006. Capital expenditure amounted to £502m of which £152m was spent on the acquisition of new stores and the refitting of existing Primark stores. Elsewhere, expenditure was incurred in developing our sugar interests in China and southern Africa, and building or upgrading manufacturing facilities across the group including capacity expansion at the enzymes plant in Finland and yeast and yeast extract production in China.

£224m was spent on acquisitions including beet sugar factories in north east China, the European assets of Gilde Bakery Ingredients, the KR Castlemaine meat business in Australia and a number of small businesses to complement our Agriculture operations. £59m was realised on business disposals, primarily the German yeast business, resulting in a net cash outflow on acquisitions and disposals of £165m.

Financing

Cash and cash equivalents totalled £348m at the year end and were managed during the year by a central treasury department, operating under strictly controlled guidelines, which also arranges term bank finance for acquisitions and to meet short-term working capital requirements, particularly for the sugar beet and wheat harvests.

At the year end the group had total committed banking facilities amounting to £1,107m of which £888m was drawn down. £715m of these facilities expire in October 2011 with the remainder maturing in 2013 and 2015. In anticipation of further investment and to accommodate the seasonal build of working capital at the half year, further committed facilities were secured shortly after the year end. A £320m syndicated loan, expiring in October 2011, has been provided by members of our existing banking group resulting in headroom on total committed facilities of £539m in addition to available cash resources. The group also had access, at the year end, to £584m of uncommitted credit lines under which £246m was drawn.

Pensions

Pensions are accounted for in accordance with IAS 19 – employee benefits. The total pension expense for the year was £62m compared with £71m last year.

On an IAS 19 basis, the net surplus (employee benefit assets less liabilities) in the group's defined benefit pension schemes reduced from £276m last year to £61m this year mainly as a result of an increase in scheme liabilities as a consequence of higher forecast inflation, and an adjustment to the mortality assumptions to reflect experience to date and further improvements in life expectancy of scheme members.

Following the merger of the British Sugar and Associated British Foods pension schemes in April 2006, the Company agreed with the Pension Trustees to make two payments of £14.5m to eliminate the funding deficit, at that date, in the British Sugar section of the newly merged scheme. The second payment was made in October 2007. Total contributions to defined benefit plans in the year amounted to £54m (2007 – £61m).

For defined contribution schemes the charge for the year is equal to the contributions made which amounted to £26m (2007 – £24m).

Financial reporting standards and accounting policies

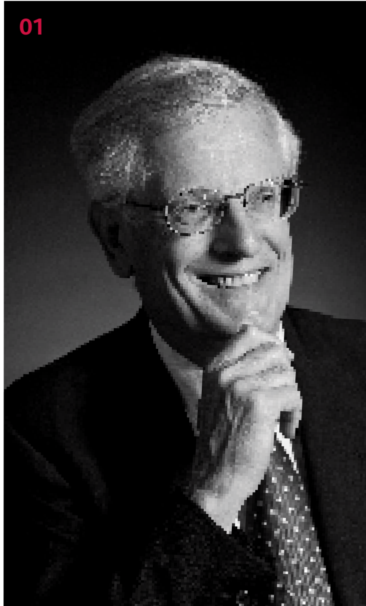
IFRS 7 – Financial instruments: disclosures, has been adopted this year. No other changes to financial reporting standards have a material impact on the group accounts.

Post balance sheet events

On 28 October 2008 we announced the creation of Stratas Foods, a joint venture with Archer Daniels Midland Company ('ADM') for the manufacture, marketing and distribution of packaged oil products in the US and Canada. ABF and ADM will each hold a 50% share in the joint venture, which will be headquartered in Memphis, Tennessee.

ABF will contribute US$38m of assets from the ACH oils business, primarily in the form of trademarks, whilst ADM will contribute packaging equipment at four of its facilities in the US. The business contributed by ABF generated operating profit of US$20m in the year ended 15 September 2007.

John Bason
Finance Director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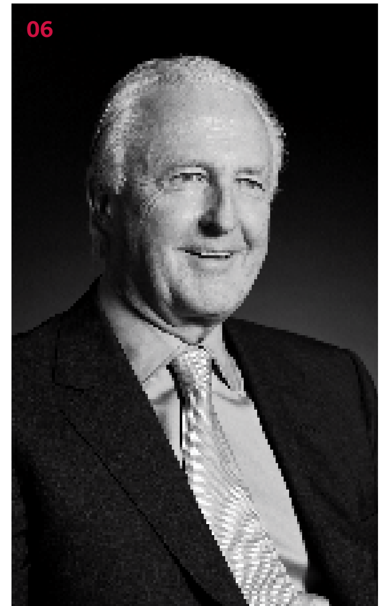
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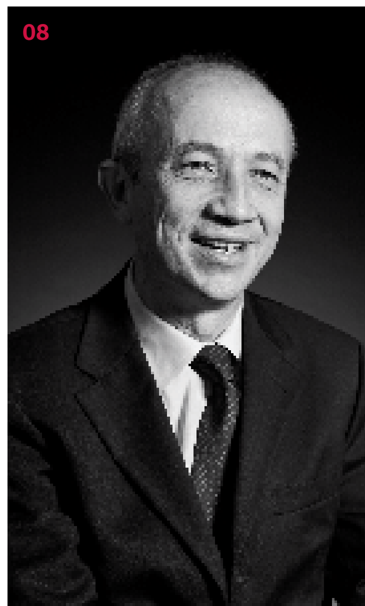
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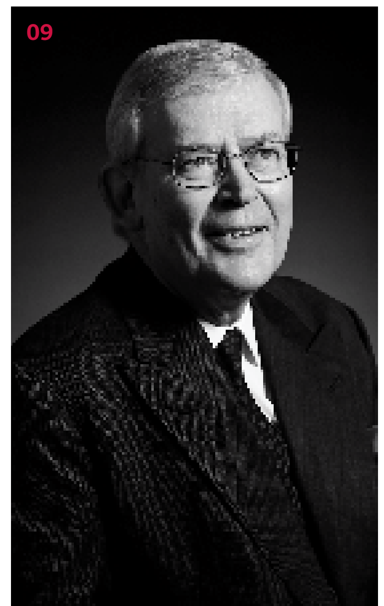
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01 Martin G Adamson
Non-executive director (age 69)
Appointed a director on 11 October 1999 and Chairman on 5 December 2002. He was a senior partner of KPMG and a member of that firm's board until 1996. He is a member of the Institute of Chartered Accountants of Scotland.

02 George G Weston
Executive director (age 44)
George Weston is Chief Executive. He is a graduate of New College Oxford and has an MBA from Harvard Business School. In his former roles as Managing Director of Westmill Foods, Allied Bakeries and George Weston Foods Ltd (Australia) he has been a member of the ABF board since 1999. He took up his current appointment in April 2005. He is also a non-executive director of Wittington Investments Limited and a trustee of the Garfield Weston Foundation.

03 John G Bason
Executive director (age 51)
Appointed Finance Director in May 1999, he was previously the finance director of Bunzl plc and is a member of the Institute of Chartered Accountants in England and Wales.

04 Peter Smith
Independent non-executive director (age 62)
Appointed a director on 28 February 2007, he is chairman of Savills plc and Templeton Emerging Markets Investment Trust plc, and a non-executive director of NM Rothschild & Sons Limited and The Equitable Life Assurance Society. Formerly, he was senior partner at PricewaterhouseCoopers (PwC) and served for two years as chairman of Coopers & Lybrand International and as a member of the global leadership team of PwC and chairman of RAC plc.

05 Lord Jay of Ewelme GCMG
Independent non-executive director (age 62)
Appointed a director on 1 November 2006, he was British Ambassador to France from 1996 to 2001 and Permanent Under Secretary at the Foreign & Commonwealth Office from 2002 to 2006. He is a non-executive director of Candover Investments plc, Valeo, the French-based automobile parts company and of Credit Agricole, the French-based international banking group. He has been an independent member of the House of Lords since 2006 and is Chairman of the House of Lords Appointments Commission.

06 WG Galen Weston OC
Non-executive director (age 68)
A director since 1964, he is chairman and president of George Weston Limited, Canada. He is also chairman of Selfridges & Co. Limited, a non-executive director of Wittington Investments Limited and a trustee of the Garfield Weston Foundation.

07 Timothy Clarke
Senior independent non-executive director (age 51)
Appointed a director on 3 November 2004, he has been chief executive of Mitchells & Butlers plc since the demerger from Six Continents PLC in 2003. He joined Bass PLC in 1990 having previously been a partner of Panmure Gordon & Co.

08 Javier Ferrán
Independent non-executive director (age 52)
Appointed a director on 1 November 2006, he spent his earlier career with Bacardi Group, his last position being president and chief executive officer. He is currently a partner at Lion Capital LLP, a London-based private equity firm.

09 Charles Sinclair
Independent non-executive director (age 60)
Appointed a director on 1 October 2008, he is a non-executive director of SVG Capital plc. He was chief executive of Daily Mail and General Trust plc from 1989 until he retired from that role and the board on 30 September 2008.

Directors' report

for the year ended 13 September 2008

The directors submit to the members their seventy-third annual report together with the audited financial statements of Associated British Foods plc (the 'Company') for the 52 weeks ended 13 September 2008.

Business review

The information that fulfils the requirements of the business review, as required by Section 234 ZZB of the Companies Act 1985, and which should be treated as forming part of this report by reference are included in the following sections of the annual report:

- Chairman's statement on pages 4 and 5.
- Group at a glance on pages 2 and 3.
- Operating review on pages 6 to 15, which includes a review of the external environment, key strategic aims and performance measures.
- Principal risks and uncertainties are described on pages 27 to 29.
- Details of the principal operating subsidiaries are set out on page 99.
- Financial review on pages 16 and 17.
- Corporate citizenship on pages 36 and 37.

Principal activities

The activities of the group principally concern the processing and manufacture of food worldwide and textile retailing in the UK and continental Europe. Comments on the development of the business during the period under review and on the future outlook are contained within the Chairman's statement on pages 4 and 5 and the Operating review on pages 6 to 15.

The Company is the holding company for the Associated British Foods group ('the group'). Details of the principal operating subsidiaries are set out on page 99.

The audited financial statements of the group and Company appear on pages 48 to 107.

Results and dividends

The consolidated income statement is on page 48. Profit for the financial year attributable to equity shareholders amounted to £357m.

The directors recommend a final dividend of 13.5p per ordinary share, to be paid, if approved, on 9 January 2009 which, together with the interim dividend of 6.75p per share paid in July, amounts to 20.25p for the year. Dividends are detailed on page 63.

Research and development

Innovative use of existing and emerging technologies will continue to be crucial to the successful development of new products and processes for the group.

The Company has a major technical centre in the UK at the Allied Technical Centre. Facilities also exist at ACH Food Companies in the US, Weston Technologies and AB Mauri in Australia and AB Enzymes in Germany. These centres support the technical resources of the trading divisions in the search for new technology and in monitoring and maintaining high standards of quality and food safety.

Charitable and political donations

Contributions to charitable organisations by the group during the year totalled £1.6m (2007 – £1.6m). No political donations were made during the year.

Financial instruments

Details of the group's use of financial instruments, together with information on our risk objectives and policies and our exposure to price risks, credit risks, liquidity risks and interest rate risks, can be found in note 25 on pages 84 to 96.

Payments to suppliers

The Company has no trade creditors but has a group policy on payment of suppliers set out in its Business Principles which states that the group settles its bills promptly, being a signatory to the Better Payment Practice Code.

Employees

Employees are the Company's most crucial resource, and it therefore abides by the following principles:

- Equal opportunities – it is committed to offering equal opportunities to all people in their recruitment, training and career development, having regard for their particular aptitudes and abilities. Full and fair consideration is given to applicants with disabilities and every effort is made to give employees who become disabled whilst employed by the Company an opportunity for retraining.
- Health and safety – health and safety are considered as equal in importance to that of any other function of the Company and its business objectives. The policy and a full global report is available on the Company's website at www.abf.co.uk
- Harassment – the Company will not tolerate sexual, mental or physical harassment in the workplace. It expects incidents of harassment to be reported to the appropriate human resources director.
- Human rights – managers must take account of the core International Labour Organisation labour conventions and strive to observe the UN Declaration on Human Rights, by respecting the dignity and human rights of its employees and in particular as stated below:

  'Universal respect for an observance of human rights and fundamental freedoms for all without discrimination as to race, sex, language or religion'.

  It remunerates fairly with respect to skills, performance, its peers and local conditions.
- Communication – the Company will brief employees and their representatives on all relevant matters on a regular basis.
- Security – the security of our staff and customers is paramount and the Company will at all times take the necessary steps to minimise risks to their safety.

Property, plant & equipment

The group's property, plant & equipment are included in the financial statements at depreciated historic cost. The properties are employed in the business and many of them were acquired when market values were substantially lower than at present. The directors consider that a surplus over book value exists, but have not quantified the excess.

Substantial shareholding and controlling interest

Details of a controlling interest in the shares of the Company are given in note 30 on page 99.

Other than as noted above, so far as is known, no other person holds or is beneficially interested in a disclosable interest in the Company.

Power to issue shares

At the last annual general meeting, held on 7 December 2007, authority was given to the directors to allot unissued relevant securities in the Company up to a maximum of an amount equivalent to one third of the shares in issue at any time up to 6 December 2012. No such shares have been issued. The directors propose to renew this authority at the annual general meeting to be held on 5 December 2008 for a further period of five years.

A further special resolution passed at that meeting granted authority to the directors to allot equity securities in the Company for cash, without regard to the pre-emption provisions of the Companies Act 1985. This authority expires on the date of the annual general meeting to be held on 5 December 2008 and the directors will seek to renew this authority for the following year.

Appointment of directors

The Company's Articles of Association (the 'Articles') give the directors power to appoint and replace directors. Under the terms of reference of the Nomination committee, any appointment must be recommended by the Nomination committee for approval by the board of directors. The Articles also require directors to retire and submit themselves for election at the first annual general meeting following appointment and all directors who held office at the time of the two preceding annual general meetings, to submit themselves for re-election.

Articles of Association

The Articles themselves may be amended by special resolution of the shareholders.

Power of the directors

The directors are responsible for managing the business of the Company and may exercise all the powers of the Company subject to the provisions of relevant statutes, to any directions given by special resolution and to the Company's Memorandum and Articles. The Articles, for example, contain specific provisions and restrictions concerning the Company's power to borrow money. Powers relating to the issuing of shares are also included in the Articles and such authorities are renewed by shareholders at the annual general meeting each year. Power to purchase the Company's own shares is also provided in the Articles subject to statutory provisions. The directors have no existing authority to purchase the Company's own shares.

Significant agreements

The group has a number of borrowing facilities provided by various banking groups. These facility agreements generally include change of control provisions which, in the event of a change in ownership of the Company, could result in renegotiation or withdrawal of these facilities. The most significant of these agreements are the US$1.2bn syndicated loan facility which was signed on 12 October 2006 and under which £469m was drawn down at the year end and the £120m Finance Contract from the European Investment Bank which was signed on 5 December 2007 and under which £120m was drawn down at the year end. Since the year end, the Company has negotiated a multicurrency £320m syndicated loan facility with a term of three years. It will be used for general corporate purposes. The new facility has been provided by the Company's existing bank group.

There are a number of other agreements that take effect, alter or terminate upon a change of control of the Company following a takeover bid, such as commercial contracts and joint venture agreements. None is considered to be significant in terms of their potential impact on the business of the group as a whole.

Further information

Further information that fulfils the requirements of section 992 of the Companies Act 2006 and which should be treated as forming part of this report by reference are included in the following sections of the annual report:

- details of the structure of the Company's share capital and the rights attached to the Company's shares set out on pages 78 and 79; and
- details of the employee share schemes set out on pages 82 and 83.

Disclosure of information to auditors

The directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information. For these purposes, relevant audit information means information needed by the Company's auditors in connection with the preparation of their report on page 35.

Auditors

In accordance with Section 489 of the Companies Act 2006, a resolution for the re-appointment of KPMG Audit Plc as auditors of the Company is to be proposed at the forthcoming annual general meeting.

Directors

The names of the persons who were directors of the Company during the financial year and as at 4 November 2008 appear on pages 18 and 19, other than Lord MacGregor and Mike Alexander who each retired from the board at the end of the annual general meeting on 7 December 2007.

Charles Sinclair was appointed as a non-executive director on 1 October 2008 and, in accordance with the Articles, will be standing for election at the annual general meeting to be held on Friday, 5 December 2008.

Also in accordance with the Articles and the Combined Code on Corporate Governance, Galen Weston, who has served for more than nine years, Martin Adamson, John Bason and George Weston retire from the board. These directors, being eligible, offer themselves for re-election at the annual general meeting.

Three directors of operating subsidiaries, benefited from qualifying third-party indemnity provisions provided by the Company's wholly owned subsidiary, ABF Investments plc, during the financial year and at the date of this report.

Non-beneficial interests

The following two directors of the Company at the end of the year had non-beneficial interests:

Galen Weston and George Weston are trustees of a trust, in which they have no beneficial interests, which at 13 September 2008 held 683,073 ordinary shares of 50p (2007 – 683,073) in Wittington Investments Limited.

Subsequent changes

The interests shown above remained the same at 4 November 2008.

Directors' responsibility statement

- The financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit for the Company and the undertakings included in the consolidation taken as a whole; and
- Pursuant to Disclosure and Transparency Rules Chapter 4, the following sections of the Company's annual report contain a fair review of the development and performance of the business and the position of the Company, and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face:

1. The Chairman's statement on pages 4 and 5
2. Operating review on pages 6 to 15 which includes a review of the external environment, key strategic aims and performance measures
3. Financial review on pages 16 and 17
4. Directors' report 'Research and Development'
5. Directors' report 'Financial Instruments'
6. Directors' report 'Property, plant and equipment', and
7. Directors' report 'Power of directors'

On behalf of the board

Martin Adamson	**George Weston**	**John Bason**
Chairman	**Chief Executive**	**Finance Director**
4 November 2008		

The board remains committed to maintaining high standards of corporate governance throughout the group, which it believes are vital to its business integrity and successful long-term performance. The board recognises that corporate governance is not an end in itself but an important means to an end.

The Listing Rules of the Financial Services Authority require UK listed companies to report on the manner in which they apply the Combined Code on Corporate Governance (the 'Combined Code'). The board recognises that the Combined Code represents best practice and this report, together with the Remuneration report, sets out how the Company applies the principles of this Combined Code which deal with directors, directors' remuneration, relations with, and accountability to, shareholders, and the audit of the Company.

The board believes that any system which is adopted must also reflect necessary standards of governance for Associated British Foods plc and its corporate social responsibilities and believes that the systems in place meet those requirements.

Statement of compliance

The board considers that the Company has complied fully with the provisions set out in Section 1 of the Combined Code throughout the year, with the following exceptions set out in the table below:

Combined Code Provisions	Status	Explanation
B.2.1 – The Chairman should not chair the Remuneration committee	Martin Adamson is both Chairman and chair of the Remuneration committee.	The board of Associated British Foods plc does not accept this recommendation as it considers that Martin Adamson, due to his experience, is best suited to chair this committee. The Combined Code now recognises that the Chairman can be a member of the Remuneration committee. No director has any involvement in the determination of his own remuneration.
A.4.4 – The terms and conditions of appointment of non-executive directors should be made available for inspection	Galen Weston has not entered into a formal letter of appointment.	This is due to his relationship with the Company's ultimate holding company, Wittington Investments Limited, of which he is a director and shareholder. Galen Weston receives no fees for performing his role as a non-executive director and Associated British Foods plc does not reimburse him for any expenses incurred by him in that role. In accordance with the Combined Code, he is subject to annual re-election.

The board of directors

Role and responsibilities

All members of the board take collective responsibility for the business and management of the Company. The board met formally nine times during the year. The individual attendance by directors is detailed on page 23.

There is a formal schedule of matters reserved to the board for decision, which includes the approval of:

- annual and interim results and interim management statements;
- the Company's strategic and operating plans;
- annual budget;
- appointments to the board and as company secretary;
- treasury policies;
- dividend policy;
- amendments to the Company's pension scheme;
- larger capital expenditure, acquisitions, disposals and investment proposals; and
- the overall system of internal control and risk management.

Certain specific responsibilities are delegated to the board committees, notably the Audit, Remuneration and Nomination committees, which operate within clearly defined terms of reference, reporting regularly to the board.

Composition

The board currently comprises the non-executive Chairman Martin Adamson, the Chief Executive George Weston, the Finance Director John Bason and five non-executive directors who are independent of management and have no relationships which would materially interfere with the exercise of their independent judgement. The board also includes Galen Weston, a non-executive director, who is not regarded as independent in view of his relationship with Wittington Investments Ltd.

The board considers that the non-executive directors provide a solid foundation for good corporate governance for the group and ensure that no individual or group dominates the board's decision-making.

Details of the full board are set out on pages 18 and 19.

Chairman and Chief Executive

The roles of the Chairman and the Chief Executive are separately held and the division of their responsibilities is clearly established, set out in writing, and agreed by the board. The Chairman, Martin Adamson, is responsible for the running and leadership of the board. The Chief Executive, George Weston, is responsible for leading and managing the business within the authorities delegated by the board.

Senior independent director

Tim Clarke is the recognised senior independent director.

Re-election

Under the Articles, all directors seek election at their first annual general meeting and one third of the directors must retire by rotation each year, subject to the requirement that each director seeks re-election every three years. Furthermore, in accordance with the Combined Code, each non-executive director who has served for more than nine years is required to stand for annual re-election. Accordingly, in addition to Charles Sinclair who is seeking election, Galen Weston, Martin Adamson, John Bason and George Weston will be required to seek re-election at the forthcoming annual general meeting.

Induction and continuing professional development

On joining the board, directors are given background documents describing the Company and its activities and are provided with an appropriate induction programme. The Company offers major shareholders the opportunity to meet new non-executive directors. Site visits were arranged during the year for the newly appointed independent non-executive directors to meet the senior management teams at major business units. Ongoing training is provided as necessary.

Information flow
Board and committee papers are circulated to members in advance of the meetings. In addition to formal meetings, the Chairman and Chief Executive maintain regular contact with all directors. The Chairman also holds informal meetings with non-executive directors, without any of the executives being present, to discuss any issues affecting the group.

To keep the non-executive directors informed of events throughout the group between board meetings, regular management updates are sent to each director. This seeks to ensure that the non-executive directors are always kept fully informed of the latest issues affecting the group.

Location of board meetings
Board meetings occasionally take place at the offices of the group's businesses. This further enables non-executive directors to develop their knowledge of the group and to consult with management and other employees. Non-executive directors may also make additional visits to our overseas businesses through the year.

Senior executives below board level are invited, when appropriate, to attend board meetings and to make presentations on the results and strategies of their business units.

Independent professional advice
The board has adopted a procedure whereby directors may, in pursuit of their duties and where they judge it necessary, take independent professional advice on any matter at the Company's expense.

Company Secretary
Directors have direct access to the advice and services of the Company Secretary who is responsible for ensuring that board procedures are followed.

Attendance at meetings
The attendance by individual directors at board and committee meetings during the year ended 13 September 2008 was as follows:

Directors are generally provided with the papers for board and committee meetings a week in advance. This enables any director who is unable to attend to provide comments to the Chairman, the chairman of the relevant committee or the Company Secretary, who will then relay these comments to the relevant meeting.

Board committees
Membership of the three key committees was refreshed in January 2008. Current membership of each committee is detailed below.

Nomination committee
Current members: Martin Adamson, Tim Clarke, Javier Ferrán, Lord Jay, Charles Sinclair, Peter Smith.

Chairman: Martin Adamson.

Further details of the Nomination committee can be found on page 24.

Audit committee
Current members: Tim Clarke, Lord Jay, Charles Sinclair, Peter Smith.

Chairman: Peter Smith.

Further details of the Audit committee can be found on page 25.

Remuneration committee
Current members: Martin Adamson, Tim Clarke, Javier Ferrán, Lord Jay, Charles Sinclair, Peter Smith.

Chairman: Martin Adamson.

Details of the Remuneration committee and its policies can be found on pages 30 to 33.

The terms of reference of the Nomination committee, the Audit committee and the Remuneration committee are available on request and from www.abf.co.uk

	Nomination committee		Audit committee		Remuneration committee		Full board meeting	
DIRECTORS	Possible	Actual	Possible	Actual	Possible	Actual	Possible	Actual
Martin Adamson	4	4	–	–	3	3	9	9
George Weston	–	–	–	–	–	–	9	9
John Bason	–	–	–	–	–	–	9	9
Lord MacGregor (1)	–	–	1	1	1	1	3	3
Mike Alexander (1)	–	–	1	1	1	1	3	3
Tim Clarke	4	4	3	3	2	2	9	9
Lord Jay	4	4	3	3	2	2	9	9
Javier Ferrán	4	4	–	–	3	3	9	8
Peter Smith	4	4	3	3	3	3	9	9
Galen Weston	–	–	–	–	–	–	9	3

(1) Lord MacGregor and Mike Alexander retired as directors on 7 December 2007.

Board evaluation

In the final financial quarter the senior independent director led the annual process which enabled the board to evaluate the effectiveness of its performance. This involved an individual discussion between Tim Clarke and each director based upon designated areas and topics. All input was treated as strictly confidential and was not attributed to any individual board member. The results of this exercise were subsequently reviewed by the board. The performance of the Chairman was also appraised at a meeting of the non-executive directors chaired by the senior independent director and taking into account the views of the executive directors.

The process in 2008 confirmed that all directors continued to contribute effectively and with proper commitment, including of time, to their roles.

Relations with shareholders

The Company is committed to increasing shareholder value, and communicates its achievements and prospects to its shareholders in an accurate and timely manner. Apart from the annual general meeting, the Company communicates with its shareholders by way of the annual report and accounts and the half-yearly report. Significant matters relating to the trading or development of the business are disseminated to the market by way of Stock Exchange announcements. The Company also holds meetings with its major institutional shareholders to discuss the Company's operations.

The senior independent director is available to shareholders in the event that communication with the Chairman, Chief Executive or Finance Director has failed to resolve concerns or where such contact is inappropriate.

The annual general meeting takes place in London. Formal notification is sent to shareholders approximately one month in advance and in any event at least 20 working days before the meeting. The annual general meeting gives shareholders an opportunity to hear about the general development of the business and to ask questions of the Chairman and, through him, the chairmen of the key committees and other directors. The practice has been for a short film to be shown at the meeting explaining a particular area of the group's business.

Accountability and audit

The board is required by the Combined Code to present a balanced and understandable assessment of the Company's position and prospects. In relation to this requirement, reference is made to the statement of directors' responsibilities for preparing the financial statements set out on page 34 of this annual report and accounts.

The independent auditors' report on page 35 includes a statement by the auditors about their reporting responsibilities. The board recognises that its responsibility to present a balanced and understandable assessment extends to interim and other price-sensitive public reports, reports to regulators, and information required to be presented by law.

Going concern

After making due enquiries, the directors have a reasonable expectation that the group has adequate resources to continue in operation for the foreseeable future. For this reason they continue to adopt the going concern basis for preparing the financial statements on pages 48 to 107 of this annual report and accounts.

Procedures to deal with directors' conflicts of interest

The Company has procedures in place to deal with the situation where a director has a conflict of interest. As part of the new company law regime introduced by the Companies Act 2006 (the '2006 Act'), these procedures have been revised and the Company will be seeking shareholder approval to amend its Articles of Association to include provisions for dealing with directors' conflicts of interest. As part of this process, the members of the board will endeavour to:

- consider each conflict situation separately on its particular facts;
- consider the conflict situation in conjunction with the rest of his duties under the 2006 Act;
- keep records and board minutes as to authorisations granted by directors and the scope of any approvals given; and
- regularly review conflict authorisation.

Report of the Nomination committee

Composition of the Nomination committee

The members of the Nomination committee who held office during the year and at the date of this report are:

Martin Adamson (Chairman)
Tim Clarke
Javier Ferrán
Lord Jay
Lord MacGregor (until December 2007)
Charles Sinclair (from November 2008)
Peter Smith (from January 2008)

Executive directors may be invited to attend as appropriate.

The Nomination committee leads the process for board appointments making recommendations to the board.

The Chairman does not chair the Nomination committee when it is dealing with the appointment of his successor. In these circumstances the committee is chaired by a non-executive director elected by the remaining members. The committee met four times during the year.

Duties

The Nomination committee is responsible for identifying and nominating, for the approval of the board, candidates to fill board vacancies as and when they arise. Before an appointment is made, the committee evaluates the balance of skills, knowledge and experience on the board and, in the light of this evaluation, prepares a description of the role and capabilities required for a particular appointment.

Candidates from a wide range of backgrounds are considered. The Nomination committee normally uses external advisors to facilitate searches for potential candidates.

The time required from a non-executive director is reviewed annually. The annual board evaluation is used to assess whether the non-executive director is spending sufficient time to fulfil his duties.

The Nomination committee gives full consideration to succession planning in the course of its work, taking into account the challenges and opportunities facing the Company and what skills and expertise are therefore needed on the board and from senior management in the future.

The Nomination committee reviews the structure, size and composition (including the skills, knowledge and experience) of the board and, if appropriate, makes recommendations for changes to the board. In this respect, the committee has regard to the results of the annual board evaluation. The committee keeps under review the leadership needs of the organisation, both executive and non-executive, with a view to ensuring the continued ability of the organisation to compete efficiently in the marketplace. The committee makes recommendations regarding the membership of the Audit committee in consultation with the Audit committee chairman.

Activities

The Nomination committee makes recommendations to the board on succession for executive directors, the re-appointment of any non-executive directors at the conclusion of their specified term of office, any matter relating to the continuation in office of any director at any time and the appointment of any director to executive or other office.

External recruitment consultants Odgers Ray & Berndtson, the global executive search firm, conducted a thorough search and identified a number of high quality candidates in connection with the most recent non-executive director appointment.

The Nomination committee recommended the appointment of Charles Sinclair to the board and he became a non-executive director on 1 October 2008.

Corporate website

The terms of reference of the Nomination committee, which set out its role and the authority delegated to it by the board, are available for inspection at the Company's registered office and can be viewed on the Company's website.

The formal letters of appointment of non-executive directors are also available for inspection at the Company's registered office.

Report of the Audit committee

Summary of the role of the Audit committee

The Audit committee is responsible for maintaining an appropriate relationship with the group's external auditors and for reviewing the Company's internal audit resources, internal financial controls and the audit process. It aids the board in seeking to ensure that the financial and non-financial information supplied to shareholders presents a balanced assessment of the Company's position.

The Audit committee reviews the objectivity and independence of the external auditors and also considers the scope of their work and fees paid for audit and non-audit services.

The Audit committee has unrestricted access to Company documents and information, as well as to employees of the Company and the external auditors. Members of the committee may, in pursuit of their duties, take independent professional advice on any matter at the Company's expense. The committee chairman reports the outcome of meetings to the board.

Composition of the Audit committee

The members of the Audit committee who held office during the year and at the date of this report are:

Peter Smith (Chairman)
Mike Alexander (until December 2007)
Tim Clarke
Lord Jay
Lord MacGregor (until December 2007)
Charles Sinclair (from November 2008)

Membership of the Audit committee is determined by the board, on the recommendation of the Nomination committee and in consultation with the committee chairman, from amongst the independent, non-executive directors of the Company. Its terms of reference are set by the board and are modelled closely on the provisions of the Combined Code.

Appointments are for a period of three years after which they are subject to annual review, extendable by additional three-year periods so long as members continue to be independent. The Audit committee is comprised of a minimum of three independent non-executive directors at any time and currently comprises four members. Two members constitute a quorum.

The Audit committee structure requires the inclusion of one financially qualified member (as recognised by the Consultative Committee of Accountancy Bodies). Currently the committee chairman fulfils this requirement. All committee members are expected to be financially literate.

The board expects Audit committee members to have an understanding of the following areas:

- the principles of, and developments in, financial reporting including the applicable accounting standards and statements of recommended practice;
- key aspects of the Company's operations including corporate policies and the group's internal control environment;
- matters which may influence the presentation of accounts and key figures;
- the principles of, and developments in, company law, sector-specific laws and other relevant corporate legislation;
- the role of internal and external auditing and risk management; and
- the regulatory framework for the group's businesses.

Meetings

The Audit committee meets at least three times each year and has an agenda linked to events in the group's financial calendar. The committee invites the Group Finance Director, Group Financial Controller, Director of Financial Control and senior representatives of the external auditors to attend all of its meetings in full, although it reserves the right to request any of these individuals to withdraw. Other senior managers are invited to present such reports as are required for the committee to discharge its duties.

Overview of the actions taken by the Audit committee to discharge its duties

In order to fulfil its terms of reference, the Audit committee receives and reviews presentations and reports from the group's senior management, consulting as necessary with the external auditors.

During the year, the Audit committee formally reviewed draft half-yearly and annual reports and associated announcements. These reviews considered:

- the accounting principles, policies and practices adopted in the group's financial statements and proposed changes to them;
- significant accounting issues and areas of judgement and complexity;
- litigation and contingent liabilities affecting the group; and
- potential tax contingencies and the group's compliance with statutory tax obligations.

The Audit committee is required to assist the board to fulfil its responsibilities relating to the adequacy and effectiveness of the control environment and the group's compliance with the Combined Code. To fulfil these duties, the committee reviewed:

- the external auditors' management letters and audit highlights memoranda;
- internal audit reports on key audit areas and significant deficiencies in the financial control environment;
- reports on the systems of internal financial controls and risk management; and
- reports on frauds perpetrated against the group.

The Audit committee is responsible for the development, implementation and monitoring of policies and procedures on the use of the auditor for non-audit services in accordance with professional and regulatory requirements. These policies are kept under review to meet the objective of ensuring that the group benefits in a cost-effective manner from the cumulative knowledge and experience of its auditor whilst also ensuring that the auditor maintains the necessary degree of independence and objectivity. Consequently, any non-audit work to be undertaken by the auditor in excess of £300,000 is required to be authorised by the Chairman of the Audit committee and the Group Finance Director prior to commencement. Individual assignments less than £300,000 are approved by the Group Finance Director.

The Audit committee has formally reviewed the independence of its auditors. KPMG Audit Plc have provided a letter confirming that they believe they remain independent within the meaning of the regulations on this matter and their professional standards.

To fulfil its responsibility regarding the independence of the external auditors, the Audit committee reviewed:

- changes in external audit executives in the audit plan for the current year;
- a report from the external auditors describing their arrangements to identify, report and manage any conflicts of interest; and
- the extent of non-audit services provided by the external auditors.

To assess the effectiveness of the external auditors, the committee reviewed:

- the external auditors' fulfilment of the agreed audit plan and variations from it; and
- reports highlighting the major issues that arose during the course of the audit.

To fulfil its responsibility for oversight of the external audit process, the Audit committee reviewed:

- the terms, areas of responsibility, associated duties and scope of the audit as set out in the external auditors' engagement letter for the forthcoming year;
- the external auditors' overall work plan for the forthcoming year;
- the external auditors' fee proposal;
- the major issues that arose during the course of the audit and their resolution;
- key accounting and audit judgements;
- the levels of errors identified during the audit; and
- recommendations made by the external auditors in their management letters and the adequacy of management's response.

The Audit committee has recommended to the board that the external auditors are re-appointed.

Internal audit function

The Audit committee is required to assist the board to fulfil its responsibilities relating to the adequacy of the resourcing and plans of internal audit. To fulfil these duties, the committee reviewed:

- internal audit's terms of reference, reporting lines and access to the committee and all members of the board;
- internal audit's plans and its achievement of the planned activity;
- the results of key audits and other significant findings, the adequacy of management's response and the timeliness of resolution;
- statistics on staff numbers, qualifications and experience and timeliness of reporting;
- the level and nature of non-audit activity performed by internal audit; and
- the changes since the last annual assessment in the nature and extent of significant risks and the group's ability to respond to changes in its business and the external environment.

The group's 'whistleblowing' policy contains arrangements for the Company Secretary to receive, in confidence, complaints on accounting, risk issues, internal controls, auditing issues and related matters for reporting to the Audit committee as appropriate.

The group's anti-fraud policy has been communicated to all employees and states that all employees have a responsibility for fraud prevention and detection. Any suspicion of fraud should be reported immediately and will be investigated vigorously.

The Audit committee holds private meetings with the external auditors after each committee meeting, and with the Director of Financial Control as appropriate but at least annually, to review key issues within their spheres of interest and responsibility.

The chairman of the Audit committee will be present at the annual general meeting to answer questions on this report, matters within the scope of the committee's responsibilities and any significant matters brought to the committee's attention by the external auditors.

The full terms of reference of the Audit committee are available on the Company's website: www.abf.co.uk

Internal control

The board acknowledges its responsibilities for the group's system of internal control to facilitate the identification, assessment and management of risk, the protection of shareholders' investments and the group's assets. The directors recognise that they are responsible for providing a return to shareholders, which is consistent with the responsible assessment and mitigation of risks.

Effective controls ensure that the group is not exposed to avoidable risk, that proper accounting records have been maintained and that the financial information used within the business and for publication is reliable. The dynamics of the group and the environment within which it operates are continually evolving together with its exposure to risk. The system is designed to manage rather than eliminate the risk of assets being unprotected and to guard against their unauthorised use and the failure to achieve business objectives. Internal controls can only provide reasonable and not absolute assurance against material misstatement or loss.

The directors confirm that there is an ongoing process for identifying, evaluating and managing the risks faced by the group and the operational effectiveness of the related controls, which has been in place for the year under review and up to the date of approval of the annual report and accounts. They also confirm that they have regularly reviewed the system of internal controls utilising the review process set out below.

Standards

There are guidelines on the minimum groupwide requirements for health and safety and environmental standards. There are also guidelines on the minimum level of internal control that each of the divisions should exercise over specified processes. Each business has developed and documented policies and procedures to comply with the minimum control standards established, including procedures for monitoring compliance and taking corrective action. The board of each business is required to confirm bi-annually that it has complied with these policies and procedures.

High level controls

All operations prepare annual operating plans and budgets which are updated regularly. Performance against budget is monitored at operational level and centrally, with variances being reported promptly. The cash position at group and operational level is monitored constantly and variances from expected levels are investigated thoroughly.

Clearly defined guidelines have been established for capital expenditure and investment decisions. These include the preparation of budgets, appraisal and review procedures and delegated authority levels.

Internal audit

The group's businesses employ internal auditors (both employees and resources provided by Ernst & Young where appropriate) with skills and experience relevant to the operation of each business. All of the internal audit activities are co-ordinated centrally by the group's Director of Financial Control, who is accountable to the Audit committee.

All group businesses are required to comply with the group's financial control framework that sets out minimum control standards. A key function of the group's internal audit resources is to undertake audits to ensure compliance with the financial control framework and make recommendations for improvement in controls where appropriate. Internal audit also conducts regular reviews to ensure that risk management procedures and controls are adhered to. The Audit committee receives regular reports on the results of internal audit's work and monitors the status of recommendations arising. The committee reviews annually the adequacy, qualifications and experience of the group's internal audit resources and the nature and scope of internal audit activity in the overall context of the group's risk management system set out below. The Director of Financial Control meets with the chairman of the committee as appropriate but at least annually, without the presence of executive management, and has direct access to the Chairman of the board.

Risk management review

The group's risk management process seeks to enable the early identification, evaluation and effective management of the key risks facing the businesses at operational level and to operate internal controls, which adequately mitigate these risks. The key risks and internal control procedures are reviewed by group personnel together with internal audit activities. Each business is responsible for regularly assessing its risk management activities to ensure good practice in all areas. Compliance with group requirements is monitored six monthly, and these assessments are formally reviewed by group personnel at least annually. The Audit committee receives reports on internal financial control issues from management and from the external auditors and regularly reports to the board for the purposes of the board's annual review.

The principal corporate risks as identified by each business and noted by the board are currently:

1. Food safety

The group derives over 55% of its turnover from the production and sale of food and has a positive role to play in contributing to the quality of people's lives by providing wholesome and nutritious foods, food ingredients and animal feedstuffs. Sugar, tea, flour, bread, cereals, meat and dairy products are part of people's daily lives all over the world and the group plays an important part in making sure these are produced efficiently and to a high quality.

To manage food safety risks, sites operate food safety systems which are regularly reviewed to ensure they remain effective, including compliance with all regulatory requirements for hygiene and food safety. Food products are made to high standards regardless of where they are manufactured. Food safety is always put before economic considerations.

2. Supply chain labour standards

Those businesses with global supply chains are at greater risk of controversy relating to breaches, by suppliers, of the International Labour Organisation core labour standards. Since the group uses extensive global supply chains, it takes all reasonable steps to mitigate the risk of damage to its reputation in the case of any breaches by striving to ensure that it does not buy from factories with poor working conditions. Examples of such steps include:

- Primark has been working within its supply chains for several years prior to making its commitment public by joining the Ethical Trading Initiative (ETI) (www.ethicaltrade.org) in May 2006.

  Primark defined its Ethical Trade Strategy in 2006 and in 2008 entered the second phase of its implementation which will ensure that factories making 80% of all purchases are assessed.

  Audits are conducted by Primark's own regionally-based Ethical Managers and third-party specialist auditors. 38% of its initial audits to date have been unannounced and the rest take place within a pre-agreed window. Over 135,000 workers employed in suppliers' factories have had their working conditions assessed, and improved where necessary.

  After the initial audit, Primark's Ethical Managers work with suppliers to support them through remediation. Training is offered to suppliers and their garment makers on particular issues and best practice, at regular intervals. Follow-up audits are conducted after three months from the initial audit. Over the last year Primark achieved a 75% improvement rate on the first re-inspection.

  Primark has to report on its activity annually to the ETI and has had encouraging feedback on its latest annual report.

  Many of Primark's suppliers also manufacture for its competitors. People working in these factories are paid the same weekly wage irrespective of the customer on whose behalf they are working.

  All new suppliers are risk assessed prior to the supplying of their initial orders to Primark.

  Primark recognises that shared learning and collaboration is one of the most successful ways to achieve sustained positive progression with its suppliers' factories. Primark participates in the ETI – Supported National Homeworkers Group in India and is one of the founder members of the Wages Group.

- AB Agri is involved in WildCare, a wildlife habitat scheme for dairy farms supplying Waitrose's Select Farm milk. Working with Dairy Crest, the Wildlife Trusts and the Waitrose Select Farm milk pool, the scheme encourages farmers to develop and protect habitat suitable for wildlife. AB Agri employs auditors to carry out annual audits to monitor the species found on participating farms, paying particular attention to those highlighted in the relevant county Biodiversity Action Plans. These specialist auditors then develop action plans to help farmers improve habitats.

- Twinings is a member of the Ethical Tea Partnership which requires its suppliers and subcontractors to meet the International Labour Organisation core labour standards, respecting an observance of human rights and fundamental freedoms without discrimination as to race, sex, language or religion.
- Illovo, British Sugar and Allied Bakeries operate a comprehensive set of policies and standards to cover all aspects of their operations, including supply chain labour standards. Performance is measured on a regular basis by means of self-assessments and audits by independent consultants.

Many businesses within the group do not rely upon third parties to source their products. However, those that do have ethical sourcing policies in line with the group's Corporate Citizenship principles and the requirements of their customers.

3. Competition rules

The penalties for failing to comply with the 1998 Competition Act, the 2003 Enterprise Act, relevant EU law and all relevant competition legislation are recognised as risks to be managed. Clear policy direction, which includes compulsory awareness training and close support from the in-house legal department, has reduced the likelihood of the group breaching these regulations.

4. Environment

The group recognises the impact that its businesses have on the environment. Therefore, as a minimum, it aims to comply with current applicable legislation of the countries in which it operates and its operations are conducted with a view to ensuring that:

- emissions to air, releases to water and land filling of solid wastes do not cause unacceptable environmental impacts and do not offend the community;
- significant plant and process changes are assessed and positively authorised in advance to prevent adverse environmental impacts;
- energy is used efficiently and consumption is monitored;
- natural resources are used efficiently;
- raw material waste is minimised;
- solid waste is reduced, reused or recycled where practicable;
- the amount of packaging used for group products is minimised, consistent with requirements for food safety and product protection;
- products are transported efficiently to minimise fuel usage, consistent with customers' demands, production arrangements and vehicle fleet operations;
- accidents are prevented so far as is reasonably practical; and
- effective emergency response procedures are in place to minimise the impact of foreseeable incidents.

Particular attention is given to recently acquired businesses to ensure that they operate in accordance with the standards expected.

The principal environmental risk is the use of energy and the resultant emissions of carbon dioxide, a gas involved in climate change. The efficient use of energy is a major element of our environmental policy. Indeed, all sites which are subject to the EU's Pollution Prevention and Control regime are also under a statutory requirement to minimise energy consumption by use of best available techniques.

Manufacturing operations in the UK participate in the UK Government's Climate Change Agreement Scheme in which energy intensive businesses receive an 80% discount from the Climate Change Levy in return for meeting energy efficiency or carbon saving targets. The sugar sites in the UK and Poland participate in the EU Emissions Trading Scheme. These schemes allow the sites to reduce energy consumption and therefore reduce emissions of carbon dioxide cost-effectively.

In addition to the consumption of energy the group generates surplus electricity from highly efficient Combined Heat and Power (CHP) schemes and sells this electricity to other companies. All UK CHP schemes participate in the UK Government's CHP quality assurance scheme and qualify for a full exemption from the UK's Climate Change Levy.

Carbon dioxide is emitted both directly from the combustion of fossil fuels at the group's sites to create steam, heat and electricity, and indirectly by the power stations from which the group buys its electricity. The use of bagasse (sugar cane fibre, which is a renewable resource and hence carbon neutral) as a fuel in the cane factories eliminates the need to use coal and other fossil fuels to provide energy to our boilers.

Other significant environmental risks include handling and disposal of waste and the treatment of waste water. The principal legal risk is regulatory action against the group for non-compliance with licence conditions and statutory requirements. All the group's businesses have named accountable senior executives and responsible managers and the management of the physical and legal risks, for which they employ specialists, is included in their annual objectives.

The group employs Environmental Resources Management Limited (ERM) to continue its rolling programme of audits of the management of environmental risks at a representative range of group companies. The sites audited are selected on the basis of materiality with regard to the range of issues as well as the contribution to the health, safety and environment performance of the group as a whole. ERM also carry out a sample data verification process on the group's data to check completeness and accuracy. Each year the board reviews the verified results and provides strategic direction. Businesses are required to develop action plans as appropriate and progress is monitored by the group health and safety manager.

The group publishes details of its environmental performance in a separate report on its website: www.abf.co.uk/csr

5. Health and safety

The group is committed to providing a safe and healthy workplace in line with local regulations to protect all employees, visitors and the public insofar as they come into contact with foreseeable work hazards. The group considers health and safety as equal in importance to that of any other of its functions and its business objectives. It requires its businesses to build a culture of sustained improvement.

People's health and safety at work is a prime responsibility for all those who manage and supervise. All employees and those working on behalf of the group have a responsibility for the health and safety of themselves and others who may be affected by their actions. The group ensures that they are well informed, appropriately trained and are consulted on matters affecting their health and safety.

The principal health and safety risks relate to the potential for serious injuries, fatal accidents and regulatory action for non-compliance with statutory requirements.

As with environmental risks, all the group's businesses have named accountable senior executives who employ specialists to manage these risks, and the management of these risks forms part of their annual objectives.

The group employs ERM to audit a representative sample of its operations to understand how companies manage their risks and to verify the data. Businesses are required to develop action plans as appropriate and progress is monitored by the group health and safety manager.

The group publishes details of its safety performance in a separate report on its website: www.abf.co.uk/csr

6. People
The group's performance targets require it to have the right calibre of people at all levels. It must compete to obtain capable recruits for the businesses, and then train them in the skills and competencies that are needed to deliver profitable growth. At a time of substantial change in the businesses, there is a particular focus on creating alignment and energetic leadership.

7. Financial and commodity risks
Treasury operations are conducted within a framework of board-approved policies and guidelines to manage the group's financial and commodity risks. Financial risks essentially arise through exposure to foreign currencies, interest rates, counterparty credit and borrowing facilities. Commodity risks arise from the procurement of raw materials and the exposure to changes in market prices. Liquidity risk arises from the availability of internal and external funding to enable the group to meet its financial obligations as and when they fall due.

Details of the group's accounting and risk management policies with respect to financial instruments and the associated quantitative and qualitative disclosures are set out in note 25 on page 84.

8. Taxation risks
Tax benefits are not recognised unless it is probable that the position taken is sustainable. Management reviews each material tax benefit to assess whether a provision should be taken against full recognition of the benefit on the basis of potential settlement through negotiation and/or litigation. Any interest and penalties on tax liabilities are provided for in the tax charge.

The group operates internationally and is subject to tax in many different jurisdictions. As a consequence, the group is routinely subject to tax audit and local enquiries which, by their very nature, can take a considerable period to conclude. Provision is made for known issues based on management's interpretation of country specific tax law and the likely outcome.

9. Loss of a major site
The group operates from many key sites the loss of which, for example as a result of fire, would present significant operational difficulties. Our operations have business continuity plans in place to manage the impact of such an event and group insurance programmes to mitigate the financial consequences.

10. Regulatory and political environment
The group is subject to a wide variety of regulations in the different countries in which it operates because of the diverse nature of its businesses. It may also be affected by political developments in the countries in which it operates. It considers these uncertainties in the external environment when developing strategy and reviewing performance, remaining vigilant to future changes. The group engages with governmental and non-governmental organisations to ensure the views of its stakeholders are represented and tries to anticipate and contribute to important changes in public policy wherever it operates.

1. Introduction

This report sets out the policy and disclosures on directors' remuneration as required by the Directors Remuneration Report Regulations 2002 ('the Regulations') contained in schedule 7A of the Companies Act 1985. In accordance with the Regulations, a resolution to approve this report will be proposed at the forthcoming annual general meeting of the Company. The vote will have advisory status in respect of the remuneration policy and overall remuneration packages and will not be specific to individual levels of remuneration. KPMG Audit plc has audited the report to the extent required by the Companies Act, being the sections entitled 'Directors' remuneration', 'Long-term incentives', 'Directors' pensions' and 'Directors' share options'.

2. The Remuneration committee

The Remuneration committee is responsible to the board for determining the remuneration policy for executive directors, together with the specific terms and conditions of employment of each individual director, and for reviewing the overall policy for executive remuneration.

Committee composition

The Remuneration committee currently consists of six non-executive directors. The members of the committee during the year were:

Martin Adamson (Chairman)
Mike Alexander (until December 2007)
Tim Clarke (from January 2008)
Javier Ferrán
Lord Jay (from January 2008)
Lord MacGregor (until December 2007)
Charles Sinclair (from November 2008)
Peter Smith

Consultants

The committee has retained Towers Perrin to provide independent market information and remuneration advice on an ongoing basis. Towers Perrin does not provide any other consulting services to the Company.

In addition to Towers Perrin, the following people provided material advice or services to the committee during the year:

George Weston, Chief Executive
Des Pullen, Group Human Resources Director
The HR Director and Towers Perrin provided support and liaison throughout the year.

3. Directors' remuneration policy

The ongoing remuneration policy of the Company aims to:

- provide alignment between remuneration and the Company's business objectives;
- attract and retain high calibre executive directors;
- motivate executive directors to achieve challenging performance levels;
- recognise both individual and corporate achievement; and
- align executive rewards with shareholder value.

The total remuneration of executive directors comprises base salary, annual and long-term incentives, pension provisions and other benefits.

Following a detailed review of the total remuneration package of executive directors and other senior executives in 2006, it was agreed that a substantial element of executive compensation should be 'at risk' in order to reward and drive increased performance, reflect the market trend and to align better the interests of executives with those of shareholders. The proportion of maximum variable pay, in the form of annual performance bonus and long-term incentives, compared to base salary has increased over the past few years, and now stands at around 2:1 for executive directors.

Base salary

Base salaries are reviewed in relation to median market data for comparable companies in terms of size, market sector and complexity. Other considerations are individual experience, performance and scope of responsibility. Base salaries are normally reviewed on an annual basis or following a significant change in responsibilities.

Annual performance bonus

Executive directors and other senior executives are eligible to participate in an annual cash-based bonus scheme with payments based on the achievement of stretching financial targets and personal performance against individual short and medium-term objectives. Adjusted operating profit and working capital financial targets are set by the Remuneration committee at the beginning of each financial year.

Incentive plans are due to be reviewed during the 2008/9 financial year, but recent pay positioning has shown that, in spite of the improvements introduced in 2006, the market has continued to enhance incentives available to senior executives such that the Company is well behind the desired market position in both annual and long term plans. The Remuneration committee has therefore agreed, that for 2008/9, the maximum incentive opportunity for executive directors will be increased to 150% of base salary, with an expected value of around 78% for 'on target' performance.

Long-term incentives

The Associated British Foods Executive Share Incentive Plan 2003 ('the Share Incentive Plan') was established following shareholder approval at the 2003 annual general meeting. Under this scheme, long-term awards are made in the form of a conditional allocation of shares which are released if, and to the extent that, performance targets are satisfied over a specified three-year period.

The first allocations to executive directors and other senior executives were made in December 2003. The maximum face value of the allocation for executive directors was 150% of base salary, with no expectation of further allocations being made during that three-year performance period.

As a result of the detailed review of total remuneration undertaken in 2006, revised incentive plan arrangements were introduced in September 2006, and it was agreed that executive directors should be granted an annual allocation of conditional shares thus creating a series of overlapping three-year performance periods.

The first allocation under the new arrangements was made in November 2006, and the second allocation in November 2007. Both these allocations were to a maximum face value of 125% of base salary, and relate to three-year performance periods, September 2006 to September 2009 and September 2007 to September 2010 respectively.

Performance under this long-term share plan will be measured against a range of 5% to 11% compound annual growth in adjusted earnings per share. Adjusted earnings per share was chosen as the measure for long-term incentives as it is transparent and easily understood both by participants and shareholders.

As the first of the new three-year, long-term incentive plans will not mature until December 2009, arrangements were put in place to cover the gap in competitive remuneration for the two interim years, 2006/7 and 2007/8. The Remuneration committee set interim adjusted earnings per share targets for 2006/7 and 2007/8 which are milestones towards the adjusted earnings per share target set for 2009. The 2006/7 adjusted earnings per share result was measured against the 2006/7 interim target and the first of the two arrangements settled in cash in December 2007. The 2007/8 adjusted earnings per share result has been measured against the target set in September 2006 and this arrangement will be settled in cash in December 2008.

In line with the policy outlined above, it has been agreed that the third allocation of conditional shares under the new arrangements, to a maximum face value of 125% of base salary, will be made on or after 21 November 2008. The committee has reviewed the performance criteria and has determined that this allocation will again be measured against compound annual growth in adjusted earnings per share, in the range of 5% to 11% at the end of the performance period in September 2011.

Other benefits

Executive directors are also entitled to the provision of a fully expensed company car, private medical insurance, life assurance, home and mobile telephone costs and the reimbursement of reasonable business expenses. The taxable value of these benefits is included in the table of directors' remuneration below.

The executive directors' interests in shares under the Share Incentive Plan are as follows:

	Award date	Market price at date of award	End of performance period	Vesting date	Shares vested during the year	Market price at date of vesting	Value vested	Conditional allocations of shares as at 15.09.07	Conditional allocations of shares as at 13.09.08
George Weston	21.11.06	890.1p	12.09.09	21.11.09	–	–	–	94,793	94,793
	21.11.07	905.85p	18.09.10	21.11.10	–	–	–	–	103,494
John Bason	21.11.06	890.1p	12.09.09	21.11.09	–	–	–	68,812	68,812
	21.11.07	905.85p	18.09.10	21.11.10	–	–	–	–	71,618

4. Directors' remuneration

Executive directors' salaries were reviewed on 1 December 2007 in accordance with normal policy. George Weston's salary was increased by 10% to £825,000 and John Bason's salary was increased by 6.2% to £550,000. Executive directors' salaries will next be subject to review on 1 December 2008.

For the year to 13 September 2008	Salary or fees £000	Bonuses £000	Benefits £000	**2008 Total £000**	2007 Total £000
Non-executive directors					
Martin Adamson	266	–	–	**266**	239
Galen Weston	–	–	–	**–**	–
Lord MacGregor	12	–	–	**12**	53
Mike Alexander	10	–	–	**10**	46
Tim Clarke	59	–	–	**59**	46
Lord Jay	52	–	–	**52**	40
Javier Ferrán	52	–	–	**52**	40
Peter Smith	61	–	–	**61**	29
Jeff Harris (retired 2007)	–	–	–	–	33
Executive directors					
George Weston	788	925	14	**1,727**	1,696
John Bason	523	623	21	**1,167**	1,195
	1,823	1,548	35	**3,406**	3,417

5. Directors' pensions

The Remuneration committee aims to ensure that retirement benefits are in line with best practice standards adopted by major companies in Continental Europe and the United Kingdom.

In accordance with this policy, executive directors are covered by final salary, defined benefit arrangements and can retire at their normal retirement age with retirement benefits broadly equivalent to two thirds of final pensionable salary. The Company pension schemes are HMRC approved but the executive directors also have entitlements under employer-financed arrangements which are unregistered.

Directors' pension disclosure for year ended 13 September 2008

The table below shows the defined benefit pension entitlements from the Associated British Foods Pension Scheme ('the ABF Scheme') and employer-financed arrangements where appropriate, of executive directors of Associated British Foods plc who were members of the ABF Scheme during the year ended 13 September 2008.

Pension entitlements and corresponding transfer values increased as follows during the year:

	Increase in accrued pension £000 pa (A)	Increase in accrued pension net of inflation £000 pa (B)	Total accrued pension at 13.09.08 £000 pa (C)	Director's contributions during period £000 (D)	Value of net increase in accrual over period £000 (E)	Value of accrued pension at 13.09.08 £000 (F)	Value of accrued pension at 15.09.07 £000 (G)	Total change in value during period £000 (H)
George Weston	49	39	263	17	319	2,290	1,465	808
John Bason	23	18	137	17	225	1,865	1,299	549

See notes overleaf.

5. Directors' pensions continued

Notes:
1. Pension accruals (A) and (C) are the amounts which would be paid annually on retirement based on service to the end of year or earlier retirement.
2. The pension values (E), (F) and (G) are transfer values calculated in accordance with version 9.3 of guidance note GN11 issued by the Board of Actuarial Standards.
3. The value of net increase in pension (E) represents the incremental value to the director of his pension benefits during the year, resulting from additional service and increases in salary. It is based on the increase in accrued pension net of inflation (B) after deducting the director's contribution during the year (D).
4. The change in the transfer value (H) includes the effect of fluctuations in the transfer value due to factors beyond the control of the Company and directors, such as stock market movements. The director's contributions during the year (D) are excluded from this value.
5. Both directors opted out of the ABF scheme on 5 April 2006 and since then have earned benefits in the Employer Financed Retirement Benefit Scheme (EFRBS). The figures shown represent the aggregate of benefits in the ABF scheme and the EFRBS.
6. Voluntary contributions paid by directors and resulting benefits are not shown.
7. Pension benefits include a 50% spouse's pension. Pensions are guaranteed to increase in payment in line with RPI, limited each year to 5% for service accrued to 31 December 2007. The service accrued from that date will only attract pension increases in payment of RPI capped at 2.5%. Additional discretionary increases to pensions in payment have been granted in the past.

6. Directors' share options

There are two schemes under which both HMRC approved and unapproved options may be granted:

- The Associated British Foods plc 1994 Share Option Scheme ('the 1994 Scheme') requires options granted to be held for five years before they become exercisable, at which point they are not subject to any performance criteria; and
- The Associated British Foods 2000 Executive Share Option Scheme ('the 2000 Scheme'), under which options granted become exercisable by participants after an initial three-year performance period, to the extent that performance criteria have been satisfied. Performance criteria are based on robust levels of business performance over the period.

It has been agreed that share option awards will not form part of the normal ongoing remuneration package for executives, although the Remuneration committee reserves the right to grant share options on a very selective basis.

The number of share options held by the directors under the 1994 Scheme and the 2000 Scheme were as follows:

	Options as at 15.09.07	Lapsed in year	Exercised during year	Options as at 13.09.08	Exercise price	Earliest normal exercise date	Expiry date	Exercise date	Price on exercise
George Weston	15,000*	–	15,000	–	561.5p	28.04.03	27.04.08	23.04.08	878.5p
	22,500**	–	–	22,500	484p	17.01.04	16.01.11	–	–
John Bason	50,000**	–	–	50,000	484p	17.01.04	16.01.11	–	–
	50,000*	–	–	50,000	497p	07.12.06	06.12.11	–	–
	50,000*	–	–	50,000	564p	09.12.07	08.12.12	–	–

* granted under the 1994 Scheme.
**granted under the 2000 Scheme.

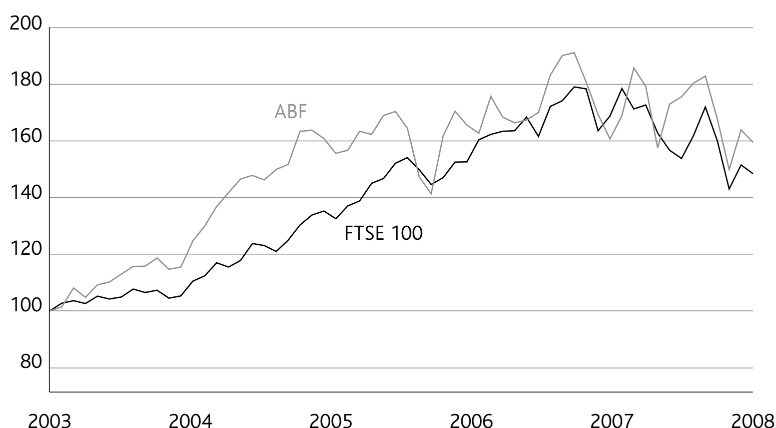
The gain made on exercise of share options was £47,550.

At close of business on 12 September 2008, the last trading day before the end of the financial year, the market value of the Company's ordinary shares was 789p. During the previous 12 months the price ranged from 716.5p to 925p.

7. Performance review

The performance graph illustrates the performance of the Company over the past five years in terms of total shareholder return compared with that of the companies comprising the FTSE 100 index. This index has been selected because it represents a cross-section of leading UK companies.

Year on year TSR – ABF v FTSE 100 (2003 = 100)



8. Directors' service contracts

It is the Company's policy that all executive directors have rolling contracts with 12 month notice periods. The Company's Articles of Association require that all directors retire from office at every third annual general meeting. Details of the contracts of service of directors who served during the year ended 13 September 2008 are set out below:

	Date of appointment	Effective date of current contract	Notice period from Company	Notice period from director
Martin Adamson	11.10.99	11.12.02	6 months	6 months
George Weston	19.04.99	01.06.05	12 months	12 months
John Bason	04.05.99	16.03.99	12 months	12 months
Lord MacGregor*	09.12.94	16.11.99	6 months	6 months
Mike Alexander*	16.01.02	16.01.02	6 months	6 months
Tim Clarke	03.11.04	03.11.04	6 months	6 months
Lord Jay	01.11.06	01.11.06	6 months	6 months
Javier Ferrán	01.11.06	01.11.06	6 months	6 months
Peter Smith	28.02.07	28.02.07	6 months	6 months

*Mike Alexander and Lord MacGregor retired as non-executive directors on 7 December 2007.

The board has not considered it appropriate to enter into a formal letter of appointment with Galen Weston in view of his relationship with the ultimate holding company of Associated British Foods plc, Wittington Investments Limited. He receives no fees for performing his role as a non-executive director and Associated British Foods plc does not reimburse him for any expenses incurred by him in that role.

The committee takes the view that the entitlement of the executive directors to the security of 12 months notice of termination of employment is in line with the practice of many comparable companies.

The Remuneration committee's aim is always to deal fairly with cases of termination whilst taking a robust line in minimising any compensation. The Remuneration committee has given due consideration to the recommendations contained in the Combined Code regarding inclusion of explicit provisions in directors' service contracts for compensation commitments in the event of early termination. The committee will continue to keep under review its current practice, which is not to include such provisions in order to enable it to respond appropriately to particular circumstances.

9. Directors' beneficial interests

The directors of the Company as at 13 September 2008 had the following beneficial interests in the shares and debentures of the Company, its holding company and fellow subsidiary undertakings.

	As at 13 September 2008	As at 15 September 2007
Martin Adamson		
Associated British Foods plc, ordinary shares of 5 15/22p	**50,000**	50,000
George Weston		
Wittington Investments Limited, ordinary shares of 50p	**5,862**	5,862
Associated British Foods plc, ordinary shares of 5 15/22p	**3,188,783**	3,173,783
John Bason		
Associated British Foods plc, ordinary shares of 5 15/22p	**16,880**	16,577
Galen Weston		
Wittington Investments Limited, ordinary shares of 50p	**37,953**	37,953
Associated British Foods plc, ordinary shares of 5 15/22p	**5,672,560**	5,672,560
Tim Clarke		
Associated British Foods plc, ordinary shares of 5 15/22p	**4,000**	4,000
Lord Jay		
Associated British Foods plc, ordinary shares of 5 15/22p	**100**	–
Javier Ferrán		
Associated British Foods plc, ordinary shares of 5 15/22p	**500**	–
Peter Smith		
Associated British Foods plc, ordinary shares of 5 15/22p	**2,000**	–

In addition to the above, George Weston and John Bason were allocated a conditional grant of shares under the Share Incentive Plan, details of which are shown on page 31.

The interests shown above remained the same as at 4 November 2008.

10. Non-executive directors

The board reviews non-executive directors' fees periodically in the light of fees payable in comparable companies and the importance attached to the retention and attraction of high-calibre individuals as non-executive directors. Fees are paid on a per annum basis and are not varied for the number of days worked. The chairman of the Audit committee and the senior independent director are paid an additional fee. Non-executive directors do not participate in the Company's annual or long-term incentive plans and take no part in any discussion or decision concerning their own fees.

Adjustments were made to the fees in December 2007 following a period of two years in which the fees had remained unchanged. The next review will take place in December 2009.

11. Executive directors serving as non-executive directors

The Remuneration committee has determined that executive directors serving as non-executive directors of other companies may retain any fees earned.

During the year, George Weston served as a non-executive director of Wittington Investments Limited, for which he received no compensation.

12. Compliance statement

In compliance with the UK Directors' Remuneration Report Regulations 2002, the auditable part of the Remuneration report comprises directors' remuneration on page 31, directors' pensions on pages 31 and 32, directors' share options on page 32 and directors' beneficial interests on page 33.

Paul Lister
Company Secretary
4 November 2008

Statement of directors' responsibilities in respect of the annual report and the financial statements

The directors are responsible for preparing the annual report and the group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare group and parent company financial statements for each financial year. Under that law they are required to prepare the group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

The group financial statements are required by law and IFRSs as adopted by the EU to present fairly the financial position and the performance of the group; the Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

The parent company financial statements are required by law to give a true and fair view of the state of affairs of the parent company and of the profit or loss of the parent company for that period. In preparing each of the group and parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- for the group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- for the parent company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the parent company financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a directors' report, directors' remuneration report and corporate governance statement that comply with that law and those regulations.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent auditors' report to the members of Associated British Foods plc

We have audited the group and parent company financial statements (the 'financial statements') of Associated British Foods plc for the year ended 13 September 2008 which comprise the consolidated income statement, the consolidated and parent company balance sheets, the consolidated cash flow statement, the consolidated statement of recognised income and expense, the parent company reconciliation of movements in equity shareholders' funds, and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Remuneration report that is described as having been audited.

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

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU, and for preparing the parent company financial statements and the directors' remuneration report in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the statement of directors' responsibilities on page 34.

Our responsibility is to audit the financial statements and the part of the directors' remuneration report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the group financial statements, Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' report is consistent with the financial statements. The information given in the Directors' report includes that specific information that is cross referred from the Business review section of the Directors' report.

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

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

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

Basis of audit opinion

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

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

Opinion

In our opinion:

- the consolidated financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the group's affairs as at 13 September 2008 and of its profit for the year then ended;
- the consolidated financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation;
- the parent company financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the parent company's affairs as at 13 September 2008;
- the parent company financial statements and the part of the Remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' report is consistent with the financial statements.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
8 Salisbury Square
London
EC4Y 8BB

4 November 2008

The Associated British Foods business principles are an essential part of our business. They form part of our long-term strategy and their application across the group is under constant review. For more information about them and the case studies below, go online at www.abf.co.uk/csr

ILLOVO HEALTH: A CASE STUDY

The Illovo Sugar Group provides medical care to its employees and their dependants either through 28 on-site clinics and four hospitals or through subsidised medical insurance. Its facilities are staffed by 18 doctors, 150 nurses and 135 auxiliary personnel and serve 30,000 employees and 70,000 dependants. During 2008 approximately 550,000 visits were paid by patients to these facilities. The medical services are free to all employees not covered by medical aid (the vast majority) and this includes the dependants of permanent employees.
www.illovosugargroup.com

REDUCING ENERGY REQUIREMENTS IN CHINA

Over the last two years, BSO China has reduced, by around 25%, the amount of water used to create the steam needed to extract sugar from its sugar cane. Moreover, the cane crushing and extraction stages have been improved to give drier bagasse, so that less bagasse is needed to power its boilers. This, combined with better control systems and operator training, has led to a 10% reduction in energy requirements over the past two years and an increase in its sales of bagasse to paper mills. A new sugar cane factory, which is currently under construction, has incorporated these improvements into its design.

25%

The reduction made by BSO China in the amount of water used to extract sugar over the past two years

40%

The reduction in the average road miles travelled by the Ryvita delivery vehicles in the past year

REDUCING FOOD MILES AND VEHICLE EMISSIONS AT RYVITA

Ryvita buys over 25,000 tonnes of rye from more than 100 growers throughout the UK. The average distance from farm to factory used to be 167 road miles, as only 6% of the rye was sourced within a 60-mile radius of the factories. This resulted in high transport costs and caused the vehicles to use a significant amount of fuel. This year Ryvita set its suppliers the challenge of growing rye nearer to its factories. The result has been a 40% reduction in the average road miles travelled by its delivery vehicles.

APPROVED: UNDER THE KYOTO PROTOCOL

Mauri La-Nga is a joint venture company in Vietnam producing fresh and dry yeast and bakery ingredients. The company recently invested US$5.6m to upgrade its waste treatment facilities, which will both improve the standard of the waste water discharged and reduce greenhouse gas emissions. As a result, the project qualifies as a Clean Development Mechanism project under the Kyoto Protocol.

REDUCING WASTE DISPOSAL COSTS AND GENERATING INCOME

Ryvita's Stockport facility used to have seven different waste contractors and was spending £69,000 on waste disposal each year, with no revenue from any waste. However, this year, waste sent to landfill has been reduced by 96%; waste costs have been reduced from £69,000 to £20,000. In addition, Ryvita has been recycling some materials and has commenced selling these, producing income of £40,000.

" **The benefits delivered have surpassed all our expectations.** We were able to convert a waste management cost into a by-product revenue stream. We have reduced our waste sent to landfill by some 96%, dramatically reduced transport costs, and we receive income from food products, card, plastic and metal. Only 0.9% of our waste goes to landfill – and we are working on that last 0.9%! "

Terry Reynolds, General Manager, Ryvita Stockport.

How Corporate Responsibility is managed

The organisational structure of Associated British Foods is highly decentralised and so the responsibility for managing environmental, social and ethical issues rests with the management of each operating business. However, as a minimum, all businesses must comply with our Business Principles, which can be found online at www.abf.co.uk/csr. These Business Principles include the group's Health and Safety and Environmental Policies for which the Group Human Resources Director has overall responsibility. He reports to the Chief Executive and is supported directly by a Group Safety & Environment Manager who also works with the Director of Legal Services on these principles and compliance issues.

Our businesses devise procedures appropriate to and compliant with local laws, cultures and operating conditions. Every business has an accountable board director and a senior manager who are responsible for safety and environmental matters.

The board reviews the safety and environmental performance of the businesses quarterly and annually respectively, as well as reviewing the outcome of any external assurance processes. It assesses the sophistication of the businesses' risk management and safety cultures, considers levels of resources and agrees actions for the coming year. Businesses are required to develop and implement action plans as appropriate, and progress is monitored by the Group Safety & Environment Manager.

Achievements in 2008

- we reduced the rate of reportable injuries by 20%
- the proportion of energy used from renewable sources increased by 6% to 51%
- we invested in excess of £22m to help reduce our environmental impact
- the number of factories certified to ISO 14001 environmental management system (or equivalent) increased from 28 to 38

Primark has recruited a number of in-region ethical managers and has carried out 322 audits over the past year of which 146 were follow-up visits. All the factories belonging to its top 50 suppliers (accounting for 50% of turnover value) and all suppliers in Bangladesh have been audited. These audits have been conducted in ten supplying countries and have achieved an average remediation rate of approximately 75%.

Performance in 2008

During 2008 our environmental impact worsened due to the acquisition of 12 beet sugar factories in northern China and organic growth throughout the group. We are investing heavily to make these factories energy efficient. Indeed we continue to seek opportunities to improve further throughout the group and we aim to reduce substantially our environmental impact.

KPI summary table

	2008	2007	Change
Energy Consumption (GWh)	**25,403**	21,162	+20%
Energy from Renewable Sources (%)	**51%**	48%	+6%
CO_2 emissions (million tonnes)	**3.6**	3.1	+16%
CO_2 emissions per tonne of product (kg)	**215**	205	+5%
Water use (million tonnes)	**156**	155	+0.6%
Waste production (thousand tonnes)	**355**	329	+8%
Reportable Injury Rate (% employees reporting an injury)	**0.8%**	1.0%	–20%

In focus – climate change

We recognise that carbon dioxide emitted by human activities alters the earth's climatic system leading to global warming. Climate change and the associated regulation of carbon emissions will have implications for our businesses, particularly the direct impact on crop yields and the imposition of penalties associated with the emission of carbon dioxide.

We closely measure our consumption of all forms of energy and seek opportunities to:

- reduce our use of natural resources;
- reduce emissions of carbon dioxide and other pollutants; and
- reduce our operating costs and thereby improve our profitability.

The scale of our global operations means that the purchase of energy is of strategic importance to the group. Energy procurement specialists are employed within the businesses to monitor fuel and energy prices closely and use their market expertise to mitigate the risk of market movements and minimise costs.

In 2008 the group emitted, or caused to be emitted, 3.6 million tonnes of carbon dioxide. 51% of our total energy use is from renewable sources, principally bagasse, the residue from sugar cane, and is up 6% from last year.

OUR 2008 REPORT ENTITLED 'A RESPONSIBLE APPROACH TO SAFETY, HEALTH & THE ENVIRONMENT' CONTAINS FULL DETAILS OF OUR HEALTH, SAFETY AND ENVIRONMENTAL PERFORMANCE TOGETHER WITH DETAILED CASE STUDIES. WWW.ABF.CO.UK/CSR

OUR BUSINESS IN ACTION:

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FARMING IN HARMONY WITH THE COUNTRYSIDE

DENIS CHAMBERLAIN EXAMINES AB AGRI'S APPROACH TO BUSINESS AND THE ENVIRONMENT

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WE ARE NOW OPEN/ OSCAILTE/ ABIERTO/ GEOPEND»

MAUREEN HINTON LOOKS AT PRIMARK'S EUROPEAN EXPANSION AND CONCLUDES THAT VALUE TRAVELS

We asked industry experts to comment on the shape of our business and what's in store for 2009...

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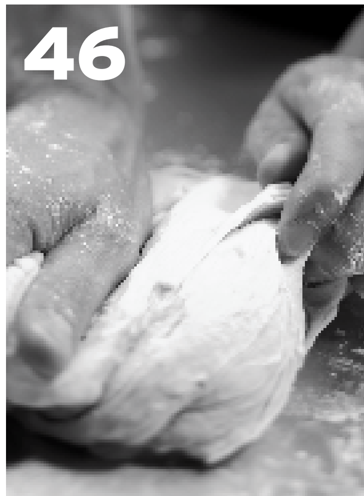
PRODUCTS people *love*

Richard Clarke says ABF's acquisitions of grocery brands have enabled it to build strong market positions in growing categories



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YEAST: A BEGINNER'S GUIDE TO THE MAGIC INGREDIENT

BUT WHAT IS IT?
HOW IS IT MADE?
AND HOW IS IT USED AROUND THE WORLD?

AB AGRI: FARMING IN HARMONY WITH THE COUNTRYSIDE

Former Editor of Farmers Weekly, **Denis Chamberlain**, examines AB Agri's approach to business and concludes that success in modern agricultural business requires partnership not only with customers but the environment as well.

Over recent years AB Agri has developed a strategy focusing on provision of technology throughout the food supply chain and increasing its international presence. AB Agri's success in this year of extreme volatility is testimony to that strategy.

The complex food and animal feed chains in which the business operates have been made more volatile by dramatic increases in the price of cereals and oilseeds, burgeoning energy costs and the ongoing challenge of working with growing crops and livestock in an unpredictable climate.

Cereal production, central to so much of the business's UK operation, is a case in point. In the past 15 months the price of wheat has swung violently, up to 200% over the period. Frontier's leading market position, unique centralised trading structure and trading systems meant it was ideally placed to manage price volatility on behalf of its grain customers and farmer suppliers.

For a company determined to add value to the operations of its trading partners, AB Agri has had to draw on all its skills and experience in buying, feed formulation, logistics and technical services. The result has been continued growth and stable trading relations. Helping customers to manage their risk throughout the supply chain has been important in building relationships and differentiating AB Agri from its competitors.

In today's food industry it is no longer enough to focus on the immediate customer or supplier. Consumers are demanding that the whole chain is traceable from field to supermarket, is environmentally sound, cares for its countryside and focuses on good animal welfare.

AB Agri has been developing supply chains to anticipate customers' desire for assured and traceable sources for products, foresight which has made it better able to meet the modern challenge and add genuine value. Waitrose customers can purchase WildCare milk from farms focused on bio-diversity. This scheme, developed by AB Agri, has recently been granted the Green Apple award for environmental best practice. Earlier this year, the business launched the UK's first Carbon Trust accredited model. This will help to reduce the overall greenhouse gas emissions from the dairy farms that supply milk to Sainsbury's. The model measures current practice on each farm and recommends areas for improvement such as reducing usage of artificial fertilisers by the judicious use of organic manure and reducing electricity usage by switching to modern ice bank plate coolers to chill milk. This 'measure-reduce-measure' approach is expected to deliver benefits beyond year one.

The future will be equally challenging, but recent acquisitions will strengthen the product and service offering in livestock feed and the provision of micro-ingredients to other businesses in the food chain both in the UK and overseas. This, together with a history of investing in people who can deliver quality service, should keep AB Agri ahead of the game.

WE ARE NOW OPEN/ OSCAILTE/ ABIERTO/ GEOPEND»

Primark's expansion across Europe gathers pace this year with new store openings in Spain and the prospect of further countries to come.

Maureen Hinton, Retail Analyst with Verdict, examines the success and comes to the conclusion that value travels.

Clothing expenditure in the expanded EU is worth some €300bn and offers major development opportunities, particularly for retailers from mature markets where growth is slowing and costs are rising. However, UK retailers have lagged behind their European counterparts in exploiting these opportunities. To be successful they need to have a proposition that not only stands out from existing operators, but one that appeals to differing national tastes.

In this respect Primark has a distinct advantage. It differs from the typical clothing or value model in running a very-low price fashion proposition from large, bright, contemporary stores in prime retail locations. Also, its core target market of up to 35 year olds has the twin advantages of an insatiable appetite for fashion and lower financial exposure to the vagaries of the economic environment particularly for teenagers and the early twenties. Furthermore, due to the influence of global media and the internet, young fashion is now international and less prone to regional tastes.

Expansion into fast growing international clothing markets becomes even more attractive as potential for growth in the UK slows and becomes more dependent on taking share from competitors. The influence of value retailers has caused a downward shift in price across the whole market which combined with substantial growth in retail space, has meant that UK clothing shoppers are saturated with choice as well as good value. However, with their disposable income shrinking, consumers are becoming more selective in their spending. Only a handful of large operators with scale economies can run a high volume/low price proposition and survive in the UK under these conditions.

Moreover, on the Continent, although discounters are well established, they are still primarily centred around a low-price family offer in low-cost locations and the value sector is at an earlier stage of development than the UK.

Despite the difficult retail environment in the UK, opportunities still exist for Primark. Even now there are prime locations without a major Primark store, and there are more sales opportunities from an expanding product range. However, long-term sustainable growth must come from international expansion.

That said, European expansion is not going to be achieved unchallenged. Competitors, having watched Primark turn former department stores in the UK into major shopping destinations, will be keen to defend their business in continental Europe, particularly given Primark's success in Spain, and its stated intention of opening stores in the Netherlands and Germany.

Other retailers in the larger EU markets may have wide experience of European retail markets, but they are not used to running a low-cost, high-volume proposition. Primark is. On the other hand Primark lacks experience of running an international operation, but the recruitment this year of a number of key senior executives with just such experience will accelerate the learning process. Primark has a lot to play for.

Shot on location in Madrid, Spain.

PRODUCTS people *love*

Having an extensive brand portfolio is one thing, but buying the right brands that complement each other is quite another. ABF's trick has been to create market positions through strategic buying says food writer, Richard Clarke.

There's no shortage of evidence that when it comes to developing its growing portfolio of brands, ABF's Grocery group has created a winning formula. By developing business units focused on specific market sectors, ABF is successfully leveraging the full potential of its brands while creating the conditions for an effective acquisition strategy.

As with any successful strategy, ABF's growth ambitions are not being realised by a one size fits all approach but by the systematic application of a set of principles that are successfully creating a diverse yet coherent collection of businesses.

Ethnic food wholesaler Westmill, was bought by ABF in 1993, and has seen its sales rocket from £45 million 15 years ago to £170 million today thanks to a track record of canny acquisitions – most recently a parcel of brands from Heinz. This focused approach has helped Westmill transform itself from a small regional flour miller operating in the private label bidding war to a leading supplier of ethnic ingredients to the foodservice sector.

ABF built on the success of Westmill in ethnic foods with the purchases of Oriental food brand Blue Dragon in 2003 and, with much public interest, premium Indian food range Patak's in 2007. Integrating these businesses and creating AB World Foods has enabled ABF to pack a much bigger punch in the vibrant ethnic foods category.

A selective approach to acquisitions also enables ABF to leverage category access and expertise. Take the purchase of Billington's in 2004. ABF already owned Silver Spoon, the UK's leading retail refined sugar brand, but adding Billington's range of unrefined cane sugars to its portfolio meant it was able to tap into the growing market for premium sugar.

Billington's has enjoyed double-digit growth for the past four years, a sure sign of its value as a brand in its own right, but the deal has also given ABF the ability to offer retail buyers a one-stop shop for a full range of sugar products, which has also benefited sales of Silver Spoon.

ABF takes a global approach to maximising growth, actively seeking out new opportunities in markets ripe for development. And here, too, its acquisition strategy is fundamental.

In Thailand, for example, ABF has doubled sales of its Twinings tea brand following the purchase of the Ovaltine hot drinks business in 2002. Exploiting Ovaltine's considerable strength in Thailand – which is the world's biggest market for Ovaltine – was key to this achievement.

Although in most cases ABF acquires a business outright, it isn't afraid of taking a more creative approach to portfolio growth – as demonstrated by the formation of the Jordans & Ryvita Company.

In this landmark deal, sealed in June this year, Jordans was combined with Ryvita in one business, owned jointly by ABF and Jordans' founders, Bill and David Jordan. Both Ryvita and Jordans boast a compelling healthy-eating proposition and ethical credentials. In combination, they present an opportunity for significant value growth by tapping into key trends in today's grocery market for healthier, low-fat and wholegrain foods.

Natural Partners

The Jordan family has been milling grains at Holme Mill in Bedfordshire for five generations.

"I was only 21 when my brother, David and I started selling natural, wholegrain breakfast cereal and I had that wonderful confidence of youth. People were just becoming interested in where their food came from and what it contained," *says Bill Jordan.*

Bill and David's approach to business has always been shaped by an unwavering commitment to traditional values. Quality is of primary importance as well as a deeply held belief in protecting the environment.

"We have built lasting relationships with our growers who are producing the very best ingredients," *says Bill.*

Conservation Grade farming, which Jordans promotes, involves growers committing to taking 10% of their land out of food production and using it to create sustainable wildlife habitats. Fifty-one farmers in the scheme are paid a premium to grow high quality grains for Jordans on approximately 60,000 acres of land.

JORDANS
MUESLi
FRUIT & NUT
Raw & Toasted British Wholegrains
RAISINS
CRUNCHY NUTS
RYVITA
Original
TWININGS
Everyday
UP
Crusha
Strawberry
Straws
TANDOORI
silver spoon
Granulated
weber
CHICAGO STEAK
CHOW MEIN SAUCE
ARGO
CORN STARCH
Fleischmann's
Allinson
Organic
Bread Mix
KINGSMILL
50/50
Karo
0 Grams Trans Fat
Mazola
CORN OIL
BILLINGTON'S
Ovaltine

YEAST: A BEGINNER'S GUIDE TO THE MAGIC INGREDIENT

IT'S THE ESSENTIAL INGREDIENT IN THE ESSENTIALS WE EAT AND DRINK, BREAD, BEER, WINE, NOT TO MENTION THE PHARMACEUTICAL PRODUCTS THAT RELY ON IT. BUT WHAT IS IT AND HOW IS IT MADE?

Yeast is an essential ingredient in the production of bread and other bakery products, pizza dough bases, beer, wine and other foodstuffs. Yeast is a living micro-organism belonging to the fungi family and no other ingredient, natural or artificial, can match the functions it performs in food and beverage production. Yeast is therefore a plant, according to the biologists, and is capable of reproducing itself. A piece of yeast consists of minute cells, with walls composed of cellulose, and an interior of living matter called protoplasm. You can feed it with a solution of sugar to make it grow, or it can be 'killed' by 'starvation' or heat.

The primary function of yeast is to supply carbon dioxide gas which inflates the dough during proving and the early stages of bread making. The dough is aerated by the action of the yeast. The little cells ferment the dough, and produce tiny bubbles of CO_2 inside it. As a result, when the dough is baked, it produces a light and airy loaf; when you examine it you can see all the tiny holes formed by the gas, so that it looks rather like a sponge.

There are three main types of bakers' yeast. Liquid yeast, compressed yeast (collectively referred to as 'fresh' or 'wet' yeast), and dry yeast. All three types are made in a sequential production process. Initially, a small quantity of yeast is used to seed successively larger batches of growing yeast through a fermentation process using a feedstock of molasses, which is obtained as a by-product of sugar production. After fermentation, a separation process progressively extracts excess water to produce liquid yeast (also known as 'cream yeast'). Liquid yeast can then be processed further into compressed yeast by filtration and extrusion. In the final step, compressed yeast may be dried in a two-stage drying process.

Fresh yeast is supplied in a number of different formats, depending on the strain of yeast used and to meet customer preferences. These may be because of traditional national preferences for different types of bread. Fresh yeast is mainly sold for bread baking, with small or medium-sized bakeries traditionally preferring to use compressed yeast.

Liquid yeast is a form of fresh yeast and is essentially the raw product from the manufacturing process. It has a shelf life of around three weeks if refrigerated. Some large food manufacturing customers with high-volume, automated operations use specialised installation systems to receive the liquid yeast, distributed by refrigerated tanker, directly from the manufacturing facility.

Liquid yeast is also sold in smaller quantities and in a stabilised format for use by medium and smaller-sized bakeries.

Compressed yeast is made by processing liquid yeast over a rotary vacuum filter drum where the dehydrated yeast is moved from the filter drum by a knife blade with the resulting crumbled yeast conveyed to the packaging operation. It is extruded into blocks, wrapped in wax paper and refrigerated until distribution. These blocks are distributed in cartons. Customers require a cool room in which to store the compressed yeast which has a shelf life of up to six weeks, if refrigerated.

Dry yeast is characterised by a dry matter percentage above 95%. As such it has a shelf life of around two years and can therefore be safely supplied on a worldwide basis. Producers in less developed countries are more likely to use dry yeast and, correspondingly, little dry yeast is sold within the EU except for domestic use by home bakers.

ABF estimates that around 75% of the world's dry yeast consumption is in Africa, Middle East, Asia and Russia due to the scarcity of refrigerated transport or storage and relative remoteness of the customer from the source of production.

The stuff of life: bread and wine

Consolidated income statement

for the year ended 13 September 2008

CONTINUING OPERATIONS	Note	Before exceptional items 2008 £m	Exceptional items[1] 2008 £m	Total 2008 £m	2007 £m
REVENUE	1	**8,235**	**–**	**8,235**	6,800
Operating costs before exceptional items	2	**(7,660)**	**–**	**(7,660)**	(6,262)
Exceptional items	2	**–**	**(46)**	**(46)**	–
		575	**(46)**	**529**	538
Share of profit after tax from joint ventures and associates	11	**15**	**–**	**15**	10
Profits less losses on sale of property, plant & equipment		**10**	**–**	**10**	8
OPERATING PROFIT		**600**	**(46)**	**554**	556
Adjusted operating profit	1	**664**	**–**	**664**	622
Profits less losses on sale of property, plant & equipment		**10**	**–**	**10**	8
Amortisation of non-operating intangibles	8	**(74)**	**–**	**(74)**	(74)
Exceptional items		**–**	**(46)**	**(46)**	–
Profits less losses on sale of businesses	22	**5**	**–**	**5**	(39)
PROFIT BEFORE INTEREST		**605**	**(46)**	**559**	517
Finance income	4	**21**	**–**	**21**	20
Finance expense	4	**(74)**	**–**	**(74)**	(55)
Other financial income	4	**21**	**–**	**21**	26
PROFIT BEFORE TAXATION		**573**	**(46)**	**527**	508
Adjusted profit before taxation		**632**	**–**	**632**	613
Profits less losses on sale of property, plant & equipment		**10**	**–**	**10**	8
Amortisation of non-operating intangibles		**(74)**	**–**	**(74)**	(74)
Exceptional items		**–**	**(46)**	**(46)**	–
Profits less losses on sale of businesses		**5**	**–**	**5**	(39)
Taxation – UK (excluding tax on exceptional items)		**(50)**	**–**	**(50)**	(46)
– UK (on exceptional items)		**–**	**(14)**	**(14)**	–
– Overseas (excluding tax on exceptional items)		**(92)**	**–**	**(92)**	(62)
– Overseas (on exceptional items)		**–**	**20**	**20**	–
	5	**(142)**	**6**	**(136)**	(108)
PROFIT FOR THE PERIOD		**431**	**(40)**	**391**	400
ATTRIBUTABLE TO					
Equity shareholders		**397**	**(40)**	**357**	369
Minority interests		**34**	**–**	**34**	31
PROFIT FOR THE PERIOD		**431**	**(40)**	**391**	400
Basic and diluted earnings per ordinary share (pence)	7			**45.2**	46.7
Dividends per share paid and proposed for the year (pence)	6			**20.25**	19.50

[1]Refer to accounting policy on page 53.

Consolidated balance sheet

at 13 September 2008

	Note	2008 £m	2007 £m
NON-CURRENT ASSETS			
Intangible assets	8	**1,815**	1,570
Property, plant & equipment	9	**3,110**	2,642
Biological assets	10	**66**	48
Investments in joint ventures	11	**75**	46
Investments in associates	11	**23**	33
Employee benefits assets	12	**106**	308
Deferred tax assets	13	**101**	70
Other receivables	14	**75**	2
TOTAL NON-CURRENT ASSETS		**5,371**	4,719
CURRENT ASSETS			
Assets classified as held for sale	15	**19**	48
Inventories	16	**1,042**	765
Biological assets	10	**80**	53
Trade and other receivables	14	**1,228**	967
Other financial assets	25	**63**	17
Cash and cash equivalents	17	**348**	411
TOTAL CURRENT ASSETS		**2,780**	2,261
TOTAL ASSETS		**8,151**	6,980
CURRENT LIABILITIES			
Liabilities classified as held for sale	15	**–**	(7)
Interest-bearing loans and overdrafts	18	**(278)**	(125)
Trade and other payables	19	**(1,365)**	(1,167)
Other financial liabilities	25	**(25)**	(26)
Income tax		**(89)**	(82)
Provisions	20	**(85)**	(36)
TOTAL CURRENT LIABILITIES		**(1,842)**	(1,443)
NON-CURRENT LIABILITIES			
Interest-bearing loans	18	**(870)**	(598)
Provisions	20	**(101)**	(14)
Deferred tax liabilities	13	**(449)**	(430)
Employee benefits liabilities	12	**(45)**	(31)
TOTAL NON-CURRENT LIABILITIES		**(1,465)**	(1,073)
TOTAL LIABILITIES		**(3,307)**	(2,516)
NET ASSETS		**4,844**	4,464
EQUITY			
Issued capital	21	**47**	47
Other reserves	21	**173**	173
Translation reserve	21	**221**	(49)
Hedging reserve	21	**25**	(1)
Retained earnings	21	**4,088**	4,074
		4,554	4,244
Minority interests	21	**290**	220
TOTAL EQUITY		**4,844**	4,464

The financial statements on pages 48 to 101 were approved by the board of directors on 4 November 2008 and were signed on its behalf by:
Martin Adamson, *Chairman* and **John Bason**, *Director*.

Consolidated cash flow statement

for the year ended 13 September 2008

	2008 £m	2007 £m
CASH FLOW FROM OPERATING ACTIVITIES		
Profit before taxation	**527**	508
Profits less losses on sale of property, plant & equipment	**(10)**	(8)
Profits less losses on sale of businesses	**(5)**	39
Exceptional items	**46**	–
Finance income	**(21)**	(20)
Finance expense	**74**	55
Other financial income	**(21)**	(26)
Share of profit from joint ventures and associates	**(15)**	(10)
Amortisation	**76**	79
Depreciation	**234**	214
Change in the fair value of biological assets	**(84)**	(59)
Share-based payment expense	**5**	6
Pension costs less contributions	**(18)**	(14)
Increase in inventories	**(103)**	(38)
Increase in receivables	**(156)**	(58)
Increase in payables	**149**	151
Purchases less sales of current biological assets	**(9)**	–
Decrease in provisions	**(6)**	(17)
Cash generated from operations	**663**	802
Income taxes paid	**(110)**	(106)
NET CASH FROM OPERATING ACTIVITIES	**553**	696
CASH FLOWS FROM INVESTING ACTIVITIES		
Dividends received from joint ventures	**1**	1
Dividends received from associates	**1**	2
Purchase of property, plant & equipment	**(502)**	(420)
Purchase of intangibles	**(70)**	(7)
Purchase of non-current biological assets	**(3)**	–
Sale of property, plant & equipment	**30**	30
Purchase of subsidiaries, joint ventures and associates	**(211)**	(150)
Sale of subsidiaries, joint ventures and associates	**59**	58
Purchase of minority interests	**(10)**	–
Purchase of other investments	**(3)**	–
Interest received	**19**	20
NET CASH FROM INVESTING ACTIVITIES	**(689)**	(466)
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid to minorities	**(21)**	(26)
Dividends paid to shareholders	**(156)**	(150)
Interest paid	**(74)**	(58)
(Increase)/decrease in other current investments	**(7)**	52
Financing:		
Increase/(decrease) in short-term loans	**59**	(307)
Increase in long-term loans	**182**	417
Movements from changes in own shares held	**(3)**	(9)
NET CASH FROM FINANCING ACTIVITIES	**(20)**	(81)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	**(156)**	149
Cash and cash equivalents at the beginning of the period	**349**	198
Effect of movements in foreign exchange	**17**	2
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	**210**	349

Consolidated statement of recognised income and expense

for the year ended 13 September 2008

	2008 £m	2007 £m
Actuarial (losses)/gains on defined benefit schemes	**(254)**	110
Deferred tax associated with defined benefit schemes	**71**	(25)
Effect of movements in foreign exchange	**360**	(32)
Net (loss)/gain on hedge of net investment in foreign subsidiaries	**(58)**	4
Deferred tax associated with movements in foreign exchange	**(3)**	–
Movement in cash flow hedging position	**34**	7
Deferred tax associated with movement in cash flow hedging position	**(7)**	(2)
Share of recognised income and expense of joint ventures and associates	**(1)**	–
Net gain/(loss) recognised directly in equity	**142**	62
Profit for the period	**391**	400
TOTAL RECOGNISED INCOME AND EXPENSE FOR THE PERIOD	**533**	462
ATTRIBUTABLE TO:		
Equity shareholders	**466**	439
Minority interests	**67**	23
	533	462

Associated British Foods plc ('the Company') is a company domiciled in the United Kingdom. The consolidated financial statements of the Company for the year ended 13 September 2008 comprise those of the Company and its subsidiaries (together referred to as 'the group') and the group's interest in associates and jointly controlled entities.

The financial statements were authorised for issue by the directors on 4 November 2008.

The consolidated financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU ('Adopted IFRS').

The Company has elected to prepare its parent company financial statements under UK Generally Accepted Accounting Principles. These are presented on pages 102 to 107.

Basis of preparation

The financial statements are presented in sterling, rounded to the nearest million. They are prepared on the historical cost basis except that biological assets and certain financial instruments are stated at their fair value. Assets classified as held for sale are stated at the lower of carrying amount and fair value less costs to sell.

The preparation of financial statements under Adopted IFRS requires management to make judgements, estimates and assumptions about the reported amounts of assets and liabilities, income and expenses and the disclosure of contingent assets and liabilities. The estimates and associated assumptions are based on experience. Actual results may differ from these estimates. Judgements made by management in the application of Adopted IFRS that have a significant effect on the financial statements, and estimates with a significant risk of material adjustment next year, are discussed in note 31.

The estimates and underlying assumptions are reviewed on a regular basis. Revisions to accounting estimates are recognised from the period in which the estimates are revised.

The accounting policies set out below have been applied to all periods presented.

Details of new accounting standards which came into force in the year are set out at the end of this note. None of them required restatement of primary statements in comparative periods, nor had any significant impact on the group's consolidated results or financial position. The adoption of IFRS 7 – *Financial instruments: disclosure and presentation* required the restatement and expansion of disclosures for financial instruments.

The financial statements of the group are prepared for the 52 weeks ended 13 September 2008, except that, to avoid delay in the preparation of the consolidated financial statements, the results of certain subsidiaries are included up to 31 August 2008. The results of Illovo are included for the period to 30 September 2008 in line with Illovo's local reporting date. Adjustments are made as appropriate for significant transactions or events occurring between 31 August and 30 September.

Basis of consolidation

The consolidated financial statements include the results of the Company and all of its subsidiaries from the date that control commences to the date that control ceases. The consolidated financial statements also include the group's share of the after-tax results of its jointly controlled entities and associates on an equity-accounted basis from the point at which joint control or significant influence respectively commences, to the date that it ceases.

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Jointly controlled entities are those entities over whose activities the group has joint control, typically established by contractual agreement.

Associates are those entities in which the group has significant influence, but not control, over the financial and operating policies.

Business combinations

On the acquisition of a business or an interest in a joint venture or associate, fair values are attributed to the identifiable assets, liabilities and contingent liabilities acquired, reflecting conditions at the date of acquisition. Adjustments to fair values include those made to bring accounting policies into line with those of the group. Provisional fair values subsequently finalised are adjusted by restatement of the comparative period in which the acquisition occurred.

Revenue

Revenue represents the net invoiced value of goods delivered to customers, excluding sales taxes. Revenue is recognised when the risks and rewards of the underlying products have been substantially transferred to the customer. Revenue is stated net of price discounts, certain promotional activities and similar items.

Borrowing costs

Borrowing costs are accounted for on an accruals basis in the income statement using the effective interest method.

Exceptional items
Exceptional items are defined as items of income and expenditure which are material and unusual in nature and which are considered to be of such significance that they require separate disclosure on the face of the income statement in accordance with IAS 1.

Foreign currencies
In individual companies, transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at the rate prevailing at the balance sheet date. Any resulting differences are taken to the income statement.

On consolidation, assets and liabilities of foreign operations that are denominated in foreign currencies are translated into sterling at the rate of exchange at the balance sheet date. Income and expense items are translated into sterling at weighted average rates of exchange other than substantial transactions, which are translated at the rate of exchange on the date of the transaction.

Differences arising from the retranslation of opening net assets of group companies, together with differences arising from the restatement of the net results of group companies from average or actual rates to rates at the balance sheet date, are taken to the translation reserve.

Pensions and other post-employment benefits
The group's principal pension funds are defined benefit plans. In addition the group has defined contribution plans and other unfunded post-employment liabilities. For defined benefit plans, the amount charged in the income statement is the cost of benefits accruing to employees over the year, plus any benefit improvements granted to members by the group during the year. It also includes a credit equivalent to the group's expected return on pension plan assets over the year, offset by a charge equal to the expected interest on plan liabilities over the year. For each of the group's plans, the difference between the market value of assets and the present value of liabilities is disclosed as an asset or liability in the consolidated balance sheet. Any related deferred tax (to the extent it is recoverable) is disclosed separately in the consolidated balance sheet. Any actuarial gains or losses are recognised immediately in the statement of recognised income and expense. Surpluses on defined benefit plans are recognised only to the extent that they are recoverable. Movements in irrecoverable surpluses are recognised immediately as an actuarial gain or loss in the statement of recognised income and expense.

Contributions payable by the group in respect of defined contribution plans are charged to operating profit as incurred. Other unfunded post-employment liabilities are accounted for in the same way as defined benefit pension plans.

Share-based payments: employee benefits
The Share Incentive Plan allows executives to receive allocations of shares to be distributed subject to attainment of certain financial performance criteria and typically after a three-year performance period. The fair value of the shares to be awarded is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the executives become unconditionally entitled to the shares. The fair value of the shares allocated is measured taking into account the terms and conditions under which the shares were allocated. The amount recognised as an expense is adjusted to reflect the actual number of shares that vest.

The Share Option Scheme (1994) and Executive Share Option Scheme (2000) allow executives to acquire shares of the Company. The fair value of options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the executives become unconditionally entitled to the options. The fair value of the options granted is measured using a binomial lattice model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is only due to share prices not achieving the threshold for vesting.

Income tax
Income tax on the profit or loss for the period comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items taken directly to reserves.

Current tax is the tax expected to be payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, together with any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than those acquired in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

Financial assets and liabilities

Financial assets and financial liabilities, except for certain non-current other receivables, other current investments and derivative financial instruments, are measured initially at fair value, plus directly attributable transaction costs, and thereafter at amortised cost. Certain non-current other receivables comprise available-for-sale investments which are measured at market prices where available. Where quoted market prices in an active market are not available, and where fair value cannot be reliably measured, unquoted equity instruments are measured at cost less impairment. Other current investments (classified under other financial assets) are designated as 'at fair value through profit and loss' because they are managed and their performance is evaluated on a fair value basis in accordance with the group's risk management and investment strategy.

Cash and cash equivalents

Cash and cash equivalents comprise bank and cash balances, call deposits and short-term investments with original maturities of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the group's cash management are included as a component of cash and cash equivalents for the purposes of the cash flow statement.

Derivative financial instruments

Derivative financial instruments are used to manage the group's economic exposure to financial and commodity risks. The principal instruments used are forward foreign exchange contracts, futures, swaps or options (the 'hedging instrument'). The group does not use derivative financial instruments for speculative purposes.

Derivative financial instruments are recognised in the balance sheet, within other financial assets and liabilities, at fair value at the date a derivative contract is entered into, and are subsequently remeasured to fair value at each balance sheet date. Fair value is based on market rates or calculated using either discounted cash flow or option pricing models consistently applied for similar types of instrument. These calculations take into consideration management's best estimates and assumptions based on market-related data at the balance sheet date.

The gain or loss on subsequent fair value measurement is recognised in the income statement unless the derivative qualifies for hedge accounting, when recognition of any resultant gain or loss depends on the nature of the item being hedged.

The purpose of hedge accounting is to mitigate the impact on the group's income statement of changes in foreign exchange or interest rates and commodity prices, by matching the impact of the hedged risk and the hedging instrument in the income statement.

Hedge accounting is applied to derivatives that are expected to be effective in offsetting the changes in cash flows of highly probable forecast transactions (the 'hedged item'). To qualify for hedge accounting, the hedging relationship must meet several conditions with respect to documentation, probability of occurrence, hedge effectiveness and reliability of measurement. At inception of the transaction, the group documents the relationship between hedging instruments and hedged items, as well as the risk management objective and strategy for undertaking various hedging transactions. This includes linking all derivatives designated as hedges to specific firm commitments or forecast transactions. The group also documents its assessment, both at inception and at least quarterly thereafter, as to whether the derivatives that are used in hedging transactions have been, and are likely to continue to be, highly effective.

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a highly probable forecast transaction, the effective part of the gain or loss on the derivative financial instrument is recognised in equity in the hedging reserve. The ineffective part of the gain or loss is recognised immediately within operating profit in the income statement.

When the forecast transaction results in the recognition of a non-financial asset or liability, the associated cumulative gains and losses previously recognised in equity are included in the initial measurement of the cost of the asset or liability. Otherwise, gains and losses previously recognised in equity are removed and recognised in the income statement at the same time as the hedged transaction. Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, exercised or no longer qualifies for hedge accounting. At that time, for forecast transactions, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecast transaction occurs. Gains or losses on hedging instruments that relate to an underlying exposure that no longer exists are taken directly to the income statement.

Hedges of the group's net investment in foreign operations take the form of borrowings in the currency of the investment's net assets.

The group economically hedges foreign currency exposure on recognised monetary assets and liabilities but does not normally seek hedge accounting under IAS 39. Any derivatives that the group holds to hedge this exposure are classified as 'held for trading' within other financial assets and liabilities. Changes in the fair value of such derivatives and the foreign exchange gains and losses arising on the related monetary items are recognised within operating profit in the income statement.

Embedded derivatives

Derivatives that are embedded in other financial instruments or other non-financial host contracts are treated as separate derivatives when their risk and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value. As at 13 September 2008, no material embedded derivatives had been identified.

Intangible assets other than goodwill

Non-operating intangible assets are intangible assets that arise on business combinations and typically include intellectual property, brands, customer relationships and grower agreements.

Operating intangible assets are intangible assets acquired in the ordinary course of business and typically include software costs and expenditure in relation to the purchase of additional sugar quota.

Intangible assets other than goodwill that have a finite life are stated at cost less accumulated amortisation and impairment charges. Intangible assets other than goodwill that do not have a finite life are stated at cost less impairment charges and are subject to an annual impairment test.

Amortisation is charged to the income statement within operating costs on a straight-line basis over the estimated useful lives of intangible assets from the date they are available for use. The estimated useful lives are generally deemed to be no longer than:

Customer relationships	up to 5 years
Grower agreements	up to 10 years
Technology and brands	up to 15 years

Goodwill

All business combinations are accounted for by applying the acquisition method. In respect of business acquisitions that have occurred since 3 September 2004, goodwill represents the excess of the purchase consideration over the fair value of the net identifiable assets acquired, including separately identified intangible assets. In respect of acquisitions prior to this date, goodwill is included on the basis of its deemed cost, represented by the net book value recorded under previous GAAP. The classification and accounting treatment of business combinations that occurred prior to 3 September 2004 was not reconsidered on transition to IFRS.

Certain commercial assets associated with the acquisition of a business are not capable of being recognised in the acquisition balance sheet. In such circumstances, goodwill is recognised, which may include, but is not necessarily limited to, workforce assets and the benefits of expected future synergies.

Goodwill is not amortised but is subject to an annual impairment test.

Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised as an expense in the income statement as incurred.

Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalised if the product or process is technically and commercially feasible and the group has sufficient resources to complete development. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Other development expenditure is recognised in the income statement as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and impairment charges.

Impairment

The carrying amounts of the group's intangible assets and property, plant & equipment are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. For goodwill and intangibles without a finite life, the recoverable amount is estimated at each balance sheet date.

An impairment charge is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment charges are recognised in the income statement within operating costs.

Impairment charges recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to a cash-generating unit (or group of units) and then to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis.

Calculation of recoverable amount

The recoverable amount of assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Reversals of impairment

An impairment charge in respect of goodwill is not subsequently reversed. In respect of other assets, an impairment charge is reversed if there has been a change in the estimates used to determine recoverable amount. An impairment charge is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment charge had been recognised.

Property, plant & equipment

Items of property, plant & equipment are stated at cost less accumulated depreciation and impairment charges.

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of items of property, plant & equipment sufficient to reduce them to their estimated residual value. Land is not depreciated. The estimated useful lives are generally deemed to be no longer than:

Freehold buildings	66 years
Plant & equipment, fixtures and fittings	
– sugar factories, yeast plants and mills	20 years
– other operations	12 years
Vehicles	10 years

Leases

A lease is defined as an agreement whereby the lessor conveys to the lessee, in return for a payment or a series of payments, the right to use a specific asset for an agreed period of time.

Where the group is a lessee and has substantially all the risks and rewards of ownership of an asset, the arrangement is considered a finance lease. Finance leases are recognised as assets of the group within property, plant & equipment at the inception of the lease at the lower of fair value and the present value of the minimum lease payments. Depreciation on leased assets is charged to the income statement on the same basis as owned assets. Payments made under finance leases are apportioned between capital repayments and interest expense charged to the income statement. Other leases where the group is a lessee are treated as operating leases. Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. The benefit of lease incentives is recognised in the income statement on a straight-line basis over the life of the lease.

Where the group is a lessor and has transferred substantially all the risks and rewards of ownership of an asset to a lessee, the arrangement is considered a finance lease. For finance leases, capital amounts due from lessees are recognised as financial assets of the group within trade and other receivables at the inception of the lease at the amount of the net investment in the lease after making provision for bad and doubtful debts. Payments received under finance leases are apportioned between capital repayments and interest income credited to the income statement. Other leases where the group is a lessor are treated as operating leases. For operating leases, the asset is capitalised within property, plant & equipment and depreciated over its useful economic life. Payments received under operating leases are recognised in the income statement on a straight-line basis over the term of the lease.

Biological assets

Cane roots and growing cane are stated at fair value determined on the following bases:

Cane roots – the escalated average cost, using appropriate inflation-related indices, of each year of planting adjusted for the remaining expected life. Expected useful lives are currently ten years in South Africa, seven years in Zambia and eight years in each of the other countries of operation.

Growing cane – the estimated sucrose content valued at the estimated sucrose price for the following season, less the estimated costs for harvesting and transport.

When harvested, growing cane is transferred to inventory at fair value less costs to sell.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost includes raw materials, direct labour and expenses, an appropriate proportion of production and other overheads, but not borrowing costs. Cost is calculated on a first-in first-out basis.

New accounting policies

The following standard issued by the International Accounting Standards Board ('IASB') is effective for the first time in the current financial year and has been adopted by the group with no significant impact on its consolidated results or financial position:

IFRS 7 – *Financial instruments: disclosures* (effective for annual periods beginning on or after 1 January 2007).

This standard contains new regulations concerning the disclosure of financial instruments. IFRS 7 replaces and augments the disclosure requirements of IAS 32 – *Financial instruments: disclosure and presentation* and must be applied to reporting periods that commence on or after 1 January 2007. The impact of IFRS 7 on the group's financial instruments has not been material, except in respect of the restatement and expansion of financial instruments disclosures.

The following standards and interpretations issued by the IASB or the International Financial Reporting Interpretations Committee ('IFRIC') have not yet been endorsed by the EU (except for IFRS 8) and have not yet been adopted by the group:

Amendment to IFRS 3 – *Business combinations* and IAS 27 – *Consolidated and separate financial statements* (effective prospectively for annual periods beginning on or after 1 July 2009). These revised standards implement substantial revisions in the application of acquisition accounting, notably with respect to the treatment of acquisition costs, step and partial acquisitions, minority interests and contingent consideration. The group is currently assessing the impact of these revised standards on its financial statements.

IFRS 8 – *Operating segments* (effective for annual periods beginning on or after 1 January 2009).

This standard contains requirements for the disclosure of information about an entity's operating segments and also about the entity's products and services, the geographical areas in which it operates, and its major customers. The standard is concerned only with disclosure and replaces IAS 14 – *Segment reporting*. The group is currently assessing the impact of this standard on its financial statements, but it is not expected to be material.

Amendment to IAS 23 – *Borrowing costs* (effective for annual periods beginning on or after 1 January 2009).

The amendment to IAS 23 generally eliminates the option to expense as incurred borrowing costs attributable to the acquisition, construction or production of a qualifying asset, and instead requires the capitalisation of such borrowing costs as part of the cost of specific assets. The group is currently assessing the impact of the amendment on the results and net assets of the group.

IFRIC 14 – IAS 19: *The limit on a defined benefit asset, minimum funding requirements and their interaction* (effective for annual periods beginning on or after 1 January 2008).

The IFRIC makes it generally more difficult to recognise defined benefit pension surpluses (and the related deferred tax liabilities) on the balance sheet. The impact of this interpretation on the group's financial statements is not expected to be material.

IFRIC 16 – *Hedges of a net investment in a foreign operation* (effective for annual periods beginning on or after 1 October 2008).

The IFRIC clarifies certain aspects of IAS 39 with respect to hedge accounting. The impact of this interpretation on the group's financial statements is not expected to be material.

The group does not consider that any other standards or interpretations issued by the IASB or the IFRIC, either applicable in the current year or not yet applicable, have, or will have, a significant impact on the consolidated financial statements.

1. Segmental analysis

Segment reporting is presented in respect of the group's business and geographical segments. The primary format, business segments, is based on the group's management and internal reporting structure and combines businesses with common characteristics. Inter-segment pricing is determined on an arm's length basis. Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets and expenses, cash, borrowings, employee benefit balances and current and deferred tax balances. Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one year.

Business segments

The group is comprised of the following business segments:

Grocery	The manufacture of grocery products, including hot beverages, sugar & sweeteners, vegetable oils, bread & baked goods, cereals, ethnic foods, herbs & spices and meat & dairy products which are sold to retail, wholesale and foodservice businesses.
Sugar	The growing and processing of sugar beet and sugar cane for sale to industrial users and to Silver Spoon, which is included in the grocery segment.
Agriculture	The manufacture of animal feeds and the provision of other products for the agriculture sector.
Ingredients	The manufacture of bakers' yeast, bakery ingredients, speciality proteins, enzymes, lipids and yeast extracts.
Retail	Buying and merchandising value clothing and accessories through the Primark and Penneys retail chains.

Geographical segments

The secondary format presents the revenues, profits and assets for the following geographical segments:

United Kingdom
Europe, Middle East & Africa
The Americas
Asia Pacific

Revenues are shown by reference to the geographical location of customers. Profits are shown by reference to the geographical location of the businesses. Segment assets are based on the geographical location of the assets.

	Revenue		Adjusted operating profit	
	2008 £m	**2007 £m**	**2008 £m**	**2007 £m**
BUSINESS SEGMENTS				
Grocery	**3,254**	2,605	**194**	153
Sugar	**1,267**	1,151	**153**	199
Agriculture	**867**	645	**33**	18
Ingredients	**842**	698	**75**	71
Retail	**1,933**	1,602	**233**	200
Central	**–**	–	**(28)**	(26)
	8,163	6,701	**660**	615
Businesses disposed:				
Grocery	**–**	7	**–**	–
Agriculture	**42**	42	**1**	–
Ingredients	**30**	50	**3**	7
	72	99	**4**	7
	8,235	6,800	**664**	622
GEOGRAPHICAL SEGMENTS				
United Kingdom	**3,766**	3,176	**309**	254
Europe, Middle East & Africa	**1,489**	1,219	**159**	155
The Americas	**1,312**	1,142	**102**	113
Asia Pacific	**1,596**	1,164	**90**	93
	8,163	6,701	**660**	615
Businesses disposed:				
United Kingdom	**42**	40	**2**	1
Europe, Middle East & Africa	**30**	39	**2**	3
The Americas	**–**	20	**–**	3
	72	99	**4**	7
	8,235	6,800	**664**	622

1. Segmental analysis – for the year ended 13 September 2008

Business segments

	Grocery £m	Sugar £m	Agriculture £m	Ingredients £m	Retail £m	Central £m	Eliminations £m	Total £m
Revenue from continuing businesses	3,267	1,359	870	879	1,933	–	(145)	8,163
Businesses disposed	–	–	42	35	–	–	(5)	72
Internal revenue	(13)	(92)	(3)	(42)	–	–	150	–
Revenue from external customers	3,254	1,267	909	872	1,933	–	–	8,235
Adjusted operating profit from continuing businesses	194	153	33	75	233	(28)	–	660
Businesses disposed	–	–	1	3	–	–	–	4
Adjusted operating profit	194	153	34	78	233	(28)	–	664
Exceptional items	(61)	25	–	(10)	–	–	–	(46)
Amortisation of non-operating intangibles	(22)	(24)	–	(28)	–	–	–	(74)
Profits less losses on sale of property, plant & equipment	2	1	–	4	3	–	–	10
Profits less losses on sale of businesses	–	–	1	4	–	–	–	5
Profit before finance income, finance expense, other financial income and taxation	113	155	35	48	236	(28)	–	559
Finance income						21	–	21
Finance expense						(74)	–	(74)
Other financial income						21	–	21
Taxation						(136)	–	(136)
PROFIT FOR THE PERIOD	113	155	35	48	236	(196)	–	391
Segment assets (excluding investments in associates and joint ventures)	2,415	2,072	213	1,146	1,628	15	–	7,489
Investments in associates and joint ventures	12	31	40	15	–	–	–	98
SEGMENT ASSETS	2,427	2,103	253	1,161	1,628	15	–	7,587
Cash and cash equivalents						348	–	348
Employee benefits assets						106	–	106
Deferred tax assets						101	–	101
Other current investments						9	–	9
SEGMENT LIABILITIES	(525)	(404)	(89)	(149)	(266)	(143)	–	(1,576)
Interest-bearing loans and overdrafts						(1,148)	–	(1,148)
Income tax						(89)	–	(89)
Deferred tax liabilities						(449)	–	(449)
Employee benefits liabilities						(45)	–	(45)
NET ASSETS	1,902	1,699	164	1,012	1,362	(1,295)	–	4,844
Capital additions	90	194	10	54	140	6	–	494
Depreciation	81	55	7	27	64	–	–	234
Impairment of PP&E	17	2	–	3	–	–	–	22
Amortisation	24	24	–	28	–	–	–	76

Geographical segments

	United Kingdom £m	Europe, Middle East & Africa £m	The Americas £m	Asia Pacific £m	Eliminations £m	Total £m
Revenue from external customers	3,808	1,519	1,312	1,596	–	8,235
Segment assets	3,334	1,947	1,090	1,216	–	7,587
Capital additions	129	243	29	93	–	494
Depreciation	131	40	22	41	–	234
Impairment of PP&E	–	2	3	17	–	22
Amortisation	10	32	24	10	–	76

1. Segmental analysis – for the year ended 15 September 2007

Business segments

	Grocery £m	Sugar £m	Agriculture £m	Ingredients £m	Retail £m	Central £m	Eliminations £m	Total £m
Revenue from continuing businesses	2,616	1,250	647	741	1,602	–	(155)	6,701
Businesses disposed	7	–	42	54	–	–	(4)	99
Internal revenue	(11)	(99)	(2)	(47)	–	–	159	–
Revenue from external customers	2,612	1,151	687	748	1,602	–	–	6,800
Adjusted operating profit from continuing businesses	153	199	18	71	200	(26)	–	615
Businesses disposed	–	–	–	7	–	–	–	7
Adjusted operating profit	153	199	18	78	200	(26)	–	622
Amortisation of non-operating intangibles	(14)	(32)	–	(28)	–	–	–	(74)
Profits less losses on sale of property, plant & equipment	–	–	–	–	8	–	–	8
Profits less losses on sale of businesses	7	–	1	(40)	(7)	–	–	(39)
Profit before finance income, finance expense, other financial income and taxation	146	167	19	10	201	(26)	–	517
Finance income						20	–	20
Finance expense						(55)	–	(55)
Other financial income						26	–	26
Taxation						(108)	–	(108)
PROFIT FOR THE PERIOD	146	167	19	10	201	(143)	–	400
Segment assets (excluding investments in associates and joint ventures)	1,949	1,609	172	924	1,436	21	–	6,111
Investments in associates and joint ventures	25	10	31	13	–	–	–	79
SEGMENT ASSETS	1,974	1,619	203	937	1,436	21	–	6,190
Cash and cash equivalents						411	–	411
Employee benefits assets						308	–	308
Deferred tax assets						70	–	70
Other current investments						1	–	1
SEGMENT LIABILITIES	(391)	(427)	(56)	(119)	(217)	(35)	–	(1,245)
Interest-bearing loans and overdrafts						(723)	–	(723)
Income tax						(82)	–	(82)
Deferred tax liabilities						(434)	–	(434)
Employee benefits liabilities						(32)	–	(32)
NET ASSETS	1,583	1,192	147	818	1,219	(495)	–	4,464
Capital additions	85	113	6	44	139	–	–	387
Depreciation	75	52	7	24	56	–	–	214
Amortisation	14	37	–	28	–	–	–	79

Geographical segments

	United Kingdom £m	Europe, Middle East & Africa £m	The Americas £m	Asia Pacific £m	Eliminations £m	Total £m
Revenue from external customers	3,216	1,258	1,162	1,164	–	6,800
Segment assets	2,858	1,601	905	826	–	6,190
Capital additions	230	79	37	41	–	387
Depreciation	124	33	23	34	–	214
Amortisation	10	39	25	5	–	79

2. Operating costs and gross profit

	Note	Before exceptional items 2008 £m	Exceptional items[1] 2008 £m	Total 2008 £m	Total 2007 £m
OPERATING COSTS					
Cost of sales (including amortisation of intangibles)		**6,281**	**46**	**6,327**	5,058
Distribution costs		**908**	**–**	**908**	807
Administration expenses		**471**	**–**	**471**	397
		7,660	**46**	**7,706**	6,262

	Note	Total 2008 £m	Total 2007 £m
OPERATING COSTS ARE STATED AFTER CHARGING/(CREDITING):			
Employee benefits expense	3	**1,122**	1,002
Amortisation of non-operating intangibles	8	**74**	74
Amortisation of operating intangibles	8	**2**	5
Depreciation of owned property, plant & equipment	9	**234**	214
Operating lease payments under property leases		**70**	63
Operating lease payments for hire of plant & equipment		**7**	6
Other operating income		**(12)**	(19)
Research and development expenditure		**21**	16
Fair value gains on financial assets and liabilities held for trading		**(25)**	(21)
Fair value losses on financial assets and liabilities held for trading		**24**	20
Foreign exchange gains on operating activities		**(22)**	(9)
Foreign exchange losses on operating activities		**16**	10

[1]Refer to accounting policy on page 53.

An exceptional credit of £25m arose in British Sugar following acceptance of its application to renounce permanently 206,000 tonnes of UK and Polish sugar quota. The credit comprises compensation receivable less factory closure costs and the write-off of the unamortised cost of quota purchased in 2006.

An exceptional charge of £71m has been made for the costs of business restructuring, principally the Australian meat and dairy business following the acquisition of KR Castlemaine. These costs mainly comprise severance costs, impairment of property, plant & equipment (see note 9) and other closure costs. A tax credit of £23m arises on the above exceptional items. Following a change in tax law in the UK Finance Act 2008, Industrial Buildings Allowances are to be phased out. An exceptional tax charge of £17m reflects the consequential increase in the group's deferred tax liability.

AUDITORS' REMUNERATION	2008 £m	2007 £m
FEES PAYABLE TO THE COMPANY'S AUDITORS AND ITS ASSOCIATES IN RESPECT OF THE AUDIT		
Group audit of the Company's financial statements	**0.6**	0.5
Audit of the Company's subsidiaries pursuant to legislation	**3.4**	3.1
Total audit remuneration	**4.0**	3.6
FEES PAYABLE TO THE COMPANY'S AUDITORS AND ITS ASSOCIATES IN RESPECT OF NON-AUDIT RELATED SERVICES		
Other services pursuant to legislation	**0.3**	0.3
Tax services	**2.3**	1.2
Information technology services	**0.2**	0.5
Due diligence	**1.3**	1.0
All other services	**0.2**	0.3
Total non-audit related remuneration	**4.3**	3.3
FEES PAYABLE TO THE COMPANY'S AUDITORS AND ITS ASSOCIATES IN RESPECT OF THE GROUP'S PENSION SCHEMES		
Audit of the pension schemes	**0.1**	0.1
	0.1	0.1

3. Employees

		2008	2007
AVERAGE NUMBER OF EMPLOYEES			
United Kingdom		**30,840**	29,102
Europe, Middle East & Africa		**40,137**	37,084
The Americas		**4,358**	4,328
Asia Pacific		**20,481**	14,122
		95,816	84,636
	Note	**£m**	**£m**
EMPLOYEE BENEFITS EXPENSE			
Wages and salaries		**977**	862
Social security contributions		**78**	63
Contributions to defined contribution schemes	12	**26**	24
Charge for defined benefit schemes	12	**36**	47
Equity-settled share-based payment schemes	23	**5**	6
		1,122	1,002

Details of directors' remuneration, share options and pension entitlements are shown in the Remuneration report on pages 30 to 33.

4. Interest and other finance income and expense

	2008 £m	2007 £m
FINANCE INCOME		
Interest income on financial assets not at fair value through profit or loss:		
– cash and cash equivalents	**18**	20
– unwinding of discount on receivables	**3**	–
Total finance income	**21**	20
FINANCE EXPENSE		
Interest expense on financial liabilities not at fair value through profit or loss:		
– bank loans and overdrafts	**(53)**	(36)
– all other borrowings	**(16)**	(16)
– finance leases	**(1)**	(1)
– other payables	**(4)**	(2)
Total finance expense	**(74)**	(55)
OTHER FINANCIAL INCOME		
Expected return on employee benefit scheme assets	**149**	138
Interest charge on employee benefit scheme liabilities	**(126)**	(113)
Net financial income in respect of employee benefit schemes	**23**	25
Net foreign exchange (losses)/gains on financing activities	**(2)**	1
Total other financial income	**21**	26

5. Income tax expense

	Note	2008 £m	2007 £m
CURRENT TAX EXPENSE			
UK – corporation tax at 29.1% (2007 – 30%)		**41**	37
Overseas – corporation tax		**73**	71
Under/(over)-provided in prior years		**2**	(7)
		116	101
DEFERRED TAX EXPENSE			
UK deferred tax		**28**	14
Overseas deferred tax		**(9)**	(12)
Under-provided in prior years		**1**	5
TOTAL INCOME TAX EXPENSE IN INCOME STATEMENT		**136**	108
RECONCILIATION OF EFFECTIVE TAX RATE			
Profit before taxation		**527**	508
Less share of profit from joint ventures and associates		**(15)**	(10)
PROFIT BEFORE TAXATION EXCLUDING SHARE OF PROFIT FROM JOINT VENTURES AND ASSOCIATES		**512**	498
Nominal tax charge at UK corporation tax rate of 29.1% (2007 – 30%)		**149**	149
Lower tax rates on overseas earnings		**(38)**	(46)
Expenses not deductible for tax purposes		**12**	7
Utilisation of losses		**(10)**	–
Deferred tax not recognised		**3**	–
Abolition of UK Industrial Buildings Allowances	2	**17**	–
Adjustments in respect of prior periods		**3**	(2)
		136	108
INCOME TAX RECOGNISED DIRECTLY IN EQUITY			
Deferred tax associated with actuarial gains and losses on defined benefit schemes		**(71)**	25
Deferred tax associated with movement in cash flow hedging position		**7**	2
Deferred tax associated with movements in foreign exchange		**3**	1
		(61)	28

Deferred taxation balances are analysed in note 13.

6. Dividends

	2008 pence per share	2007 pence per share	2008 £m	2007 £m
2006 final	**–**	12.50	**–**	99
2007 interim	**–**	6.50	**–**	51
2007 final	**13.00**	–	**103**	–
2008 interim	**6.75**	–	**53**	–
	19.75	19.00	**156**	150

The 2008 interim dividend was declared on 22 April 2008 and paid on 3 July 2008. The 2008 final dividend of 13.50p, total value of £107m, will be paid on 9 January 2009 to shareholders on the register on 5 December 2008.

Dividends relating to the period were 20.25p per share totalling £160m (2007 – 19.50p per share totalling £154m).

7. Earnings per share

The calculation of basic earnings per share at 13 September 2008 was based on the net profit attributable to equity shareholders of £357m (2007 – £369m), and a weighted average number of shares outstanding during the year of 790 million (2007 – 790 million). The calculation of the weighted average number of shares excludes the shares held by the Employee Share Option Scheme on which the dividends are being waived.

Adjusted earnings per ordinary share, which exclude the impact of profits less losses on the sale of property, plant & equipment and businesses, amortisation of non-operating intangibles, exceptional items and the associated tax credits, is shown to provide clarity on the underlying performance of the group.

The diluted earnings per share calculation takes into account the dilutive effect of share options. The diluted, weighted average number of shares is 790 million (2007 – 790 million). There is no difference between basic and diluted earnings.

	2008 £m	2007 £m
ADJUSTED PROFIT FOR THE PERIOD	**434**	418
Profits less losses on sale of property, plant & equipment	**10**	8
Profits less losses on sale of businesses	**5**	(39)
Exceptional items	**(46)**	–
Exceptional tax item and tax effect on above	**(3)**	15
Amortisation of non-operating intangibles	**(74)**	(74)
Tax credit on non-operating intangibles amortisation and goodwill	**21**	30
Minority share of amortisation of non-operating intangibles net of tax	**10**	11
PROFIT FOR THE PERIOD ATTRIBUTABLE TO EQUITY SHAREHOLDERS	**357**	369

	2008 pence	2007 pence
ADJUSTED EARNINGS PER SHARE	**54.9**	52.9
Sale of property, plant & equipment	**1.3**	1.0
Sale of businesses	**0.6**	(4.9)
Exceptional items	**(5.8)**	–
Exceptional tax item and tax effect on above	**(0.4)**	1.9
Amortisation of non-operating intangibles	**(9.4)**	(9.4)
Tax credit on non-operating intangibles amortisation and goodwill	**2.7**	3.8
Minority share of amortisation of non-operating intangibles net of tax	**1.3**	1.4
EARNINGS PER ORDINARY SHARE	**45.2**	46.7

8. Intangible assets

		Non-operating					Operating	
	Goodwill £m	Technology £m	Brands £m	Customer relationships £m	Grower agreements £m	Other £m	Other £m	Total £m
COST								
At 16 September 2006	1,013	199	157	56	161	10	11	1,607
Acquired through business combinations	67	–	69	6	–	(2)	–	140
Other acquisitions – externally purchased	–	–	–	–	–	–	55	55
Businesses disposed	(27)	–	(6)	–	–	–	–	(33)
Other disposals	–	–	–	–	–	–	(4)	(4)
Transferred to assets classified as held for sale	(18)	(15)	(1)	–	–	–	–	(34)
Effect of movements in foreign exchange	(12)	(1)	(2)	(1)	(7)	(1)	1	(23)
AT 15 SEPTEMBER 2007	1,023	183	217	61	154	7	63	1,708
Acquired through business combinations	128	7	67	10	–	–	17	229
Other acquisitions – externally purchased	–	–	–	–	–	–	36	36
Other disposals	–	–	–	–	–	–	(53)	(53)
Transferred to assets classified as held for sale	(11)	–	–	–	–	–	–	(11)
Effect of movements in foreign exchange	85	27	16	4	–	–	3	135
AT 13 SEPTEMBER 2008	1,225	217	300	75	154	7	66	2,044
AMORTISATION AND IMPAIRMENT								
At 16 September 2006	–	29	24	12	–	–	–	65
Amortisation for the year	–	20	19	12	16	7	5	79
Businesses disposed	–	–	(3)	–	–	–	–	(3)
Transferred to assets classified as held for sale	–	(3)	–	–	–	–	–	(3)
AT 15 SEPTEMBER 2007	–	46	40	24	16	7	5	138
Amortisation for the year	–	21	23	15	15	–	2	76
Impairment	5	–	–	–	–	–	–	5
Other disposals	–	–	–	–	–	–	(5)	(5)
Effect of movements in foreign exchange	–	9	6	–	–	–	–	15
AT 13 SEPTEMBER 2008	5	76	69	39	31	7	2	229
NET BOOK VALUE								
At 16 September 2006	1,013	170	133	44	161	10	11	1,542
At 15 September 2007	1,023	137	177	37	138	–	58	1,570
AT 13 SEPTEMBER 2008	1,220	141	231	36	123	–	64	1,815

Amortisation charges and impairment charges are recognised within operating costs in the income statement.

£11m of intangible assets are included within assets classified as held for sale (2007 – £31m) (see note 15).

8. Intangible assets continued

Impairment

Goodwill

As at 13 September 2008, the consolidated balance sheet included goodwill of £1,220m. Goodwill is allocated to the group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination that gave rise to the goodwill, as follows:

CASH-GENERATING UNIT (CGU) OR GROUP OF CGUS	Primary reporting segment	2008 £m	2007 £m
ACH	Grocery	**225**	200
AB Mauri	Ingredients	**297**	222
Twinings/Ovaltine	Grocery	**119**	119
Capullo	Grocery	**58**	58
Illovo	Sugar	**143**	143
Patak's	Grocery	**58**	58
Northern China Sugar	Sugar	**56**	–
Other*	Various	**264**	223
		1,220	1,023

*The amount of goodwill allocated to each CGU or group of CGUs is not individually significant.

A CGU, or group of CGUs, to which goodwill has been allocated must be assessed for impairment annually and whenever there is an indication of impairment.

There have been no indications of impairment relating to the CGUs or groups of CGUs to which goodwill has been allocated and, accordingly, the disclosures that follow relate to the impairment test that is required to be conducted on an annual basis:

- The carrying value of goodwill has been assessed with reference to value in use to perpetuity reflecting the projected cash flows of each of the CGUs or group of CGUs based on the most recent budget. Growth rates for the period not covered by the budget are based on a range of growth rates that reflect the products, industries and countries in which the relevant CGU or group of CGUs operate.

- The key assumptions on which the cash flow projections for the most recent budget are based relate to discount rates, growth rates and expected changes in selling prices and direct costs.

- The cash flow projections have been discounted using a range of rates based on the group's pre-tax weighted average cost of capital. The rates used vary between 8% and 11%.

- The growth rates applied in the value in use calculations for goodwill allocated to each of the CGUs or groups of CGUs that is significant to the total carrying amount of goodwill were in a range between 0% and 2.5%.

- Changes in selling price and direct costs are based on past results and expectations of future changes in the market.

9. Property, plant & equipment

	Land and buildings £m	Plant and machinery £m	Fixtures and fittings £m	Assets under construction £m	Total £m
COST					
At 16 September 2006	1,284	1,810	669	77	3,840
Acquired through business combinations	12	16	–	–	28
Other acquisitions	37	117	135	98	387
Businesses disposed	(5)	(28)	(3)	–	(36)
Other disposals	(8)	(62)	(34)	–	(104)
Transfer to assets classified as held for sale	(11)	(7)	–	–	(18)
Transfers from assets under construction	16	78	3	(97)	–
Effect of movements in foreign exchange	3	3	1	–	7
AT 15 SEPTEMBER 2007	1,328	1,927	771	78	4,104
Acquired through business combinations	57	36	1	14	108
Other acquisitions	91	115	93	195	494
Businesses disposed	(3)	(28)	(1)	–	(32)
Other disposals	(10)	(50)	(16)	–	(76)
Transfer to assets classified as held for sale	(4)	(4)	–	–	(8)
Transfers from assets under construction	23	85	3	(111)	–
Effect of movements in foreign exchange	71	127	21	20	239
AT 13 SEPTEMBER 2008	**1,553**	**2,208**	**872**	**196**	**4,829**
DEPRECIATION AND IMPAIRMENT					
At 16 September 2006	213	975	173	–	1,361
Depreciation for the year	29	128	57	–	214
Businesses disposed	(1)	(16)	(3)	–	(20)
Other disposals	(8)	(49)	(34)	–	(91)
Transfer to assets classified as held for sale	(3)	(3)	–	–	(6)
Effect of movements in foreign exchange	1	3	–	–	4
AT 15 SEPTEMBER 2007	231	1,038	193	–	1,462
Depreciation for the year	30	138	66	–	234
Impairment	2	20	–	–	22
Businesses disposed	(1)	(24)	(1)	–	(26)
Other disposals	–	(40)	(12)	–	(52)
Effect of movements in foreign exchange	13	60	6	–	79
AT 13 SEPTEMBER 2008	**275**	**1,192**	**252**	**–**	**1,719**
NET BOOK VALUE					
At 16 September 2006	1,071	835	496	77	2,479
At 15 September 2007	1,097	889	578	78	2,642
At 13 September 2008	**1,278**	**1,016**	**620**	**196**	**3,110**

	2008 £m	2007 £m
Net book value of finance lease assets	**14**	14
Land and buildings at net book value comprise:		
– Freehold	**976**	874
– Long leasehold	**214**	153
– Short leasehold	**88**	70
	1,278	1,097
Capital expenditure commitments – contracted but not provided for	**229**	151

£8m of property, plant & equipment is included within assets classified as held for sale (2007 – £14m) (see note 15).

Impairment

The impairment of property, plant & equipment principally relates to a restructuring of the Australian meat and dairy business, following the acquisition of KR Castlemaine, the cost of which has been recorded as an exceptional item within operating costs in the income statement, and is included in the Grocery segment.

10. Biological assets

	Current			Non-current
	Growing cane £m	Other £m	Total £m	Cane roots £m
At 16 September 2006	51	–	51	46
Harvested cane transferred to inventory	(48)	–	(48)	–
Purchases	–	–	–	2
Sales	–	–	–	(1)
Changes in fair value	54	–	54	5
Effect of movements in foreign exchange	(4)	–	(4)	(4)
AT 15 SEPTEMBER 2007	53	–	53	48
Acquired through business combinations	–	2	2	–
Harvested cane transferred to inventory	(65)	(9)	(74)	–
Purchases	10	1	11	3
Sales	–	(2)	(2)	–
Changes in fair value	66	12	78	6
Effect of movements in foreign exchange	12	–	12	9
AT 13 SEPTEMBER 2008	76	4	80	66

CANE ROOTS	2008	2007
AREA UNDER CANE AS AT THE END OF THE PERIOD (HECTARES):		
South Africa	**9,669**	9,624
Malawi	**20,446**	18,903
Zambia	**14,466**	11,050
Swaziland	**8,172**	7,950
Tanzania	**8,515**	8,224
Mozambique	**5,235**	5,263
	66,503	61,014

GROWING CANE

The following assumptions have been used in the determination of the estimated sucrose tonnage at 13 September 2008:

	South Africa	Malawi	Zambia	Swaziland	Tanzania	Mozambique
Expected area to harvest (hectares)	6,498	19,501	14,234	7,808	8,260	5,147
Estimated yield (tonnes cane/hectare)	73.0	110.2	138.0	103.3	81.3	90.6
Average maturity of cane	62.0%	66.7%	66.7%	66.7%	50.0%	66.7%

The following assumptions were used in the determination of the estimated sucrose tonnage at 15 September 2007:

	South Africa	Malawi	Zambia	Swaziland	Tanzania	Mozambique
Expected area to harvest (hectares)	6,310	18,325	10,897	7,574	7,776	5,147
Estimated yield (tonnes cane/hectare)	72.0	106.9	115.0	101.2	81.1	91.1
Average maturity of cane	57.0%	66.7%	66.7%	66.7%	50.0%	66.7%

11. Investments in joint ventures and associates

	Joint ventures			Associates		
	Shares £m	Goodwill £m	Total £m	Shares £m	Goodwill £m	Total £m
At 16 September 2006	40	14	54	15	–	15
Acquisitions	4	–	4	8	8	16
Profit for the period	6	–	6	4	–	4
Dividends received	(1)	–	(1)	(2)	–	(2)
Disposals	(7)	(8)	(15)	–	–	–
Transfer to subsidiary	(1)	–	(1)	–	–	–
Effect of movements in foreign exchange	–	(1)	(1)	–	–	–
AT 15 SEPTEMBER 2007	41	5	46	25	8	33
Acquisitions	18	1	19	–	–	–
Profit for the period	10	–	10	5	–	5
Dividends received	(1)	–	(1)	(1)	–	(1)
Transfer to subsidiary	–	–	–	(7)	(8)	(15)
Other reserves movements	(1)	–	(1)	(1)	–	(1)
Effect of movements in foreign exchange	2	–	2	2	–	2
AT 13 SEPTEMBER 2008	69	6	75	23	–	23

Details of principal joint ventures and associates are listed in note 30.

Included in the consolidated financial statements are the following items that represent the group's share of the assets, liabilities and profit of joint ventures and associates:

	Joint ventures		Associates	
	2008 £m	2007 £m	2008 £m	2007 £m
Non-current assets	**30**	18	**13**	17
Current assets	**154**	124	**55**	88
Current liabilities	**(115)**	(101)	**(44)**	(77)
Non-current liabilities	**–**	–	**(1)**	(3)
Goodwill	**6**	5	**–**	8
Net assets	**75**	46	**23**	33
Revenue	**576**	365	**27**	14
Expenses	**(562)**	(357)	**(19)**	(9)
Taxation	**(4)**	(2)	**(3)**	(1)
Profit for the period	**10**	6	**5**	4

12. Employee entitlements

The group operates pension schemes, the majority of which are of the defined benefit type. The group also operates a small number of unfunded overseas post-retirement medical benefit schemes.

UK schemes

The group's principal UK defined benefit pension schemes are funded schemes and are closed to new members, with defined contribution arrangements in place for other employees. The pension costs in the UK for the defined benefit schemes are assessed in accordance with the advice of independent qualified actuaries using the projected unit method. For defined contribution schemes, the pension costs are the contributions payable.

Actuarial gains and losses arising over the financial year are recognised immediately in the statement of recognised income and expense, and are reflected in the balance sheet at 13 September 2008. Past service cost is recognised immediately to the extent that the benefits have already vested.

The last actuarial valuations of the British Sugar Pension Scheme and the Associated British Foods Pension Scheme were carried out as at 1 October 2004 and 5 April 2005 respectively. At the valuation dates the total market value of the assets of these schemes was £1,869m and represented 97% of the benefits that had accrued to members after allowing for expected future increases in earnings.

On 6 April 2006, the British Sugar Pension Scheme was merged into the Associated British Foods Pension Scheme. Their respective funding positions were recalculated at that point and the group agreed to make two payments of £14.5m, the first in October 2006 and the second in October 2007, to eliminate the deficit at 6 April 2006 in the British Sugar section of the newly merged scheme.

The triennial actuarial valuation for the merged scheme as at 5 April 2008 is currently in process.

Overseas schemes

The group also operates defined benefit pension schemes in Australia and New Zealand, the United States, Canada, the Republic of Ireland, Switzerland, Germany, France, Italy, the Philippines, Thailand, South Africa and Zambia. These schemes are primarily funded schemes. The charge for the year is based on recommendations by qualified actuaries. Unfunded post-retirement medical benefit schemes are accounted for as for defined benefit pension schemes. For defined contribution schemes, the pension costs are the contributions payable.

Assumptions

The financial assumptions used to value the UK pension schemes under IAS 19, together with the expected long-term rates of return on assets, are:

	2008 %	2007 %	2006 %
Discount rate	**6.00**	5.80	5.10
Inflation	**3.70**	3.30	3.00
Rate of increase in salaries	**5.20**	4.80	4.50
Rate of increase for pensions in payment	**3.50**	3.10	2.80
Rate of increase for pensions in deferment (where provided)	**3.70**	3.30	3.00

The mortality assumptions used to value the UK pension schemes are derived from the PA92 generational mortality tables with medium cohort improvements, as published by the Institute of Actuaries. These mortality assumptions take account of experience to date, and assumptions for further improvements in life expectancy of scheme members.

Examples of the resulting life expectancies are as follows:

	2008		2007 and 2006	
LIFE EXPECTANCY FROM AGE 65 (IN YEARS)	Male	Female	Male	Female
Member aged 65 in 2008	20.7	22.6	19.3	22.1
Member aged 65 in 2028	22.5	24.1	20.3	23.0

The other demographic assumptions have been set having regard to the latest trends in scheme experience and other relevant data. The assumptions are reviewed and updated as necessary as part of the periodic actuarial valuation of the pension schemes.

For the overseas schemes, regionally appropriate assumptions have been used where recommended by local actuaries.

12. Employee entitlements continued

Balance sheet

The expected rates of return and market values of the assets of the principal schemes were as follows:

UK SCHEMES	2008 %	2008 £m	2007 %	2007 £m	2006 %	2006 £m
Expected long-term rates of return:						
Equities	**7.70**	**752**	7.30	826	7.30	806
Government bonds	**4.70**	**643**	4.30	684	4.30	481
Non-government bonds	**6.00**	**694**	5.80	622	5.10	728
Property	**6.20**	**90**	5.80	106	5.80	86
Other	**5.00**	**23**	5.80	18	4.80	90
Total market value of assets		**2,202**		2,256		2,191
Present value of scheme liabilities		**(2,117)**		(1,972)		(2,040)
Aggregate net surplus of the plan		**85**		284		151
Irrecoverable surplus (a)		**–**		–		–
Net pension asset		**85**		284		151
Unfunded liability included in the present value of scheme liabilities above		**(8)**		(6)		(5)

The sensitivities regarding the principal assumptions used to measure scheme liabilities at 13 September 2008 are:

	Change in assumption	Impact on scheme liabilities
Discount rate	decrease/increase by 0.5%	increase/decrease by 8.2%
Inflation	increase/decrease by 0.5%	increase/decrease by 8.7%
Rate of increase in salaries	increase/decrease by 0.5%	increase/decrease by 1.7%
Rate of mortality	reduce by one year	increase by 2.7%

OVERSEAS SCHEMES	2008 %	2008 £m	2007 %	2007 £m	2006 %	2006 £m
Expected long-term rates of return:						
Equities	**8.89**	**108**	8.44	109	8.65	122
Government bonds	**6.88**	**49**	6.41	51	5.70	27
Non-government bonds	**4.03**	**37**	3.65	33	4.00	25
Property	**6.42**	**5**	6.04	6	6.00	5
Other	**6.08**	**23**	9.37	19	3.85	23
Total market value of assets		**222**		218		202
Present value of scheme liabilities		**(211)**		(192)		(190)
Aggregate net surplus of the plans		**11**		26		12
Irrecoverable surplus (a)		**(35)**		(34)		(36)
Net pension liability		**(24)**		(8)		(24)
Unfunded liability included in the present value of scheme liabilities above		**(22)**		(25)		(19)

(a) The surplus in the plans is only recoverable to the extent that the group can benefit from either refunds formally agreed or future contribution reductions.

The expected rate of return on plan assets was determined, based on actuarial advice, by a process that takes the long-term rate of return on government bonds available at the balance sheet date and with a similar maturity to the scheme liabilities, and applies to these rates suitable risk premia that take account of historic market returns and current market long-term expectations for each asset class.

The UK schemes' net pension asset of £85m (2007 – £284m) less the overseas schemes' net pension liability of £24m (2007 – £8m) totals £61m (2007 – £276m). This equates to the employee benefits asset of £106m (2007 – £308m) and liability of £45m (2007 – £31m) shown on the face of the consolidated balance sheet, together with no employee benefits liability (2007 – £1m) included within liabilities classified as held for sale.

12. Employee entitlements continued

Income statement

The charge to the income statement comprises:

	2008 £m	2007 £m
Charged to operating profit:		
Defined benefit plans		
Current service cost	**(35)**	(44)
Past service cost	**(2)**	(4)
Gain on curtailment	**1**	1
Defined contribution plans	**(26)**	(24)
Total operating cost	**(62)**	(71)
Reported in other finance income:		
Expected return on assets	**149**	138
Interest charge on liabilities	**(126)**	(113)
Net financial income from employee benefit schemes	**23**	25
Net impact on the income statement (before tax)	**(39)**	(46)

The actual return on scheme assets was a loss of £21m (2007 – gain of £118m).

Cash flow

Group cash flow in respect of employee benefits schemes comprises contributions paid to funded plans and benefits paid in respect of unfunded plans. In 2008, the benefits paid in respect of unfunded plans was nil (2007 – nil). Company contributions to funded defined benefit plans are subject to periodic review. In 2008, contributions to funded defined benefit plans amounted to £54m (2007 – £61m). Contributions to defined contribution plans amounted to £26m (2007 – £24m).

Total contributions to funded plans and benefit payments by the group in respect of unfunded plans are currently expected to be approximately £45m in 2009 (2008 – £58m).

Statement of recognised income and expense

Amounts recognised in the statement of recognised income and expense:

	2008 £m	2007 £m
Actual return less expected return on pension scheme assets	**(170)**	(20)
Experience gains and losses arising on the scheme liabilities	**61**	(32)
Changes in assumptions underlying the present value of the scheme liabilities	**(144)**	160
	(253)	108
Change in unrecognised surplus	**(1)**	2
Net actuarial (loss)/gain recognised in the statement of recognised income and expense (before tax)	**(254)**	110

Cumulative actuarial losses from 19 September 2004 reported in the statement of recognised income and expense are £108m (2007 – cumulative gains of £146m).

12. Employee entitlements continued

Reconciliation of change in assets and liabilities

	2008 Assets £m	2007 Assets £m	2008 Liabilities £m	2007 Liabilities £m	2008 Net £m	2007 Net £m
Asset/(liability) at beginning of year	**2,474**	2,393	**(2,164)**	(2,230)	**310**	163
Current service cost	**–**	–	**(35)**	(44)	**(35)**	(44)
Employee contributions	**10**	9	**(10)**	(9)	**–**	–
Acquired through business combinations	**–**	–	**(2)**	–	**(2)**	–
Businesses disposed	**–**	(1)	**1**	2	**1**	1
Employer contributions	**54**	61	**–**	–	**54**	61
Benefit payments	**(113)**	(104)	**113**	104	**–**	–
Past service cost	**–**	–	**(2)**	(4)	**(2)**	(4)
Gain on curtailments	**–**	–	**1**	1	**1**	1
Financial income	**149**	138	**–**	–	**149**	138
Financial expenses	**–**	–	**(126)**	(113)	**(126)**	(113)
Actuarial gain/(loss)	**(170)**	(20)	**(84)**	128	**(254)**	108
Effect of movements in foreign exchange	**20**	(2)	**(20)**	1	**–**	(1)
Asset/(liability) at end of year	**2,424**	2,474	**(2,328)**	(2,164)	**96**	310

HISTORY OF EXPERIENCE GAINS AND LOSSES	2008	2007	2006	2005
Difference between the expected and actual return on scheme assets				
– amount (£m)	**(170)**	(20)	75	155
– percentage of scheme assets	**7.0%**	0.8%	3.1%	7.1%
Experience gains and losses on scheme liabilities				
– amount (£m)	**61**	(32)	4	77
– percentage of scheme liabilities	**2.6%**	1.5%	0.2%	3.7%
Total amount included in statement of recognised income and expense				
– amount (£m)	**(253)**	108	49	(7)
– percentage of scheme liabilities	**10.9%**	5.0%	2.2%	0.3%

13. Deferred tax assets and liabilities

	Property plant and equipment £m	Intangible assets £m	Employee benefits £m	Foreign exchange commodity financial assets and liabilities £m	Other temporary differences £m	Tax value of carry-forward losses recognised £m	Total £m
At 16 September 2006	183	99	45	(2)	25	(34)	316
Amount charged to the income statement	(12)	(9)	10	–	29	(3)	15
Amount charged to the statement of recognised income and expense	–	–	31	2	–	–	33
Acquired through business combinations	(1)	21	–	–	–	–	20
Businesses disposed	–	(2)	–	–	–	–	(2)
Effect of change in tax rate:							
– income statement	(8)	(6)	(1)	–	–	7	(8)
– equity	–	–	(5)	–	–	–	(5)
Transfer to assets and liabilities classified as held for sale	–	(4)	–	–	–	–	(4)
Effect of movements in foreign exchange	(2)	(1)	–	–	(2)	–	(5)
AT 15 SEPTEMBER 2007	160	98	80	–	52	(30)	360
Amount charged to the income statement	32	(7)	11	–	(11)	(4)	21
Amount charged to the statement of recognised income and expense	–	–	(71)	7	3	–	(61)
Acquired through business combinations	–	24	–	–	(2)	–	22
Effect of change in tax rate:							
– income statement	(1)	–	–	–	–	–	(1)
Effect of movements in foreign exchange	5	6	1	(1)	2	(6)	7
AT 13 SEPTEMBER 2008	**196**	**121**	**21**	**6**	**44**	**(40)**	**348**

Certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	2008 £m	2007 £m
Deferred tax assets	**(101)**	(70)
Deferred tax liabilities	**449**	430
	348	360

No deferred tax liabilities (2007 – £4m) are included in liabilities classified as held for sale (see note 15).

The recoverability of deferred tax assets is supported by the expected level of future profits in the countries concerned. Other deferred tax assets totalling £6m (2007 – £3m) have not been recognised on the basis that their future economic benefit is uncertain.

In addition, there are temporary differences of £1,460m (2007 – £1,024m) relating to investments in subsidiaries. No deferred tax has been provided in respect of these differences, since the timing of the reversals can be controlled and it is probable that the temporary differences will not reverse in the future.

14. Trade and other receivables

	2008 £m	2007 £m
NON-CURRENT – OTHER RECEIVABLES		
Loans and receivables	**55**	–
Other non-current investments	**20**	2
	75	2
CURRENT – TRADE AND OTHER RECEIVABLES		
Trade receivables	**827**	618
Other receivables	**131**	90
Accrued income	**34**	25
	992	733
Prepayments and other non-financial receivables	**236**	234
	1,228	967

No trade and other receivables (2007 – £2m) are included within assets held for sale (see note 15).

The directors consider that the carrying amount of receivables approximates fair value.

For details of credit risk exposure on trade and other receivables, see note 25.

15. Assets and liabilities classified as held for sale

As at 13 September 2008, £11m of goodwill and £8m of property, plant & equipment was classified as held for sale. The goodwill is included within the Grocery and the Americas segments. The property, plant & equipment is included within the Sugar and Europe, Middle East and Africa segments. The proceeds of disposal are expected to exceed the carrying value of the assets to be disposed, and accordingly no impairment losses were recognised upon classification as held for sale.

In the prior year, the primary disposal group was the existing German yeast business (shown in the Ingredients and Europe, Middle East & Africa segments), disposal of which was completed on 31 March 2008. The disposal group comprised assets of £42m and liabilities of £7m. The remaining £6m of assets classified as held for sale were mainly items of property, plant & equipment within the Grocery, Sugar, Ingredients and Agriculture business segments, and the United Kingdom, Europe, Middle East & Africa and the Americas geographic segments.

	2008 £m	2007 £m
ASSETS CLASSIFIED AS HELD FOR SALE		
Intangible assets	**11**	31
Property, plant & equipment	**8**	14
Inventories	**–**	1
Trade and other receivables	**–**	2
	19	48
LIABILITIES CLASSIFIED AS HELD FOR SALE		
Trade and other payables	**–**	2
Deferred tax	**–**	4
Employee benefits liability	**–**	1
	–	7

16. Inventories

	2008 £m	2007 £m
Raw materials and consumables	**325**	207
Work in progress	**15**	10
Finished goods and goods held for resale	**702**	548
	1,042	765
Write down of inventories	**(39)**	(47)

No inventories (2007 – £1m) are included within assets classified as held for sale (see note 15).

17. Cash and cash equivalents

	Note	2008 £m	2007 £m
CASH			
Cash at bank and in hand		**326**	336
Cash equivalents		**22**	75
Cash and cash equivalents	25	**348**	411
RECONCILIATION TO THE CASH FLOW STATEMENT			
Bank overdrafts	18	**(138)**	(62)
Cash and cash equivalents in the cash flow statement		**210**	349

Cash at bank and in hand generally earns interest at rates based on the daily bank deposit rate.

Cash equivalents generally comprise:
(i) deposits placed on money markets for periods up to three months which earn interest at the respective short-term deposit rate; and
(ii) funds invested with fund managers that have a maturity of less than or equal to three months and are at fixed rates.

The carrying amount of cash and cash equivalents approximates fair value.

18. Interest-bearing loans and overdrafts

	Note	2008 £m	2007 £m
CURRENT LOANS AND OVERDRAFTS			
Secured bank loans		**24**	4
Unsecured bank loans and overdrafts		**253**	120
Finance lease liabilities	26	**1**	1
		278	125
NON-CURRENT LOANS			
Secured redeemable debenture stock 2013		**150**	150
Secured bank loans		**113**	20
Unsecured bank loans		**594**	415
Finance lease liabilities	26	**13**	13
		870	598
	25	**1,148**	723

	2008 £m	2007 £m
10¾% secured redeemable debenture stock 2013 (GBP)	**150**	150
Secured bank loans		
– GBP floating rate	**1**	8
– USD floating rate	**13**	11
– EUR fixed rate	**1**	1
– RMB floating rate	**14**	–
– RMB fixed rate	**6**	–
– Other floating rate	**57**	–
– Other fixed rate	**45**	4
Unsecured bank loans and overdrafts		
– Bank overdrafts	**138**	62
– GBP floating rate	**148**	–
– USD floating rate	**195**	167
– USD fixed rate	**1**	9
– EUR floating rate	**285**	248
– EUR fixed rate	**3**	3
– ZAR floating rate	**50**	44
– Other floating rate	**25**	2
– Other fixed rate	**2**	–
Finance lease liabilities (fixed rate)	**14**	14
	1,148	723

Secured bank loans comprise amounts borrowed from commercial banks and are secured by floating charges over the assets of subsidiaries.

Bank overdrafts generally bear interest at floating rates.

19. Trade and other payables

	2008 £m	2007 £m
Trade payables	**570**	405
Accruals	**664**	675
	1,234	1,080
Deferred income and other non-financial payables	**131**	87
	1,365	1,167

For payables with a remaining life of less than one year, the carrying amount is deemed to reflect the fair value.

No trade and other payables (2007 – £2m) are included within liabilities classified as held for sale (see note 15).

20. Provisions

	Restructuring £m	Deferred consideration £m	Other £m	Total £m
At 15 September 2007	24	4	22	50
Created	50	105	7	162
Acquired through business combinations	2	–	–	2
Utilised	(18)	(6)	(4)	(28)
Released	–	–	(2)	(2)
Effect of movements in foreign exchange	–	2	–	2
AT 13 SEPTEMBER 2008	58	105	23	186
Current	52	15	18	85
Non-current	6	90	5	101
	58	105	23	186

Provisions include financial liabilities of £174m (2007 – £40m) (see note 25).

Restructuring

Restructuring provisions relate to the cash costs, including redundancy, associated with the group's announced reorganisation plans, of which the majority will be utilised in 2008/9.

Other

Other provisions mainly comprise potential warranty claims arising from the disposal of businesses. The extent and timing of the utilisation of these provisions is more uncertain given the period of the relevant warranties.

21. Total equity

Reconciliation of movement in capital and reserves

	Attributable to equity shareholders							
	Share capital £m	Other reserves £m	Translation reserve £m	Hedging reserve £m	Retained earnings £m	Total £m	Minority interests £m	Total equity £m
At 16 September 2006	47	173	(29)	(6)	3,773	3,958	224	4,182
Total recognised income and expense for the period	–	–	(20)	5	454	439	23	462
Dividends paid to shareholders	–	–	–	–	(150)	(150)	–	(150)
Net increase in own shares held	–	–	–	–	(3)	(3)	–	(3)
Minority interests acquired/disposed	–	–	–	–	–	–	(1)	(1)
Dividends paid to minorities	–	–	–	–	–	–	(26)	(26)
AT 15 SEPTEMBER 2007	47	173	(49)	(1)	4,074	4,244	220	4,464
Total recognised income and expense for the period	–	–	270	26	170	466	67	533
Dividends paid to shareholders	–	–	–	–	(156)	(156)	–	(156)
Net decrease in own shares held	–	–	–	–	3	3	–	3
Minority interests acquired/disposed	–	–	–	–	–	–	24	24
Dividends paid to minorities	–	–	–	–	–	–	(21)	(21)
Changes in fair value of minority interests on acquisition	–	–	–	–	(3)	(3)	–	(3)
AT 13 SEPTEMBER 2008	**47**	**173**	**221**	**25**	**4,088**	**4,554**	**290**	**4,844**

21. Total equity continued

Share capital

	Deferred shares of £1 each '000	Ordinary shares of $5^{15}/_{22}$p each '000	Nominal value £m
AUTHORISED			
At 15 September 2007 and 13 September 2008	2,000	1,054,950	62
ISSUED AND FULLY PAID			
At 15 September 2007 and 13 September 2008	2,000	791,674	47

The deferred shares became redeemable on 1 August 1997. The amount payable by the Company on redemption is the amount paid up on the deferred shares. Redemption is at the sole discretion of the Company.

Deferred shares carry no voting rights and have no rights to dividends or other income distributions. In the event of a winding-up, repayment in respect of the deferred shares ranks after repayment of amounts paid up on the ordinary shares of the Company. The deferred shares are entitled to repayment of amounts paid up, but have no entitlement to any surplus.

Other reserves

The other reserves arose from the cancellation of £173m of share premium account by the Company in 1993 and is non-distributable.

Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations, as well as from the translation of liabilities that hedge the group's net investment in foreign subsidiaries.

22. Acquisitions and disposals

Acquisitions

During the year, the group completed the merger of Ryvita and Jordans and the acquisition of certain of the European assets of Gilde Bakery Ingredients, 11 beet sugar factories in north east China and the KR Castlemaine meat and smallgoods business in Australia. The group also completed a number of other small acquisitions. Costs associated with these acquisitions are included within cash consideration.

The acquisitions had the following effect on the group's assets and liabilities:

2008	Note	Pre-acquisition carrying amounts £m	Recognised values on acquisition £m
NET ASSETS			
Intangible assets	8	20	101
Property, plant & equipment	9	142	108
Inventories		54	56
Trade and other receivables		40	40
Cash and cash equivalents		4	4
Trade and other payables		(49)	(49)
Overdrafts		(1)	(1)
Interest-bearing loans and borrowings		(32)	(32)
Taxation		(1)	(21)
Employee benefits	12	(2)	(2)
Provisions		(2)	(2)
Net identifiable assets and liabilities		173	202
Goodwill on acquisitions	8		128
Minority interests acquired			(5)
Total consideration			325
SATISFIED BY			
Cash consideration			189
Deferred consideration			97
Interests in subsidiaries			24
Interest in associate			15
NET CASH			
Cash consideration			189
Cash/overdraft acquired			(3)
Cash consideration in respect of prior year acquisitions			6
			192

There were no material differences between pre-acquisition carrying amounts and amounts recognised on acquisition, which include fair value adjustments to the assets and liabilities acquired, with the exception of £81m of intangibles recognised, a £34m downward adjustment to property, plant & equipment, a £20m adjustment to deferred tax and a £2m revaluation of inventories.

Goodwill arising on the acquisitions is attributable to the anticipated profitability from the sale of the group's existing products in new markets, and the anticipated future technological and operational synergies from the combinations.

The acquisitions in aggregate contributed revenue of £221m and profit before tax of £nil for the periods between the dates of acquisition and 13 September 2008. Aggregate contributions to revenue and profit before tax had the acquisitions occurred at the beginning of the period have not been disclosed, as appropriately consolidated financial information prepared under Adopted IFRS is not available.

22. Acquisitions and disposals continued

Acquisition of W. Jordan & Son (Silo) Limited 'Jordans'

The merger of Ryvita and Jordans was completed on 29 August 2008. The acquired company contributed no net profit to the consolidated net profit for the year. The contribution to consolidated revenues and net profit had the acquisition occurred at the beginning of the year has not been disclosed, as it would be impractical to determine these amounts. This is because (i) as a privately-held group, Jordans prepared its consolidated financial statements under United Kingdom accounting standards, which are substantively different to Adopted IFRS; (ii) Jordans had a different year end to the group (29 February); and (iii) the last available consolidated financial statements are for the year ended 29 February 2008, all of which is insufficient to determine accurately the fair value adjustments that would have been made to the balance sheet one year ago.

A summary of Jordans' reported results for its most recent full year are shown below:

INCOME STATEMENT FOR THE YEAR ENDED 29 FEBRUARY 2008	£m
Revenue	86
Cost of sales	(60)
Gross profit	26
Distribution expenses	(14)
Administrative expenses	(5)
Operating profit	7
Interest payable	–
Profit before taxation	7
Taxation	(2)
Profit after taxation	5

2007

During 2007 the group purchased Patak's, completed a number of small acquisitions and disposed of its interests in a number of small businesses. The acquisitions had the following effect on the group's assets and liabilities:

	Note	Pre-acquisition carrying amounts £m	Recognised values on acquisition £m
NET ASSETS			
Intangible assets		1	73
Property, plant & equipment		30	28
Inventories		11	11
Trade and other receivables		13	13
Cash and cash equivalents		7	7
Trade and other payables		(24)	(24)
Overdrafts		(6)	(6)
Interest-bearing loans and borrowings		(11)	(11)
Taxation		1	(20)
Net identifiable assets and liabilities		22	71
Goodwill on acquisitions	8		67
Minority interests acquired			1
Total consideration			139
SATISFIED BY			
Cash consideration			132
Cash consideration in respect of prior year acquisitions			1
Deferred consideration			5
Interest in joint venture			1
NET CASH			
Cash consideration			133
Cash/overdraft acquired			(1)
			132

There were no material differences between pre-acquisition carrying amounts and amounts recognised on acquisition, which include fair value adjustments to the assets and liabilities acquired, with the exception of £72m of intangibles recognised, a £2m downward adjustment to property, plant & equipment and a £21m adjustment to deferred tax.

22. Acquisitions and disposals continued

Disposals

During the year, the group disposed of its existing German yeast business, a small UK-based emulsifier business and its interests in a number of other small businesses. Costs associated with these disposals are included within cash consideration.

The disposals had the following effect on the group's assets and liabilities:

	Carrying values 2008 £m	Carrying values 2007 £m
NET ASSETS		
Intangible assets	**15**	3
Property, plant & equipment	**17**	24
Investments in joint ventures and associates	**–**	15
Inventories	**3**	16
Trade and other receivables	**5**	15
Cash and cash equivalents	**–**	8
Trade and other payables	**(3)**	(10)
Interest-bearing loans and borrowings	**–**	(5)
Intercompany receivables/(payables)	**1**	3
Taxation	**(5)**	(3)
Employee benefits	**(1)**	(1)
Net identifiable assets and liabilities	**32**	65
Goodwill disposed	**21**	27
Recycle of effect of movements in foreign exchange	**1**	2
Provisions created	**–**	11
Profit/(loss) on disposal	**5**	(39)
Total consideration	**59**	66
SATISFIED BY		
Cash consideration	**59**	66
NET CASH		
Cash consideration	**59**	66
Cash disposed	**–**	(8)
	59	58

23. Share-based payments

The group had the following equity-settled share-based payment plans in operation during the period:

Associated British Foods plc 1994 Share Option Scheme ('the 1994 Scheme')

This scheme was established by the Company in 1994. Under the terms of the 1994 Scheme, options to purchase ordinary shares in the Company were granted to selected qualifying employees over the ten years from November 1994. The options must be held for five years before they become exercisable. The exercise of options is not subject to specified performance criteria.

Associated British Foods 2000 Executive Share Option Scheme ('the 2000 Scheme')

This scheme was approved and adopted by the Company at the annual general meeting held on 15 December 2000. Under the terms of the 2000 Scheme, options to purchase ordinary shares in the Company may be granted to selected employees over the ten years from 15 December 2000. The options must be held for three years before they become exercisable. The exercise of an option under this scheme will, in accordance with institutional shareholder guidelines, be conditional on the achievement of performance criteria which are based on growth in the group's profits.

Associated British Foods Executive Share Incentive Plan 2003 ('the Share Incentive Plan')

The Share Incentive Plan was approved and adopted by the Company at the annual general meeting held on 5 December 2003. It takes the form of conditional allocations of shares which will be released if, and to the extent that, certain performance targets are satisfied over a three-year performance period.

Further information regarding the operation of the above plans can be found on pages 30 to 32 of the Remuneration report.

23. Share-based payments continued

Details of the group's equity-settled share-based payment plans are as follows:

	Balance outstanding at the beginning of the year	Granted/ awarded	Exercised	Vested	Expired/ lapsed	Balance outstanding at the end of the year	Options exercisable at the end of the year
2008							
the 1994 Scheme	512,110	–	(317,110)	–	(15,000)	180,000	180,000
the 2000 Scheme	187,500	–	(10,000)	–	–	177,500	177,500
the Share Incentive Plan	1,895,475	1,828,504	–	–	(132,194)	3,591,785	N/a
2007							
the 1994 Scheme	569,610	–	(57,500)	–	–	512,110	422,110
the 2000 Scheme	226,500	–	(19,500)	–	(19,500)	187,500	187,500
the Share Incentive Plan	902,937	1,694,890	–	(441,120)	(261,232)	1,895,475	N/a

	Weighted average exercise price of options								
	Outstanding at the beginning of the year pence	Granted pence	Exercised pence	Forfeited pence	Expired pence	Outstanding at the end of the year pence	Exercisable at the end of the year pence	Range of exercise prices for options outstanding at the end of the year pence	Weighted average remaining contractual life of outstanding options at the end of the year years
2008									
the 1994 Scheme	538.01	–	541.16	–	561.50	530.50	530.50	497–564	3.8
the 2000 Scheme	484.00	–	484.00	–	–	484.00	484.00	484.00	2.3
2007									
the 1994 Scheme	540.38	–	561.50	–	–	538.01	532.47	497–564	2.8
the 2000 Scheme	497.95	–	565.00	–	565.00	484.00	484.00	484.00	3.3

The weighted average market price for share options exercised during the year was 876 pence (2007 – 883 pence).

Ordinary shares already issued and subject to option under the 1994 Scheme and the 2000 Scheme, or subject to allocation under the Share Incentive Plan, are held in a separate trust. The trust is funded by the Company. At 13 September 2008 the trust held 2,102,133 (2007 – 1,929,243) ordinary shares of the Company.

Fair values

The weighted average fair values for the 1994 Scheme and the 2000 Scheme were determined using a binomial lattice model (for share options) or by taking the market price of the shares at the time of grant and discounting for the fact that dividends are not paid during the vesting period (for conditional allocations of shares).

The weighted average fair value of the shares awarded under the Share Incentive Plan during the year was 837 pence (2007 – 825 pence) and the weighted average share price was 900 pence (2007 – 887 pence). The dividend yield used was 2.5%.

No options were granted under the 1994 Scheme or the 2000 Scheme in either 2007 or 2008.

In accordance with the transitional provisions of IFRS 1, the group has recognised an expense in respect of all grants under these plans made after 7 November 2002 and unvested at 18 September 2004. The group recognised a total equity-settled share-based payment expense of £5m (2007 – £6m).

24. Analysis of net debt

	At 15 September 2007 £m	Cash flow £m	Acquisitions/ disposals £m	Exchange adjustments £m	At 13 September 2008 £m
Cash at bank and in hand, cash equivalents and overdrafts	349	(156)	–	17	210
Short-term borrowings	(63)	(59)	(8)	(10)	(140)
Other current investments	1	7	–	1	9
Loans over one year	(598)	(182)	(24)	(66)	(870)
	(311)	(390)	(32)	(58)	(791)

Cash and cash equivalents comprise cash balances, call deposits and investments with original maturities of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the group's cash management are included as a component of cash and cash equivalents for the purpose of the cash flow statement.

25. Financial instruments

a) Carrying amount and fair values of financial assets and liabilities

	2008		2007	
	Carrying amount £m	Fair value £m	Carrying amount £m	Fair value £m
FINANCIAL ASSETS				
Cash and cash equivalents	**348**	**348**	411	411
LOANS AND RECEIVABLES:				
Trade and other receivables	**992**	**992**	735	735
Other non-current receivables	**75**	**75**	2	2
AT FAIR VALUE THROUGH PROFIT OR LOSS:				
Other current investments	**9**	**9**	1	1
Derivative financial assets not designated in a cash flow hedging relationship:				
– currency derivatives	**2**	**2**	8	8
– commodity derivatives	**1**	**1**	1	1
DESIGNATED CASH FLOW HEDGING RELATIONSHIPS:				
Derivative financial assets designated and effective as cash flow hedging instruments:				
– currency derivatives	**33**	**33**	1	1
– commodity derivatives	**18**	**18**	6	6
TOTAL FINANCIAL ASSETS	**1,478**	**1,478**	1,165	1,165
FINANCIAL LIABILITIES				
FINANCIAL LIABILITIES AT AMORTISED COST:				
Trade and other payables	**(1,234)**	**(1,234)**	(1,082)	(1,082)
Secured redeemable debenture stock	**(150)**	**(176)**	(150)	(169)
Secured bank loans	**(137)**	**(141)**	(24)	(24)
Unsecured bank loans and overdrafts	**(847)**	**(847)**	(535)	(535)
Finance leases	**(14)**	**(12)**	(14)	(12)
Provisions	**(174)**	**(174)**	(40)	(40)
AT FAIR VALUE THROUGH PROFIT OR LOSS:				
Derivative financial liabilities not designated in a cash flow hedging relationship:				
– currency derivatives	**–**	**–**	(16)	(16)
– commodity derivatives	**(1)**	**(1)**	–	–
– interest rate derivatives	**(1)**	**(1)**	(1)	(1)
DESIGNATED CASH FLOW HEDGING RELATIONSHIPS:				
Derivative financial liabilities designated and effective as cash flow hedging instruments:				
– currency derivatives	**(10)**	**(10)**	(6)	(6)
– commodity derivatives	**(13)**	**(13)**	(3)	(3)
TOTAL FINANCIAL LIABILITIES	**(2,581)**	**(2,609)**	(1,871)	(1,888)
NET FINANCIAL LIABILITIES	**(1,103)**	**(1,131)**	(706)	(723)

The financial instruments shown above include no trade and other receivables (2007 – £2m) and no trade and other payables (2007 – £2m) that are classified as held for sale at year end.

Other financial assets on the face of the balance sheet comprise other current investments and derivative assets shown above. Other financial liabilities comprise derivative liabilities shown above.

25. Financial instruments continued

The methods and assumptions used to estimate fair values of financial assets and liabilities are as follows:

1. Cash and cash equivalents have been stated at their book values due to their short maturities or otherwise immediate or short-term access and realisability.
2. Other non-current investments (recorded within other non-current receivables) comprise minority shareholdings held primarily in privately owned, unquoted companies, where there is no active market available to value them. Where the fair value of the equity instruments cannot be reliably measured, they are recorded at cost. Where shareholdings are held in publicly quoted companies, bid price is used to estimate fair value.
3. The fair values of finance lease receivables and other long-term receivables have been estimated by discounting expected future cash flows.
4. The fair values of trade receivables, other receivables and accrued income have been stated at their book values due to their short maturities.
5. Other current investments primarily comprise debt securities and time deposits, which are stated at fair value, based on cost (for instruments similar in nature to cash and cash equivalents) or on current market prices.
6. The fair value of derivatives is determined either by reference to third party valuations (usually from a bank), or by reference to readily observable market prices. The group's derivatives primarily cover a period of no more than 12 months from the balance sheet date, and information derived from an active market is therefore almost always available to assist with the valuation of derivatives.
7. The fair values of trade payables, other payables and accruals have been stated at their book values due to their short maturities.
8. The fair values of all bank loans, overdrafts and debenture stock have been calculated using the present value of estimated future cash flows.
9. The fair values of finance lease creditors have been estimated by discounting expected cash flows.
10. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date and are discounted to present value where the effect is material. Consequently, the fair value has been presented as book value.

b) Derivative financial instruments

The carrying amount of derivative financial instruments at the reporting date set out below is classified as current on the face of the balance sheet. An analysis of derivatives that are designated in a formal hedging relationship, and those that are not, is shown above.

	2008			2007		
	Contractual/ notional amounts £m	Assets £m	Liabilities £m	Contractual/ notional amounts £m	Assets £m	Liabilities £m
Currency derivatives	**957**	**35**	**(10)**	398	9	(22)
Commodity derivatives	**181**	**19**	**(14)**	89	7	(3)
Interest rate derivatives	**97**	**–**	**(1)**	85	–	(1)
		54	**(25)**		16	(26)

c) Cash flow hedging reserve movements

The following table indicates the cash flow hedging reserve balance at 13 September 2008 and the periods in which the cash flows are expected to occur. The periods in which the cash flows are expected to impact profit or loss are materially the same.

	2008			2007		
	Currency derivatives £m	Commodity derivatives £m	Total £m	Currency derivatives £m	Commodity derivatives £m	Total £m
Within six months	**(23)**	**1**	**(22)**	3	(2)	1
Between six months and one year	**–**	**(2)**	**(2)**	–	–	–
Between one and two years	**(1)**	**–**	**(1)**	–	–	–
Unrecognised (losses)/gains	**(24)**	**(1)**	**(25)**	3	(2)	1

25. Financial instruments continued

The following table identifies the movements in the cash flow hedging reserve during the year, including where gains and losses have been recognised in the income statement.

	2008			2007		
	Currency derivatives £m	Commodity derivatives £m	Total £m	Currency derivatives £m	Commodity derivatives £m	Total £m
Opening balance	**3**	**(2)**	**1**	3	3	6
Gains/(losses) recognised in the hedging reserve	**(1)**	**(9)**	**(10)**	11	9	20
Gains/(losses) arising in previous years that reversed	**(1)**	**1**	**–**	–	–	–
Amount removed from the hedging reserve and included within the income statement due to settlement of contracts – recognised in:						
– revenue	**(26)**	**1**	**(25)**	(3)	–	(3)
– cost of sales	**3**	**–**	**3**	–	(16)	(16)
Amount removed from the hedging reserve and included within a non-financial asset due to settlement of contracts – recognised in:						
– inventory	**(7)**	**5**	**(2)**	(8)	–	(8)
Deferred tax associated with movement in the hedging reserve	**7**	**–**	**7**	–	2	2
Effect of movements in foreign exchange	**(2)**	**3**	**1**	–	–	–
Closing balance	**(24)**	**(1)**	**(25)**	3	(2)	1

d) Financial risk identification and management

The group is exposed to the following financial risks from its use of financial instruments:

- market risk;
- credit risk; and
- liquidity risk.

The group's financial risk management process seeks to enable the early identification, evaluation and effective management of key risks facing the business. Risk management policies and systems have been established and are reviewed regularly to reflect changes in market conditions and the group's activities. The group, through its standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The group sources and sells products and manufactures goods in a wide variety of locations around the world. These operations expose the group to potentially significant price volatility in the financial and commodity markets. Trading and risk management teams have been established in the group's major businesses to manage this exposure by entering into a range of products, including physical and financial forward contracts, futures, and, where appropriate, options. These teams work closely with group Treasury and report regularly to executive management.

Treasury operations and commodity procurement are conducted within a clearly defined framework of board-approved policies and guidelines to manage the group's financial and commodity risks. Treasury works closely with the group's procurement teams to manage commodity risks. Treasury policy seeks to ensure that adequate financial resources are available to the group at all times, for the management and development of the group's businesses, whilst effectively managing its market risk and credit risk. The group's risk management policy explicitly forbids the use of financial or commodity derivatives (outside its risk management framework of mitigating financial and commodity risks) for speculative purposes.

25. Financial instruments continued

e) Foreign currency translation

The group presents its financial statements in sterling. As a result of its diverse worldwide operations, the group is exposed to foreign currency translation risk where overseas operations have a functional currency other than sterling. Changes in foreign currency exchange rates impact the translation into sterling of both the income statement and net assets of these foreign operations.

Where appropriate, the group finances its operations by borrowing locally in the functional currency of its operations. This reduces net asset values reported in functional currencies other than sterling, thereby reducing the economic exposure to fluctuations in foreign currency exchange rates on translation.

The group also finances its operations by obtaining funding at group level through external borrowings, and where they are not in sterling, these borrowings are designated as net investment hedges. This enables gains and losses arising on retranslation of these foreign currency borrowings to be charged to equity, providing a partial offset in equity against the gains and losses arising on translation of the net assets of foreign operations.

The group does not actively hedge the translation impact of foreign exchange rate movements on the income statement (other than via the partial economic hedge arising from the servicing costs on non-sterling borrowings), nor does it use derivatives to hedge its net investments in foreign operations.

The group also designates certain of its intercompany loan arrangements as quasi-equity for the purposes of IAS 21. The effect of the designation is that any foreign exchange volatility arising within the borrowing entity and/or the lending entity is accounted for directly within equity.

The group has foreign currency borrowings that have been designated as hedges of its net investment in foreign operations in Euros and US dollars. The value of these financial liabilities used as hedging instruments at the balance sheet date was:

	2008 £m	2007 £m
Euro	**285**	248
US dollar	**190**	167
	475	415

The foreign exchange loss of £58m (2007 – £4m gain) on retranslation of these loans has been taken to the translation reserve on consolidation.

f) Market risk

Market risk is the risk of movements in the fair value of future cash flows of a financial instrument or forecast transaction as underlying market prices change. The group is exposed to changes in the market price of commodities, interest rates and foreign exchange rates. These risks are known as 'transaction' (or recognised) exposures and 'economic' (or forecast) exposures.

(i) Commodity price risk

Commodity price risk arises from the procurement of raw materials and the consequent exposure to changes in market prices.

The group purchases a wide range of commodities in the ordinary course of business. Exposure to changes in the market price of certain of these commodities including wheat, edible oils, soya beans, meat and dairy, sugar raws, cocoa, rice, tea and energy is managed through the use of forward physical contracts and hedging instruments, including futures and options contracts, primarily to convert floating or indexed prices to fixed prices. The use of such contracts to hedge commodity exposures is governed by the group's risk management policies and is continually monitored by group treasury. Commodity derivatives also provide a way to meet customers' pricing requirements whilst achieving a price structure consistent with the group's overall pricing strategy.

Some of the group's commodity derivatives are treated as 'own use' contracts, which are outside the scope of IAS 39, since they are both entered into, and continue to be held, for the purposes of the group's ordinary operations, and are not net settled (the group takes physical delivery of the commodity concerned). Own use contracts do not require accounting entries until the commodity purchase actually crystallises. Certain other commodity derivatives are accounted for as cash flow hedges where the forecast transaction is highly probable and the hedge is assessed as effective. The group obtains hedge accounting for the majority of these contracts. Some commodity derivatives are not eligible for treatment as 'own use' contracts and are not contracts for which the strict requirements of hedge accounting under IAS 39 are able to be satisfied. This occurs typically where the group does not take physical delivery of the commodity concerned. While such commodity derivatives are used only where the business believes they provide an economic hedge of an underlying exposure, formal hedge accounting may not be possible for reasons including: where the derivatives are in respect of a similar but different commodity to that being hedged; where exchange-traded derivatives are used that are not sufficiently close in all respects (for example quality attributes) to the business requirement; or where the exchange used is foreign to the business. Where hedge accounting for commodity derivatives within the scope of IAS 39 is not available, the instruments are classified as held for trading and are marked to market through the income statement.

The majority of the group's forward physical contracts and commodity derivatives have original maturities of less than one year.

25. Financial instruments continued

Sensitivity analysis

The following sensitivity analysis shows the impact on the group's results and the group's equity of changes in commodity market prices as a result of entering into financial instruments (including derivatives). The only financial assets and liabilities expected to show any sensitivity in this respect are commodity derivatives.

The sensitivity chosen is a 20% increase in the forward curves for various commodity prices as if they had occurred on 13 September 2008. For as long as the group continues to make limited use of options, a 20% decrease in forward prices would produce a broadly equal and opposite impact on profit and equity to that shown. The movement of forward price curves by 20% is considered to be a reasonable approximation of how much markets might typically move, on average, over any given year, notwithstanding that the increases in some commodity prices during the past year have been significantly greater than this.

The sensitivity analysis addresses the impact on year end financial assets and liabilities, and is not an estimate of what profit might have been if commodity prices had been uniformly different throughout the year.

The following assumptions have been applied in the calculation of these sensitivities, which are presented before taxation and minority interests:

- all qualifying cash flow hedges at 13 September 2008 will continue to be fully effective in achieving cash flow hedge accounting; and
- commodity contracts that qualify for the 'own use' treatment continue to do so. This sensitivity therefore has no impact for these contracts.

	Impact on profit for the year 2008 +/- £m	Impact on total equity 2008 +/- £m	Impact on profit for the year 2007 +/- £m	Impact on total equity 2007 +/- £m
20% increase in commodity prices	**4**	**20**	3	5

(ii) Interest rate risk

Interest rate risk comprises two primary elements:

- interest price risk results from financial instruments bearing fixed interest rates. Changes in floating interest rates therefore affect the fair value of these fixed rate financial instruments; and
- interest cash flow risk results from financial instruments bearing floating rates. Changes in floating interest rates affect cash flows on interest receivable or payable.

The group's policy is to maintain floating rate debt for the majority of its bank finance, although it periodically assesses its position with respect to interest price and cash flow risk and interest rate swaps are sometimes entered into in more volatile markets.

At 13 September 2008, £222m (19%) (2007 – £181m and 25%) of total debt was subject to fixed rates of interest. A majority of the group's fixed rate debt is accounted for by the £150m 10¾% secured redeemable debenture stock 2013.

Floating rate debt comprises bank borrowings bearing interest rates fixed in advance, for various time periods up to 12 months, by reference to official market rates (eg LIBOR).

Sensitivity analysis

Applying a 100 basis point parallel increase in the interest rate yield curve as if it had occurred on 13 September 2008 results in no impact on profit for the year or total equity (2007 – no impact on profit or total equity). The following assumptions have been applied in the calculation of this sensitivity, which is presented before taxation and minority interests:

- the impact of this sensitivity has only been recorded for changes in the fair value of derivative financial instruments which have their fair value gains and losses recorded within the financial statements, assets available for sale, and other current investments, as the group does not designate any other financial asset at fair value through profit or loss and these are the only significant financial instruments whose carrying amounts change as a result of changes in interest rates. All other financial instruments are carried at amortised cost;
- no impact is recorded in respect of changes in interest rates on employee benefits (including pensions), or discount rates applied to financial instruments to record them at present value; and
- all qualifying cash flow hedges at 13 September 2008 will continue to be fully effective in achieving cash flow hedge accounting.

25. Financial instruments continued

A second sensitivity analysis calculates the impact on profitability of a 100 basis point increase in interest rates on floating rate interest-bearing loans and overdrafts, and on cash and cash equivalents balances on which variable rates of interest are earned. The year end cash balance is deducted from the year end floating rate loans and overdrafts balance. This net floating rate borrowing figure is multiplied by 1%. In 2008, this equated to an interest expense of £6m before taxation and minority interests (2007 – £1m).

(iii) Foreign currency risk

The group conducts business worldwide and consequently in many foreign currencies. As a result, it is exposed to movements in foreign currency exchange rates which affect the group's transaction costs. The group also publishes its financial statements in sterling and is therefore exposed to movements in foreign exchange rates on the translation of the results and underlying net assets of its foreign operations into sterling.

Translation risk is discussed in section e) above.

Transaction risk

Currency transaction exposure occurs where a business makes sales and purchases in a currency other than its functional currency. It also arises where monetary assets and liabilities of a business are not denominated in its functional currency, and where dividends or surplus funds are remitted from overseas. The group's policy is to match transaction exposures wherever possible, and to hedge actual exposures and firm commitments as soon as they occur by using forward foreign currency contracts. All foreign currency instruments contracted with non-group entities to manage transaction exposures are undertaken by group treasury or, where foreign currency controls restrict group treasury acting on behalf of subsidiaries, under the guidance of group treasury. Identification of transaction exposures is the responsibility of each business.

The group uses derivatives (principally forward foreign currency contracts and time options) to hedge its exposure to movements in exchange rates on its foreign currency trade receivables and payables. The group does not seek formal fair value hedge accounting for such transaction hedges. Instead, such derivatives are classified as held for trading and marked to market through the income statement. This offsets the income statement impact of the retranslation of the foreign currency trade receivables and payables.

Economic (forecast) risk

The group also uses forward foreign currency contracts to hedge its exposure to movements in exchange rates on its highly probable forecast foreign currency sales and purchases on a rolling 12 month basis. The group does not formally define the proportion of highly probable forecast sales and purchases to hedge, but agrees an appropriate percentage on an individual basis with each business by reference to the group's risk management policies and prevailing market conditions. The group documents currency derivatives used to hedge its forecast transactions as cash flow hedges. To the extent that cash flow hedges are effective, gains and losses are deferred in equity until the forecast transaction occurs, at which point the gains and losses are recycled either to the income statement or to the non-financial asset acquired.

The majority of the group's currency derivatives have original maturities of less than one year.

The group's most significant currency transaction exposures are:

- sugar prices in British Sugar UK and Poland to movements in the sterling/euro and Polish zloty/euro exchange rates respectively;
- sugar prices in Illovo to movements in the South African rand/US dollar/euro exchange rates; and
- sourcing for Primark – costs are denominated in a number of currencies, predominantly sterling, euros and US dollars.

Elsewhere, a number of businesses make sales and purchase a variety of raw materials in foreign currencies (primarily US dollars and euros), giving rise to transaction exposures. In all other material respects, businesses tend to operate in their functional currencies and, as a result, further transaction exposure to foreign currency exchange rate movements is modest.

The EU sugar restructuring scheme has modified the way in which the price of sugar beet is set in sterling for the UK and in Polish zlotys for Poland, resulting in changes to the net euro currency exposure of British Sugar in the UK and Poland. The group manages these currency exposures within its risk management framework to mitigate the effect of any changes to its currency exposure profile.

25. Financial instruments continued

The analysis of the group's foreign currency exposure to financial assets and liabilities by currency of denomination is as follows:

	2008				
	Sterling £m	US dollar £m	Euro £m	Other £m	Total £m
FINANCIAL ASSETS					
Cash and cash equivalents	**3**	**24**	**17**	**8**	**52**
Trade and other receivables	**1**	**15**	**85**	**8**	**109**
Other non-current receivables	**–**	**1**	**52**	**–**	**53**
Non-currency derivatives	**–**	**1**	**–**	**–**	**1**
	4	**41**	**154**	**16**	**215**
FINANCIAL LIABILITIES					
Trade and other payables	**(1)**	**(77)**	**(179)**	**(5)**	**(262)**
Secured bank loans	**–**	**–**	**(1)**	**(44)**	**(45)**
Unsecured bank loans and overdrafts	**–**	**(190)**	**(287)**	**–**	**(477)**
Provisions	**–**	**–**	**(1)**	**–**	**(1)**
Non-currency derivatives	**–**	**(1)**	**–**	**–**	**(1)**
	(1)	**(268)**	**(468)**	**(49)**	**(786)**
CURRENCY DERIVATIVES					
Gross amounts receivable	**22**	**448**	**51**	**28**	**549**
Gross amounts payable	**–**	**(10)**	**(344)**	**(16)**	**(370)**
	22	**438**	**(293)**	**12**	**179**
	25	**211**	**(607)**	**(21)**	**(392)**

	2007				
	Sterling £m	US dollar £m	Euro £m	Other £m	Total £m
FINANCIAL ASSETS					
Cash and cash equivalents	11	24	7	3	45
Trade and other receivables	1	9	31	6	47
Other non-current receivables	–	1	–	–	1
Non-currency derivatives	–	1	–	–	1
	12	35	38	9	94
FINANCIAL LIABILITIES					
Trade and other payables	–	(58)	(212)	(4)	(274)
Secured bank loans	–	(11)	(1)	–	(12)
Unsecured bank loans and overdrafts	–	(176)	(251)	–	(427)
Non-currency derivatives	–	(1)	–	–	(1)
	–	(246)	(464)	(4)	(714)
CURRENCY DERIVATIVES					
Gross amounts receivable	20	315	26	15	376
Gross amounts payable	–	(8)	(1)	(18)	(27)
	20	307	25	(3)	349
	32	96	(401)	2	(271)

25. Financial instruments continued

The following significant exchange rates applied during the year:

	Average rate		Closing rate	
	2008	2007	**2008**	2007
US dollar	**1.98**	1.96	**1.79**	2.01
Euro	**1.32**	1.48	**1.26**	1.45
Rand	**14.67**	14.15	**14.34**	14.35
Renminbi	**14.13**	15.19	**12.28**	15.09
Australian dollar	**2.18**	2.44	**2.18**	2.38

Sensitivity analysis

The following sensitivity analysis illustrates the impact that a 10% strengthening of the group's operating currencies against local functional currencies would have had on profit and equity. The analysis covers currency translation exposures at year end on businesses' financial assets and liabilities that are not denominated in the functional currencies of those businesses. A similar but opposite impact would be felt on both profit and equity if the group's main operating currencies weakened against local functional currencies by a similar amount.

The following assumption has been applied in the calculation of this sensitivity, which is presented before taxation and minority interests:

- the exposure to foreign exchange gains and losses on translating the financial statements of subsidiaries into sterling is not included in this sensitivity analysis, as there is no impact on the income statement, and the gains and losses are recorded directly in the translation reserve in equity (see below for a separate sensitivity).

10% STRENGTHENING AGAINST OTHER CURRENCIES OF	Impact on profit for the year 2008 +/- £m	Impact on total equity 2008 +/- £m	Impact on profit for the year 2007 +/- £m	Impact on total equity 2007 +/- £m
Sterling	**–**	**(2)**	1	3
US dollar	**(4)**	**(55)**	(8)	(39)
Euro	**1**	**(6)**	(18)	(43)
Other	**(3)**	**(3)**	1	1

A second sensitivity analysis calculates the impact on the group's profit before tax if the average rates used to translate the results of the group's foreign operations into sterling were adjusted to show a 10% strengthening of sterling. A similar but opposite impact would be felt on profit before tax if sterling weakened against the other currencies by a similar amount.

10% STRENGTHENING OF STERLING AGAINST	Impact on profit for the year 2008 +/- £m	Impact on profit for the year 2007 +/- £m
US dollar	**(3)**	(2)
Euro	**(7)**	(4)
Rand	**(5)**	(4)
Renminbi	**(2)**	(3)
Australian dollar	**2**	(3)

25. Financial instruments continued

g) Credit risk

Credit risk is the risk that counterparties to financial instruments do not perform according to the terms of the contract or instrument. The group's businesses are exposed to counterparty credit risk when dealing with customers, and from certain financing activities.

The immediate credit exposure of financial instruments is represented by those financial instruments that have a net positive fair value by counterparty at 13 September 2008. The group considers its maximum exposure to credit risk to be:

	2008 £m	2007 £m
Cash and cash equivalents	**348**	411
Loans and receivables (refer to note 25a)	**1,067**	737
Financial assets at fair value through profit and loss		
– other current investments	**9**	1
– derivative financial assets	**3**	9
Designated cash flow hedging relationships		
– derivative financial assets	**51**	7
	1,478	1,165

The majority of cash balances and short-term deposits are held with strong investment grade banks or financial institutions.

As at 13 September 2008, there were no significant financial guarantees or third-party obligations that increased the credit risk of the financial assets set out above.

Although the group has seen no direct evidence of changes to the credit risk of its counterparties, the current focus on financial liquidity in all international markets has introduced increased financial volatility. The group uses market knowledge, changes in credit ratings and other techniques to identify significant changes to the financial profile of its counterparties.

Trade and other receivables

Concentrations of credit risk are limited as a result of the group's large and diverse customer base. The group has established a credit policy applied by each business under which the credit status of each new customer is reviewed before credit is advanced. This includes external credit evaluations where possible and in some cases bank references. Credit limits are established for all significant or high risk customers, which represent the maximum amount permitted to be outstanding without requiring additional approval from the appropriate level of management. Outstanding debts are continually monitored by each business. Credit limits are reviewed on a regular basis, and at least annually. Customers that fail to meet the group's benchmark creditworthiness may only transact with the group on a prepayment basis. Aggregate exposures are monitored at group level.

Many of the group's customers have been transacting with the group for many years and the incidence of bad debts has been low. Where appropriate, goods are sold subject to retention of title so that, in the event of non-payment, the group may have a secured claim. The group does not typically require collateral in respect of trade and other receivables.

The group provides for impairment of financial assets including trade and other receivables based on known events, and makes a collective provision for losses yet to be identified, based on historical data. The majority of the provision comprises specific amounts.

25. Financial instruments continued

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

	2008 £m	2007 £m
UK	**407**	309
Europe, Middle East & Africa	**181**	132
The Americas	**169**	120
Asia Pacific	**235**	174
	992	735

Trade receivables can be analysed as follows:

	2008 Gross £m	2007 Gross £m
Not overdue	**659**	472
Up to 1 month past due	**122**	110
Between 1 and 2 months past due	**34**	18
Between 2 and 3 months past due	**18**	8
More than 3 months past due	**37**	44
Provision for doubtful debts	**(43)**	(34)
At 13 September 2008	**827**	618

Based on past experience, the group believes that no impairment allowance is necessary in respect of trade receivables that are not past due.

Trade and other receivables are stated net of the following provision for irrecoverable amounts:

	2008 £m	2007 £m
Opening balance	**34**	37
Amounts provided for during the year	**11**	7
Amounts released during the year	**(1)**	(6)
Amounts utilised during the year	**(3)**	(4)
Acquisitions/(disposals)	**1**	–
Effect of movements in foreign exchange	**1**	–
Closing balance	**43**	34

No trade and other receivables (2007 – none) were written off directly to the income statement in the year.

The directors consider that the carrying amount of trade and other receivables approximates fair value.

25. Financial instruments continued

Cash, cash equivalents and other current investments

Banking relationships are generally limited to those banks that are members of the core relationship group. These banks are selected for their credit status, global reach and their ability to meet the businesses' day-to-day banking requirements. The credit ratings of these institutions are monitored on a continuing basis. In locations where the core relationship banking group cannot be used, operating procedures including choice of bank, opening of bank accounts and repatriation of funds must be agreed with group Treasury. The group has not recorded impairments against cash, cash equivalents or other current investments, nor have any recoverability issues been identified with such balances. Such items are typically recoverable on demand or in line with normal banking arrangements.

Other financial assets

Other non-current investments are typically equity investments with no fixed maturity or recoverability date. No impairment issues have been identified with respect to other non-current investments.

Since derivative assets are recorded at fair value, either through profit and loss, for those not in a designated cash flow hedging relationship, or otherwise through the hedging reserve, no impairment issues have been identified.

h) Liquidity risk

Liquidity risk is the risk that the group will encounter difficulty in meeting its obligations associated with its financial liabilities as they fall due. Group Treasury is responsible for monitoring and managing liquidity and ensures that the group has sufficient headroom in its committed facilities to meet unforeseen or abnormal requirements. The group also has access to uncommitted facilities to assist with short-term funding requirements.

Available headroom is monitored via the use of detailed cash flow forecasts prepared by each business, which are reviewed at least quarterly, or more often, as required. Actual results are compared to budget and forecast each period, and variances investigated and explained. Particular focus is given to management of working capital.

Details of the group's borrowing facilities are given in section i).

The following table analyses the contractual undiscounted cash flows relating to financial liabilities at the balance sheet date and compares them to carrying amounts:

		2008						
	Note	Due within 6 months £m	Due between 6 months and 1 year £m	Due between 1 and 2 years £m	Due between 2 and 5 years £m	Due after 5 years £m	Contracted amount £m	Carrying amount £m
NON-DERIVATIVE FINANCIAL LIABILITIES								
Trade and other payables	19	**(1,181)**	**(53)**	**–**	**–**	**–**	**(1,234)**	**(1,234)**
Secured redeemable debenture stock	18	**(8)**	**(8)**	**(16)**	**(198)**	**–**	**(230)**	**(150)**
Secured bank loans	18	**(17)**	**(7)**	**(60)**	**(53)**	**–**	**(137)**	**(137)**
Unsecured bank loans and overdrafts	18	**(243)**	**(10)**	**(3)**	**(470)**	**(121)**	**(847)**	**(847)**
Finance lease liabilities	26	**(1)**	**–**	**(1)**	**(3)**	**(42)**	**(47)**	**(14)**
Provisions	20	**(32)**	**(43)**	**(14)**	**(84)**	**(1)**	**(174)**	**(174)**
DERIVATIVE FINANCIAL LIABILITIES								
– Currency derivatives (net payments)		**(3)**	**(9)**	**(1)**	**–**	**–**	**(13)**	**(10)**
– Commodity derivatives (net payments)		**7**	**14**	**7**	**–**	**–**	**28**	**(14)**
– Interest rate derivatives (net payments)		**(3)**	**(3)**	**1**	**–**	**–**	**(5)**	**(1)**
TOTAL FINANCIAL LIABILITIES		**(1,481)**	**(119)**	**(87)**	**(808)**	**(164)**	**(2,659)**	**(2,581)**

25. Financial instruments continued

	Note	2007 Due within 6 months £m	Due between 6 months and 1 year £m	Due between 1 and 2 years £m	Due between 2 and 5 years £m	Due after 5 years £m	Contracted amount £m	Carrying amount £m
NON-DERIVATIVE FINANCIAL LIABILITIES								
Trade and other payables	19	(1,036)	(46)	–	–	–	(1,082)	(1,082)
Secured redeemable debenture stock	18	(8)	(8)	(16)	(49)	(166)	(247)	(150)
Secured bank loans	18	(2)	(2)	(3)	(15)	(2)	(24)	(24)
Unsecured bank loans and overdrafts	18	(119)	(1)	–	(415)	–	(535)	(535)
Finance lease liabilities	26	(1)	(1)	(1)	(3)	(42)	(48)	(14)
Provisions	20	(15)	(11)	(7)	(6)	(1)	(40)	(40)
DERIVATIVE FINANCIAL LIABILITIES								
– Currency derivatives (net payments)		(1)	(2)	–	–	–	(3)	(22)
– Commodity derivatives (net payments)		7	1	–	–	–	8	(3)
– Interest rate derivatives (net payments)		(2)	(3)	(6)	1	–	(10)	(1)
TOTAL FINANCIAL LIABILITIES		(1,177)	(73)	(33)	(487)	(211)	(1,981)	(1,871)

The above tables do not include forecast data for liabilities which may be incurred in the future but which were not contracted at 13 September 2008.

The principal reasons for differences between carrying values and contractual undiscounted cash flows are coupon payments on the secured redeemable debenture stock to which the group is already committed, future interest payments on the group's finance leases, and cash flows on derivative financial instruments which are not aligned with their fair value.

i) Borrowing facilities

The group has substantial borrowing facilities available to it. The undrawn committed facilities available at 13 September 2008 in respect of which all conditions precedent have been met amounted to £219m (2007 – £269m):

	2008 Facility £m	2008 Drawn £m	2008 Undrawn £m	2007 Facility £m	2007 Drawn £m	2007 Undrawn £m
US$1.2bn syndicated facility	**671**	**469**	**202**	598	412	186
British Sugar secured redeemable debenture stock	**150**	**150**	**–**	150	150	–
European Investment Bank	**120**	**120**	**–**	–	–	–
Zambia sugar facilities	**101**	**101**	**–**	–	–	–
Other	**65**	**48**	**17**	108	25	83
	1,107	**888**	**219**	856	587	269

Uncommitted facilities available at 13 September 2008 were:

	2008 Facility £m	2008 Drawn £m	2008 Undrawn £m	2007 Facility £m	2007 Drawn £m	2007 Undrawn £m
Money market lines	**160**	**28**	**132**	160	–	160
Illovo facilities	**186**	**63**	**123**	187	65	122
Other	**238**	**155**	**83**	109	71	38
	584	**246**	**338**	456	136	320

In addition to the above facilities there are also £93m (2007 – £89m) of undrawn and available credit lines for the purposes of issuing letters of credit and guarantees in the normal course of business.

The group also has £14m (2007 – £14m) of finance lease liabilities which are not included in the tables above, but which are included in the group's interest-bearing loans and overdrafts in note 18.

Since the year end, the Company has negotiated an additional committed three-year £320m borrowing facility with its existing banking group. The new facility will be used for general corporate purposes.

Uncommitted bank borrowing facilities are normally reaffirmed by the banks annually, although they can theoretically be withdrawn at any time.

Refer to note 9 for details of the group's capital commitments and to note 27 for a summary of the group's guarantees. An assessment of the group's current liquidity position is given in the 'Financial review' section of the annual report on page 17.

25. Financial instruments continued

j) Capital management

The capital structure of the group is presented in the balance sheet. Note 21 provides details on equity and note 18 on loans and overdrafts. Short and medium-term funding requirements are provided by a variety of loan and overdraft facilities, both committed and uncommitted, with a range of counterparties and maturities. Longer term funding is sourced from a combination of these facilities and committed syndicated loan facilities.

The board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to enable successful future development of the business. The board monitors return on capital by division and determines the overall level of dividends payable to shareholders.

From time to time, the group purchases its own shares in the market. The shares are purchased to satisfy awards under the group's share option scheme and long-term incentive plan. Once purchased, shares are not sold back into the market. The group does not have a defined share buy-back plan.

There were no changes to the group's approach to capital management during the year. Neither the company nor any of its subsidiaries are subject to externally imposed capital requirements.

26. Lease commitments

Operating leases

The group acts as a lessee, lessor and sub-lessor for both land and buildings and plant & machinery under operating leases.

Sublease receipts of £3m (2007 – £3m) were recognised in the income statement in the period, the majority relating to operating leases. The total of future minimum sublease receipts expected to be received is £29m (2007 – £18m).

Under the terms of the lease agreements, no contingent rents are payable.

The future minimum lease payments under operating leases are as follows:

	2008 £m	2007 £m
Within one year	**87**	62
Between one and five years	**308**	216
After five years	**1,130**	932
	1,525	1,210

Finance leases

Finance lease liabilities are payable as follows:

	Minimum lease payments 2008 £m	Interest 2008 £m	Principal 2008 £m	Minimum lease payments 2007 £m	Interest 2007 £m	Principal 2007 £m
Within one year	**1**	**–**	**1**	2	1	1
Between one and five years	**4**	**3**	**1**	4	3	1
After five years	**42**	**30**	**12**	42	30	12
	47	**33**	**14**	48	34	14

27. Contingencies

Litigation and other proceedings against companies in the group are not considered material in the context of these financial statements.

The group has not adopted the amendments to IAS 39 in relation to financial guarantee contracts which apply for periods commencing on or after 1 January 2006. Where group companies enter into financial guarantee contracts to guarantee the indebtedness of other group companies, the group considers these to be insurance arrangements and accounts for them as such in accordance with IFRS 4. In this respect, the guarantee contract is treated as a contingent liability until such time as it becomes probable that the relevant group company issuing the guarantee will be required to make a payment under the guarantee.

As at 13 September 2008, group companies have provided guarantees in the ordinary course of business amounting to £196m (2007 – £177m).

28. Related parties

The group has a controlling related party relationship with its parent company, which is also its ultimate parent company (see note 30). The group also has a related party relationship with its associates and joint ventures (see note 11) and with its directors. In the course of normal operations, related party transactions entered into by the group have been contracted on an arm's-length basis.

Material transactions and year end balances with related parties were as follows:

	Sub note	2008 £'000	2007 £'000
Charges to Wittington Investments Limited in respect of services provided by the Company and its subsidiary undertakings		**271**	162
Dividends paid by ABF and received in a beneficial capacity by:			
(i) Trustees of the Garfield Weston Foundation	1	**6,063**	5,220
(ii) Directors of Wittington Investments Limited who are not trustees of the Foundation		**780**	753
(iii) Directors of the Company who are not trustees of the Foundation and are not directors of Wittington Investments Limited	2	**15**	13
(iv) a member of the Weston family employed within the ABF group	3	**576**	553
Sales to fellow subsidiary undertakings on normal trading terms	4	**2,438**	2,382
Sales to a company with common key management personnel	5	**3,551**	3,120
Amounts due from fellow subsidiary undertakings on normal trading terms	4	**872**	602
Amounts due from a company with common key management personnel	5	**332**	411
Sales to joint ventures and associates on normal trading terms	6	**25,087**	39,908
Purchases from joint ventures and associates on normal trading terms	6	**78,929**	56,451
Amounts due from joint ventures and associates	6	**13,270**	1,907
Amounts due to joint ventures and associates	6	**4,438**	4,560

1. The Garfield Weston Foundation ('the Foundation') is an English charitable trust, established in 1958 by the late W Garfield Weston. The Foundation has no direct interest in the Company, but as at 13 September 2008 held 683,073 shares (2007 – 683,073 shares) in Wittington Investments Limited representing 79.2% (2007 – 79.2%) of that company's issued share capital and is, therefore, the Company's ultimate controlling party. At 13 September 2008 trustees of the Foundation comprised two children and two grandchildren of the late W Garfield Weston and five children of the late Garry H Weston.
2. Details of the directors are given on pages 18 and 19. Their beneficial interests, including family interests, in the Company and its subsidiary undertakings are given on page 33. Key management personnel are considered to be the directors, and their remuneration is disclosed within the Remuneration report on page 31.
3. A member of the Weston family who is employed by the group and is not a director of the Company or Wittington Investments Limited and is not a Trustee of the Foundation.
4. The fellow subsidiary undertaking is Fortnum and Mason plc.
5. The company with common key management personnel is George Weston Limited, in Canada.
6. Details of the group's principal joint ventures and associates are set out in note 30.

29. Subsequent events

On 28 October 2008 the group announced the creation of Stratas Foods, a joint venture with Archer Daniels Midland Company ('ADM') for the manufacture, marketing and distribution of packaged oil products in the US and Canada. ABF and ADM will each hold a 50% share in the joint venture, which will be headquartered in Memphis, Tennessee.

ABF will contribute US$38m of assets from the ACH oils business, primarily in the form of trademarks, whilst ADM will contribute packaging equipment at four of its facilities in the US. The business contributed by ABF generated operating profit of US$20m in the year ended 15 September 2007.

30. Group entities

Control of the group

The largest group in which the results of the Company are consolidated is that headed by Wittington Investments Limited, the accounts of which are available at Companies House, Crown Way, Cardiff, CF14 3UZ. It is the ultimate holding company, is incorporated in Great Britain and is registered in England.

At 13 September 2008 Wittington Investments Limited together with its subsidiary, Howard Investments Limited, held 431,515,108 ordinary shares (2007 – 431,515,108) representing in aggregate 54.5% (2007 – 54.5%) of the total issued ordinary share capital of Associated British Foods plc.

Significant subsidiaries

A list of the group's significant subsidiaries is given below. The entire share capital of the companies listed is held within the group except where percentages are shown. These percentages give the group's ultimate interest and therefore allow for the situation where subsidiaries are owned by partly owned intermediate subsidiaries.

MANUFACTURING ACTIVITIES	COUNTRY OF INCORPORATION
AB Agri Limited	UK
AB Brasil Industria e comercio de Alimentos LTDA	Brazil
AB Enzymes GmbH	Germany
AB Enzymes Oy	Finland
ABF Grain Products Limited	UK
AB Food & Beverages Australia Pty Ltd	Australia
AB Food & Beverages Philippines, Inc.	Philippines
AB Food & Beverages (Thailand) Limited	Thailand
AB Mauri Food, S.A.	Spain
AB Mauri India (Private) Limited	India
Abitec Corporation	US
ABNA (Shanghai) Feed Co., Ltd	China
AB World Foods Limited	UK
ACH Food Companies, Inc.	US
Alimentos Capullo.S.de R.L.de C.V.	Mexico
Anzchem Pty Limited	Australia
British Sugar (Overseas) Limited	UK
British Sugar plc	UK
BSO Polska S.A. (98%)	Poland
Calsa de Colombia S.A.S.	Colombia
Cereform Limited	UK
Compania Argentina de Levaduras S.A.I.C	Argentina
Food Investments Limited	UK
Foods International S.A.S.	France
G. Costa and Company Limited	UK
George Weston Foods Limited	Australia
George Weston Foods (NZ) Limited	New Zealand
Germain's (Ireland) Limited	Republic of Ireland
Germain's Technology Group NA Inc.	US
Germain's Technology Group Polska Sp. z.o.o.	Poland
Guangxi Bo Hua Food Co., Ltd (71%)	China
Guangxi Boqing Food Co., Ltd (60%)	China
Guangxi Boxuan Food Co., Ltd (70%)	China
Harbin Mauri Yeast Co., Ltd (85%)	China
Hebei Mauri Food Co., Ltd	China
Illovo Sugar Limited (51%)	South Africa
Illovo Sugar (Malawi) Limited (39%)	Malawi

MANUFACTURING ACTIVITIES	COUNTRY OF INCORPORATION
Innovative Cereal Systems LLC.	US
Jacksons of Piccadilly Limited	UK
Kilombero Sugar Company Limited (28%)	Tanzania
Liaoning Liaohe Aimin Feed Co., Ltd	China
Liaoning Liaohe Yingpeng Feed Co., Ltd	China
Maragra Acucar SARL (38%)	Mozambique
Mauri Fermentos, SA	Portugal
Mauri Lanka (Private) Limited	Sri Lanka
Mauri La-Nga Fermentation Co., Ltd (66%)	Vietnam
Mauri Maya Sanayi A.S.	Turkey
Mauri Products Limited	UK
Nambarrie Tea Company Limited	UK
Patak's Breads Limited	UK
Premier Nutrition Products Limited	UK
R. Twining & Co., Ltd	US
R. Twining and Company Limited	UK
Serrol Ingredients Pty Limited	Australia
Shanghai AB Food & Beverages Co., Ltd	China
SPI Pharma S.A.S.	France
SPI Pharma Inc.	US
The Billington Food Group Limited	UK
The Ryvita Company Limited (62%)	UK
Twinings North America Inc.	US
Ubombo Sugar Limited (31%)	Swaziland
Wander AG	Switzerland
W. Jordan & Son (Silo) Limited (62%)	UK
Yeast Products Company (60%)	Republic of Ireland
Zambia Sugar plc (46%)	Zambia
RETAILING ACTIVITIES	
Primark	Republic of Ireland
Primark Stores Limited	UK
Primark Tiendas S.L.U.	Spain
INVESTMENT AND OTHER ACTIVITIES	
ABF European Holdings & Co SNC	Luxembourg
ABF Investments plc	UK
Talisman Guernsey Limited	Guernsey, Channel Islands

The group's interest in subsidiaries are all equity investments.

British Sugar (Overseas) Limited operates subsidiaries and joint ventures in Europe and Asia. Other than this company, each subsidiary operates mainly in its country of incorporation.

30. Group entities continued

Interest in joint ventures and associates

A list of the group's significant interests in joint ventures and associates is given below:

	Country of incorporation	Issued ordinary share capital Total	Group %
Australasian Lupin Processing Pty Ltd	Australia	A$560,000	50
C. Czarnikow Limited	UK	£1,000,000	43
Chiltern Bakeries Limited	UK	£100	44
Frontier Agriculture Limited	UK	£36,001,000	50
Harper-Love Adhesives Corporation	US	US$912,200	50
Levaduras Collico S.A.	Chile	CLP1,834,390,000	50
Murray Bridge Bacon Pty Ltd	Australia	A$11,040,200	20
New Food Coatings Pty Ltd	Australia	A$150,000	50
Qingdao Xinghua Cereal Oil & Foodstuff Co., Ltd	China	CNY24,844,000	30
Roal Oy	Finland	€3,196,000	50
Vivergo Fuels Limited	UK	£48,712,000	45

There is no significant loan capital in any of the joint ventures or associates. Each joint venture and associate carries out manufacturing and food processing activities and operates mainly in its country of incorporation.

The companies listed herein are those subsidiaries, joint ventures and associates whose results or financial position, in the opinion of the directors, principally affected the figures shown in these annual accounts as a list of all group companies would result in information of excessive length being given. A full list of subsidiaries will be annexed to the next annual return of Associated British Foods plc delivered to the Registrar of Companies.

31. Accounting estimates and judgements

Key sources of estimation uncertainty

In applying the accounting policies detailed on pages 52 to 57, management has made appropriate estimates in many areas and the actual outcome may differ from those calculated. The key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing material adjustment to the carrying value of assets and liabilities within the next financial year are:

Forecasts and discount rates

The carrying values of a number of items on the balance sheet are dependent on estimates of future cash flows arising from the group's operations which, in some circumstances, are discounted to arrive at a net present value:

- The carrying value of goodwill must be assessed for impairment at least annually and also when there is an indication that it may be impaired. This assessment involves comparing the book value of goodwill with its recoverable amount (being the higher of its value in use and its fair value less costs to sell). Value in use is determined with reference to projected future cash flows discounted at an appropriate rate. Both the projected future cash flows and the discount rate applied involve a significant degree of estimation uncertainty.

- The realisation of deferred tax assets recognised in the balance sheet is dependent on the generation of sufficient future taxable profits in the jurisdictions in which the deferred tax assets arise. The group recognises deferred tax assets when it is more likely than not that they will be recovered, based on an assessment of the likelihood of there being sufficient taxable profits in the future.

Post-retirement benefits

The group's defined benefit pension schemes and similar arrangements are assessed annually in accordance with IAS 19. The accounting valuation, which has been assessed using assumptions determined with independent actuarial advice, resulted in an asset of £106m and a liability of £45m being recognised as at 13 September 2008. The size of these assets and liabilities is sensitive to the market value of the assets held by the schemes, to the discount rate used in assessing actuarial liabilities, to the actuarial assumptions which include price inflation, rates of pension and salary increases, mortality and other demographic assumptions and to the level of contributions. Further details are included in note 12.

Provisions

As described in the accounting policies on pages 52 to 57, provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date. These estimates are made taking into account a range of possible outcomes.

31. Accounting estimates and judgements continued

Property, plant & equipment residual values and useful lives

These assets are written down to their estimated residual values over their anticipated useful lives using the straight-line basis. Management reviews residual values annually considering market conditions and projected disposal values. In assessing useful lives, maintenance programmes and technological innovations are considered. The carrying value of property, plant & equipment is disclosed in note 9.

Biological assets

Cane roots valuation – the escalated average cost of planting cane roots is adjusted for the remaining expected life. This requires an estimation by management of the average number of ratoons expected from the crop. The carrying value of cane roots is disclosed in note 10.

Growing cane valuation – growing cane is valued using the estimated sucrose content at the estimated sucrose price for the following season, less the estimated costs for harvesting and transport. The estimated sucrose content requires management to assess the expected cane and sucrose yields for the following season considering weather conditions and harvesting programmes. In assessing the estimated sucrose price, management is required to assess into which markets the forthcoming crop will be sold and assess domestic and export prices as well as the related foreign currency exchange rates. The carrying value of growing cane is disclosed in note 10.

Cash flow hedge accounting

The group enters into various types of hedging or forward contacts for the buying and selling of currencies and commodities. The contracts often fall within the scope of IAS 39 and accordingly have to be marked to market. Where appropriate, these contracts are accounted for as cash flow hedges, which allows, to the extent the hedges are effective, the change in values of the derivatives to be deferred in equity. In order to achieve and maintain cash flow hedge accounting, it is necessary for the group to determine, at inception and on an ongoing basis, whether a forecast transaction is highly probable and whether the hedge is effective. This requires both subjective and objective measures of determination.

Exceptional items

The directors consider that items of income or expense which are material by virtue of their nature and amount should be disclosed separately if the financial statements are to fairly present the financial position and financial performance of the entity. The directors label these items collectively as 'exceptional items'. Determining which transactions are to be considered exceptional in nature is often a subjective matter. However, circumstances that the directors believe would give rise to exceptional items for separate disclosure might include major business restructurings, impairments and reversals of impairments.

All exceptional items are included in the appropriate income statement line item to which they relate. In addition, for clarity, separate disclosure is made of all exceptional items in one column on the face of the income statement, with additional explanation in the notes.

Taxation

The income tax expense recorded in the income statement is dependent on the tax rates in effect at the balance sheet date, unless new tax rates have been enacted or substantively enacted.

The level of current and deferred tax recognised is also dependent on subjective judgements as to the outcome of decisions to be made by the tax authorities in the various tax jurisdictions around the world in which the group operates. It is necessary to consider the extent to which deferred tax assets should be recognised based on an assessment of the extent to which they are regarded as recoverable.

Fair values on acquisition

The group is required to bring acquired assets and liabilities on to the consolidated balance sheet at their fair value. Items of plant and equipment and the associated property interests often have long operating lives, hence determination of the fair values can require a significant degree of judgement. Acquisitions often also result in significant intangible benefits being brought into the group, some of which qualify for recognition as intangible assets. Other such benefits do not meet the recognition requirements of accounting standards and form part of goodwill. Significant judgement can be required in the assessment and valuation of these intangible assets, often with reference to internal data and models. Professional valuers are engaged where it is deemed appropriate to do so. Fair values on major acquisitions are disclosed in note 22.

Company balance sheet

at 13 September 2008

	Note	2008 £m	2007 £m
FIXED ASSETS			
Intangible assets	1	**44**	49
Investments in subsidiaries	2	**444**	434
		488	483
CURRENT ASSETS			
Debtors			
– due within one year	3	**2,239**	2,203
– due after one year	3	**1,372**	1,199
Current asset investments	4	**–**	41
Cash at bank and in hand		**4**	4
		3,615	3,447
CREDITORS: amounts falling due within one year			
Bank loans and overdrafts – unsecured		**(34)**	(1)
Other creditors	5	**(1,067)**	(1,310)
Provisions	6	**(2)**	–
		(1,103)	(1,311)
NET CURRENT ASSETS		**2,512**	2,136
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,000**	2,619
CREDITORS: amounts falling due after one year			
Bank loans – unsecured		**(589)**	(412)
Amounts owed to subsidiaries	5	**(2,119)**	(1,887)
		(2,708)	(2,299)
NET ASSETS EXCLUDING PENSION LIABILITY		**292**	320
Net pension liability		**(6)**	(4)
NET ASSETS		**286**	316
CAPITAL AND RESERVES			
Called up share capital	7	**47**	47
Profit and loss reserve including pension reserve	7	**239**	269
EQUITY SHAREHOLDERS' FUNDS		**286**	316

The financial statements on pages 102 to 107 were approved by the board of directors on 4 November 2008 and were signed on its behalf by:
Martin Adamson, *Chairman* and **John Bason**, *Director*.

Reconciliation of movements in equity shareholders' funds

for the year ended 13 September 2008

	2008 £m	2007 £m
Profit for the financial year	**118**	118
Net decrease/(increase) in own shares held	**8**	(8)
Dividends	**(156)**	(150)
NET REDUCTION IN EQUITY SHAREHOLDERS' FUNDS	**(30)**	(40)
Opening equity shareholders' funds	**316**	356
CLOSING EQUITY SHAREHOLDERS' FUNDS	**286**	316

Basis of preparation
The financial statements are presented in sterling, rounded to the nearest million. They are prepared under the historical cost convention, except that derivative financial instruments are stated at their fair value, and in accordance with applicable United Kingdom accounting standards (UK GAAP) and the Companies Act 1985.

As permitted by s230(4) of the Companies Act 1985, a separate profit and loss account for the Company has not been included in these financial statements. As permitted by FRS 1, no cash flow statement for the Company has been included on the grounds that the group includes the Company in its own published consolidated financial statements. As permitted by FRS 8, no related party disclosures for the Company have been included.

The Company has taken advantage of the exemption in FRS 25, *Financial Instruments: Disclosure and Presentation,* not to prepare a note to the financial statements relating to financial instruments as the information is available in the published financial statements of the group.

Intangible assets – goodwill
Intangible assets consist of goodwill arising on acquisitions since 17 September 1998, being the excess of the fair value of the purchase consideration of new subsidiaries over the fair value of net assets acquired. Goodwill is capitalised in accordance with FRS 10 and amortised over its useful life, not exceeding 20 years. Goodwill previously written off against reserves has not been reinstated.

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

Financial instruments
All financial assets and financial liabilities are measured initially at fair value, plus directly attributable transaction costs, and thereafter at amortised cost.

Pensions and other post-employment benefits
The Company operates defined contribution and defined benefit pension schemes. Contributions to the defined contribution scheme are charged to the profit and loss account as they become payable. The principal defined benefit scheme is a multi-employer scheme and the Company is unable to identify its share of underlying assets and liabilities on a consistent and reasonable basis. Hence, contributions to this scheme are accounted for as if they were contributions to a defined contribution scheme. The Company has one small unfunded defined benefit scheme which it accounts for in accordance with FRS 17 using the advice of professional actuaries. The amount charged to the profit and loss account is the cost of benefits accruing to employees over the year, plus any benefit improvements granted to members during the year. It also includes a charge equal to the expected interest on plan liabilities over the year. The present value of plan liabilities is disclosed as a liability on the balance sheet net of any related deferred tax.

Share-based payments
The Share Incentive Plan allows employees of the Company to receive allocations of shares to be distributed subject to attainment of certain financial performance criteria and typically after a three-year performance period. The fair value of the shares to be awarded is recognised as an employee expense with a corresponding increase in reserves. The fair value is measured at grant date and spread over the period during which the executives become unconditionally entitled to the shares. The fair value of the shares allocated is measured taking into account the terms and conditions under which the shares were allocated. The amount recognised as an expense is adjusted to reflect the actual number of shares that vest.

Where the Company grants allocations of shares to employees of its subsidiaries, these are accounted for on the same basis as for allocations to employees of the Company, except that the fair value is recognised as an increase to investment in subsidiaries with a corresponding increase in reserves.

The Share Option Scheme (1994) and Executive Share Option Scheme (2000) allow executives to acquire shares of the Company. The fair value of options granted is recognised as an employee expense with a corresponding increase in reserves. The fair value is measured at grant date and spread over the period during which the executives become unconditionally entitled to the options. The fair value of the options granted is measured using a binomial lattice model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is only due to share prices not achieving the threshold for vesting.

Shares in the Company are held in a separate trust and are shown at cost as a deduction in arriving at equity shareholders' funds.

1. Intangible assets – goodwill

	£m
COST	
At 15 September 2007 and 13 September 2008	71
AMORTISATION	
At 15 September 2007	22
Provided during the year	5
At 13 September 2008	27
NET BOOK VALUE	
Net book value at 15 September 2007	49
Net book value at 13 September 2008	44

2. Investments in subsidiaries

	£m
At 15 September 2007	434
Additions	10
At 13 September 2008	444

Additions relate to allocations of shares under the Share Incentive Plan to employees of the Company's subsidiaries.

There were no provisions for impairment in either year.

3. Debtors

	2008 £m	2007 £m
AMOUNTS FALLING DUE WITHIN ONE YEAR		
Amounts owed by subsidiaries	**2,208**	2,175
Other debtors	**5**	7
Corporation tax recoverable	**26**	21
	2,239	2,203
AMOUNTS FALLING DUE AFTER ONE YEAR		
Amounts owed by subsidiaries	**1,372**	1,199

The directors consider that the carrying amount of debtors approximates their fair value.

4. Current asset investments

	2008 £m	2007 £m
COST		
Unlisted investments	**–**	41

Current asset investments comprise interest-bearing instruments and deposits. Market and redemption values are equal to cost.

5. Other creditors

	2008 £m	2007 £m
AMOUNTS FALLING DUE WITHIN ONE YEAR		
Other taxation and social security	**1**	1
Accruals and deferred income	**16**	14
Amounts owed to subsidiaries	**1,050**	1,295
	1,067	1,310
AMOUNTS FALLING DUE AFTER ONE YEAR		
Amounts owed to subsidiaries	**2,119**	1,887

The directors consider that the carrying amount of creditors approximates their fair value.

6. Provisions

	£m
At 15 September 2007	–
Created	2
At 13 September 2008	2

The restructuring provision relates to the cash costs, including redundancy, associated with the Company's reorganisation plans and is expected to be utilised in 2008/9.

7. Capital and reserves

	Deferred shares of £1 each '000	Ordinary shares of 5¹⁵⁄₂₂p each '000	Nominal value £m
AUTHORISED			
At 15 September 2007 and 13 September 2008	2,000	1,054,950	62
ISSUED AND FULLY PAID			
At 15 September 2007 and 13 September 2008	2,000	791,674	47

The deferred shares became redeemable on 1 August 1997. The amount payable by the Company on redemption is the amount paid up on the deferred shares. Redemption is at the sole discretion of the Company.

Deferred shares carry no voting rights and have no rights to dividends or other income distributions. In the event of a winding-up, repayment in respect of the deferred shares ranks after repayment of amounts paid up on the ordinary shares of the Company. The deferred shares are entitled to repayment of amounts paid up, but have no entitlement to any surplus.

	Share capital £m	Profit and loss reserve £m	Total £m
At 15 September 2007	47	269	316
Net movement in own shares held	–	8	8
Profit for the year	–	118	118
Dividends	–	(156)	(156)
At 13 September 2008	47	239	286

Dividends

Details of dividends paid and proposed are provided in note 6 to the consolidated financial statements.

Own shares held reserve and share-based payments

Ordinary shares already issued and subject to option under the Associated British Foods 1994 Share Option Scheme and the Executive Share Option Scheme 2000, or subject to allocation under the Associated British Foods plc Executive Share Incentive Plan 2003, are held in a separate trust. The trust is funded by the Company. At 13 September 2008, the trust held 2,102,133 (2007 – 1,929,243) ordinary shares of the Company. The market value of these shares at the year end was £17m (2007 – £15m). The trust has waived its right to dividends. Refer to note 23 of the consolidated financial statements for further information on the group and Company's share-based payment plans.

8. Contingent liabilities

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its group, the Company considers these to be insurance arrangements and accounts for them as such. The guarantee contract is treated as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

The Company has no outstanding guarantees provided in the ordinary course of business as at 13 September 2008 (2007 – £nil).

9. Other information

Emoluments of directors

The remuneration of the directors of the Company is shown in the Remuneration report for the group on pages 31 and 32.

Employees

The Company had an average of 91 employees in 2008 (2007 – 87).

EMPLOYEE BENEFITS EXPENSE	2008 £m	2007 £m
Wages and salaries	**12**	11
Social security contributions	**2**	2
Contributions to defined contribution schemes	**1**	–
Charge for defined benefit schemes	**1**	1
	16	14

The Company is a member of the Associated British Foods Pension Scheme, providing benefits based on final pensionable pay. Prior to 6 April 2006 some of the employees of the Company were members of the British Sugar Pension Scheme. On 6 April 2006, the British Sugar Pension Scheme was merged with the Associated British Foods Pension Scheme. Because the Company is unable to identify its share of the scheme's assets and liabilities on a consistent basis, as permitted by FRS 17, the scheme is accounted for by the Company as if it were a defined contribution scheme.

On 30 September 2002 the Scheme was closed to new members, with defined contribution arrangements introduced for these members. For the defined contribution scheme, the pension costs are the contributions payable.

The last actuarial valuations of the Associated British Foods Pension Scheme and the British Sugar Pension Scheme were carried out as at 5 April 2005 and 1 October 2004 respectively. At the valuation dates the total market value of the assets of the Schemes was £1,869m and represented 97% of the benefits that had accrued to members after allowing for expected future increases in earnings.

The particulars of the actuarial valuation of the Scheme are contained in note 12 in the consolidated financial statements. There is no material difference in the valuation methodologies under IAS 19 and FRS 17.

Auditors' fees

Note 2 to the consolidated financial statements of the group provides details of the remuneration of the Company's auditors on a group basis.

Progress report

Saturday nearest to 15 September

	2004 £m	2005 £m	2006 £m	2007 £m	2008 £m
Revenue	5,165	5,622	5,996	6,800	**8,235**
Adjusted operating profit	478	555	561	622	**664**
Exceptional items	–	–	(97)	–	**(46)**
Amortisation of non-operating intangibles	(46)	(25)	(41)	(74)	**(74)**
Profits less losses on sale of property, plant & equipment	8	20	10	8	**10**
Profits less losses on sale of businesses	7	(1)	(4)	(39)	**5**
Provision for loss on termination of an operation	–	(47)	(8)	–	**–**
Finance income	59	49	32	20	**21**
Finance expense	(23)	(34)	(46)	(55)	**(74)**
Other financial income	11	10	12	26	**21**
Profit before taxation	494	527	419	508	**527**
Income tax expense	(146)	(141)	(111)	(108)	**(136)**
Profit after taxation	348	386	308	400	**391**
Minority interests	(6)	–	–	–	**–**
Profit for the period	342	386	308	400	**391**
Basic and diluted earnings per ordinary share (pence)	43.3	48.0	38.1	46.7	**45.2**
Adjusted earning per share (pence)	46.6	52.5	50.9	52.9	**54.9**
Dividends per share (pence)	16.4	18.0	18.75	19.5	**20.25**

The results pre-2005 have not been restated for IFRS.

This report contains forward-looking statements. These have been made by the directors in good faith based on the information available to them up to the time of their approval of this report. The directors can give no assurance that these expectations will prove to have been correct. Due to the inherent uncertainties, including both economic and business risk factors underlying such forward-looking information, actual results may differ materially from those expressed or implied by these forward-looking statements. The directors undertake no obligation to update any forward-looking statements whether as a result of new information, future events or otherwise.

Associated British Foods plc
Registered office Weston Centre
10 Grosvenor Street London W1K 4QY
Company registered in England, number 293262

Company secretary
Paul Lister

Registrars and transfer office
Equiniti (formerly Lloyds TSB Registrars)
Aspect House
Spencer Road
Lancing BN99 6DA

Auditors
KPMG Audit Plc Chartered Accountants

Bankers
Barclays Bank plc
Lloyds TSB Bank plc
The Royal Bank of Scotland plc

Brokers
Credit Suisse
One Cabot Square London E14 4QJ

Panmure Gordon & Co
Moorgate Hall
155 Moorgate London EC2M 6XB

Timetable
Interim dividend paid
3 July 2008

Final dividend to be paid
9 January 2009

Annual general meeting
5 December 2008

Interim results to be announced
21 April 2009

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Graham Shearer

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Associated British Foods plc

Weston Centre
10 Grosvenor Street
London W1K 4QY

T 020 7399 6500
F 020 7399 6580

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