

For release 8 November 2005

ASSOCIATED BRITISH FOODS plc

Preliminary Announcement

Year ended 17 September 2005

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## **Associated British Foods plc preliminary results for year ended 17 September 2005**

### **Earnings up 14% and over £1.5bn invested for future growth**

#### **Highlights**

- Adjusted earnings per share up 14% to 53.0p \*\*
- Adjusted operating profit up 18% to £565m\*
- Group sales up 9% to £5,622m
- Adjusted profit before tax up 12% to £590m \*\*
- Dividends per share up 10% to 18.0p
- Investment in acquisitions and capital expenditure of over £1.5bn
- Net cash funds of £224m
  
- Operating profit up 13% to £487m. Profit before tax down 3% to £479m and basic earnings per share down 3% to 42.2p after £47m provision to close Littlewoods business

#### **George Weston, Chief Executive of Associated British Foods, said:**

“To deliver a 14% growth in earnings in such a competitive environment is very encouraging and reflects the contribution from our acquisitions and further progress in a number of our key growth platforms, such as international hot beverages, US branded grocery and Primark, which had an outstanding performance. We have also laid firm foundations for long-term growth with over £1.5bn invested in acquisitions and capital expenditure.”

\* before amortisation of goodwill.

\*\* before profits less losses on the sale of businesses and fixed assets, provision for loss on termination of an operation and amortisation of goodwill.

All figures stated after profits less losses on the sale of businesses and fixed assets, provision for loss on termination of an operation and amortisation of goodwill are shown on the face of the consolidated profit and loss account.

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## Notes to Editors

1. Associated British Foods is a diversified international food, ingredients and retail group with sales of £5.6 billion and over 42,000 employees in 41 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.

2. We have achieved a compound annual growth of 13% in adjusted operating profit from 2000 to 2005. The delivery of this strong profit growth has been driven by investment in both existing businesses and acquisitions in areas of our core expertise.

		2000	2001	2002	2003	2004	2005	CAGR
Adjusted operating profit	£m	299	320	369	427	478	565	+13%
Adjusted eps	p	34.1	37.2	39.1	41.3	46.6	53.0	+ 9%

3. ABF has strong positions in the markets in which it operates:

International hot beverages  *Twinings is the world's leader in speciality teas and infusions. It has manufacturing in Europe and China and celebrates 300 years of trading next year. Ovaltine is the largest producer of malt based beverages in Europe, Thailand, Philippines and China.*

North America Grocery  *We have built up a strong portfolio of famous grocery brands in the Americas. Mazola is the leading corn oil in the US and Capullo the leading premium canola oil in Mexico. We have strong positions also in herbs & spices, sauces, corn syrup, starch and yeast.*

Primark  *Primark is a major value clothing retail group employing 12,000 people. It operates 122 stores in the UK and Ireland, and trades as Penneys in Ireland.*

British Sugar  *British Sugar is Europe's most efficient producer and the sole processor of the UK sugar beet crop. It has adapted to the structural changes in world sugar production and has strong manufacturing positions in Poland and China.*

AB Mauri  *This business has a global presence in bakers' yeast with 45 plants in 24 countries. It is market leader in the US, South America and Asia and number three in Europe. It is also the technology leader in bakery ingredients with 17 factories around the world.*

4. We are investing strongly in the future growth of the group. The total expenditure in the year of over £1.5bn comprises acquisitions, less disposals, of £733m, a significant number of new stores for Primark, £628m, and capital expenditure in the existing businesses of £182m.

**ASSOCIATED BRITISH FOODS plc  
PRELIMINARY ANNOUNCEMENT  
FOR THE YEAR ENDED 17 SEPTEMBER 2005**

For release 8 November 2005

**CHAIRMAN'S STATEMENT**

There have been major developments in the group over the past year. Substantial investment has been made to strengthen our established businesses and to add new ones, the main benefits of which will be realised over the coming two years. There has been a satisfactory advance in overall trading results with adjusted operating profit improving by 18% on the year before and adjusted earnings, reflecting lower net investment income, ahead by 14%. However, some of our businesses have faced a tough trading environment.

Our expenditure on acquisitions and fixed assets was over £1.5bn. The two main areas of investment were in the international yeast and bakery ingredients business and in a significant number of new stores for Primark. While much of the benefit of the AB Mauri investment, made on 30 September 2004, was seen in the year, there is more to come. The major part of the investment in Primark was to acquire stores from the Alders and Littlewoods chains. The first of these opened as a Primark a few weeks ago and the roll-out of the rest of the 47 stores will continue progressively over the next 15 months. By early 2007 Primark will be trading from some 4 million square feet compared to 2.3 million a year ago. The contribution from the new stores will only then be fully realised. In the case of Littlewoods, we acquired the whole of the business, identified 41 stores to be traded as Primark and are disposing of the remaining stores. At the time of writing, agreement on sale had been reached on over half of the remaining stores.

Another major development was the publication by the European Commission of proposals for the reform of the European sugar regime. The thrust of the proposals will be to reduce productive capacity in the EU, eliminate subsidised exports and reduce support prices. Our UK sugar production is highly efficient and we expect British Sugar to continue to be a strong force in the European markets, although an adverse impact on profit can be expected particularly from 2007/8 onwards.

The consequence of these major developments is a shift in the source of our sales and profits both by type of business and geographically. This is already apparent from the segmental analysis of our business where there has been a further reduction in the proportion of group profits derived from EU sugar and a broadening of the contribution from overseas. We expect this trend to continue.

The larger part of the satisfactory advance in trading results came from acquisitions. Of this the main contributor was the yeast and bakery ingredients business which is bedding down well under our ownership. Over-capacity in the important North American market and a sharp rise in the cost of molasses, a key ingredient, held back the results from the bakers' yeast operations but appropriate management action has been taken and we expect much better results as the current year progresses. The US herbs & spices business and the Capullo oil brand in Mexico both exceeded our expectations and contributed to the development of our portfolio of grocery brands in the Americas.

The outstanding feature among our longer standing businesses was the excellent performance of Primark. The clothing market is always fiercely competitive and in the past year there has been evidence of price deflation in the UK leading to little, if any, overall growth in the market. Primark, however, achieved substantial like-for-like sales growth and, with the addition of some new space, grew sales by 17% and operating profit by 30%.

Elsewhere in the group there were good performances in UK grocery, British Sugar Overseas and agriculture. However, there were lower profits at British Sugar in the UK and our Australian bakery businesses, where market conditions were difficult. The results of all the businesses are covered in detail in the chief executive's review and the review of operations which follow.

In concluding my comments on trading performance, I should highlight the progress at Twinings as it approaches its 300<sup>th</sup> anniversary. Even after the investment in a major restructuring of its worldwide production facilities and much increased advertising and promotion spend, it showed good growth. It is well set for its next century.

As well as the major investments described above, expenditure to maintain and enhance the efficiency of our plants and other fixed assets has continued at high levels. The group is strongly cash generative and net cash funds total £224m at the year end even after over £1.5bn of investment. The group's financial position remains strong and is fully capable of supporting further investment in our businesses.

Triennial valuations of the group's major UK pension schemes have been carried out in the past year. The valuations take account of both increased life expectancy, based on the latest predictions available to the group's actuaries, and current bond yields. Following the valuations, annual contributions have been increased and arrangements made to clear, over the next two years, the small actuarial deficit using our funding assumptions. However, using the FRS 17 assumptions, there was a net surplus at the end of the financial year which is reflected in these accounts.

## **Board Changes**

On 3 November 2004 Tim Clarke was appointed to the Board. Mr Clarke is chief executive of Mitchells & Butlers plc and was previously chief executive of Six Continents PLC prior to the demerger of Mitchells & Butlers.

Peter Jackson decided to retire as chief executive and as a director with effect from 31 March 2005. He had been chief executive since 1999 having joined the Board in 1992. He was managing director of British Sugar for some years before it was acquired by ABF. In his time as chief executive great progress was made in operating performance and in the strategic development of the group. Peter's contribution over this period has been critical to our success and has been greatly valued by his colleagues. We wish him the very best for the future.

George Weston was appointed chief executive as successor to Peter Jackson.

## **Employees**

The group now employs some 42,000 people in 41 countries. It is their efforts and enterprise in demanding conditions which have produced the results of the past year. On behalf of shareholders I wish to thank them for all their hard work and the progress which they have delivered.

## **Outlook**

Most of our businesses are experiencing sharp increases in energy and related input costs and we can be certain that competition for our businesses will be robust. They are nevertheless well placed to meet these challenges. Primark has continued to trade well and there is a programme to open significant additional retail selling space in the first half of the current year. Alternative arrangements have been made quickly to continue supply of stock following the recent fire at Primark's main UK warehouse, although some

limited disruption can be anticipated. We expect further overall progress in group results in the coming year.

The roll-out of new Primark stores converted from Littlewoods will occur progressively from spring 2006 until early 2007 and returns will build gradually. As a consequence, the reduction in net investment income will result in relatively modest growth in earnings next year while the benefits of our investment will only be more fully realised in the following year.

The Board is confident that the benefits from the significant investments made this past year will be delivered over the next two years.

### **Dividends**

The directors propose a final dividend of 12.0p which, together with the interim of 6.0p already paid, makes a total of 18.0p for the year, an increase of 10%. The proposed final dividend will be paid on 13 January 2006 to shareholders on the register on 2 December 2005. The directors intend to maintain a policy of increasing dividends in line with medium-term earnings growth.

**Martin Adamson**  
**Chairman**

## CHIEF EXECUTIVE'S REVIEW

These strong results are the consequence of the success of Primark, good progress in most of our other existing businesses, and satisfactory contributions from our recent acquisitions.

Primark has had a great year in which it not only produced excellent sales and profit growth in a difficult high street trading environment, but also acquired new stores from Alders and Littlewoods that will increase its retail selling space by 60%. None of these new stores had commenced trading by the end of the financial year. It enjoyed enthusiastic and deserved attention in the fashion and national press, all of which helped cement this remarkable business in the consciousness of clothes shoppers in the UK and Ireland.

British Sugar faced difficult market conditions in both the UK and Poland as a consequence of over-supply of sugar, following the accession of new member states to the EU. Operationally the company performed extremely well achieving record production at Wissington and a consistently good performance from the whole business. Of equal importance was the continuing improvement in its health and safety performance. The manufacturing cost base of British Sugar is already the lowest in the EU and, with further investment in both the UK and Poland, it will become lower still. This reality, together with our belief that the market for sugar in Europe post-reform will be in balance, gives us confidence that our European sugar operations have a profitable future. Our sugar business in China recorded its highest ever profit as prices firmed and good factory performance improved extraction rates from a smaller crop than last year.

Our agriculture business in the UK made good progress in an enduringly difficult market. The combination of our grain trading business with that of Cargill in a new joint venture in which we have a 50% interest is expected to deliver enhanced performance through the provision of a more comprehensive range of products and services. Our business in China performed extremely well, producing and selling 30% more feed than last year and delivering strong profit growth.

Our bakery businesses in the UK and Australia both had difficult years. However, in the UK, the imminent relaunch of our premium brand, Kingsmill Gold, and significant improvements to our supply chain give us confidence for the future. In Australia, our new bakery at Chullora in Sydney is now complete and contributing to a much lower cost base. This is a magnificent asset that will benefit our company for years to come.

Our other grocery businesses all made good progress. The Twinings and Ovaltine brands both had an excellent year of sales and profit growth, and Ryvita made similar progress, growing the market and successfully launching new products. The Billington's range of specialist retail sugars contributed to the development of the Silver Spoon business, and Westmill Foods recovered well from last year's disappointments. In North America, ACH successfully integrated the newly acquired consumer yeast and herbs & spices businesses, both of which performed ahead of expectations.

Our existing ingredients businesses underwent a year of change and consolidation. SPI's food polyols business returned to a more normal level of profitability after benefiting from spectacular growth last year, driven by the high consumer demand for low carbohydrate products. During the year we integrated our existing bakery ingredients business with our newly acquired bakers' yeast business, AB Mauri, and we consolidated the yeast extracts operation with the rest of our ingredients business. This reorganisation has been successful.

Our bakers' yeast business delivered a poor performance in the large US market which masked the very good progress made elsewhere. The problems in the US will not be cured overnight but we have already made good progress and expect to be able to report better results next year.

This has been a year of very significant change for the group. The purchase of the yeast business has extended our international reach and we now have a truly global coverage with commercial operations in 41 countries around the world. These include substantial businesses throughout Latin America, excellent ingredient distribution capability in India and real critical mass in China where we now employ over 7,000 people. We now have significantly more options for further development.

After years of remarking that Primark's growth was constrained by the limited availability of new sites, we were presented this year with exceptional opportunities, firstly with the closure of Allders and then the sale of Littlewoods. Clearly we have a very real challenge to refit and staff 47 substantial stores and 1.5 million square feet of additional selling space. However, when that is successfully accomplished Primark will not only be an even more important part of the group, but will also be a very significant force in clothes retailing in the UK and Ireland.

Although final agreement on reform of the EU sugar regime is not yet agreed, we are already beginning to see the consequences of that reform as businesses within Europe position themselves for the post-reform years. We have spent several years preparing ourselves for a future where sugar represents a smaller proportion of our portfolio. That future is now upon us.

The Chairman has mentioned the contribution our people make to our success and I echo his thanks. We make a valuable economic and social contribution to every community where we are present and I am pleased that we are able to publish, this year, our initial global health, safety and environment report. I am proud and thankful to be part of a company in which so many amazing people, all around the world, work every day to produce and sell safe, high quality and good value products.

**George Weston**  
**Chief Executive**

## GROCERY

	2005	2004
<b>Sales £m</b>	<b>2,608</b>	2,446
<b>Operating profit £m</b>	<b>188</b>	160

Our international grocery businesses grew sales by 7% to £2,608m and profit by 18% to £188m. These increases were driven by the contribution from acquisitions: the US herbs & spices business, Fleischmann yeast in the US, a full year benefit of Capullo in Mexico and Billington's sugar in the UK. In addition, there was strong growth from Twinings and Ovaltine. However, profits were held back by reduced margins in the Australian bakery business which experienced tough competitive pressure.

Our North American grocery business, ACH, significantly increased its scale with the acquisitions of the herbs & spices and Fleischmann consumer yeast business in the US. Sales, marketing and the supply chain of these businesses have been fully integrated with our existing branded grocery businesses and are now headquartered in a new office in Chicago. Both of these acquisitions have exceeded our expectation in their first year. Mazola improved its margins with lower soy and corn oil prices and focused marketing helped to increase volumes by 2% over last year. In Mexico, the sales, marketing and distribution infrastructure was established to support Capullo, the premium canola oil brand, and the brand improved its market share in the second half of the year. The Karo syrup brand in Mexico was also acquired. Capullo has been successfully launched in the US and marketed to the Hispanic population.

Our global hot beverages brands, Twinings and Ovaltine, achieved strong sales and profit growth supported by a significant investment in brand marketing and new products over the last two years. This included double digit growth for Twinings in the UK and US and for Ovaltine in its three key Asian markets: China, Thailand and the Philippines. In the UK, Twinings launched its "Everyday" tea aimed at the premium mainstream segment of the market and it has been very well received by both the trade and consumers. The UK range was relaunched with new packaging with groupings of Classics, Light Classics, Aromatics and flavoured teas designed for better accessibility for the consumer. A major rationalisation of the tea supply chain is underway which will significantly reduce the manufacturing cost base. Tea blending and packing will concentrate on four sites with the closure of plants in France and the US and the establishment of a new factory in Shanghai, which has been commissioned. A rationalisation charge of £7m has been included in these accounts.

Silver Spoon, the only UK brand to offer the full range of sweetening solutions, maintained its position as brand leader. Light granulated sugar is the leader in its category and continued to grow. Billington's, the UK's leading supplier of unrefined cane sugars, grew strongly this year and has now been fully integrated and the benefits realised.

Good volume and profit growth was achieved by Ryvita. It is the UK's leading crispbread brand and its innovation has driven growth in the cracker and crispbread market as consumers seek new and healthier snack foods. A premium wholeseed crispbread range was launched in June featuring two varieties: pumpkin seed and sunflower seed. Ryvita continued to develop its wider positioning as a healthy eating snack brand with the establishment of Ryvita Minis which saw strong growth in the year supported by television advertising and the launch of new flavours.

In Australia, margins in the bread business were reduced as a result of continued competitive pressure in the market and the commissioning costs of the new bakery in west Sydney. This new bakery not only replaces the Fairfield bakery which was destroyed by fire in 2002 and the Chatswood bakery but also provides additional capacity to supply the New South Wales market. Two bread lines and one roll line are now operational and we expect the final phase of commissioning, which comprises packing and

distribution, to be completed by the end of the year. We expect the improved efficiencies to flow from the beginning of 2006. Improvements in meat and dairy operating performance were held back by lower volumes to the major retailers.

Allied Bakeries in the UK was affected by lower than expected pricing and volumes although Kingsmill branded volumes increased.

There was further progress in our ethnic foods business with a strong increase in sales of the Blue Dragon brand both in the UK and overseas. For the first time the brand was supported by television advertising in the UK which proved to be successful.

Westmill Foods delivered strong profit growth. Its ethnic brands in rice, flour and noodles grew in both volume and margin and the new plant in Manchester is performing well. Pride Oils was acquired in the latter part of the year. Pride is a leading brand of edible oils which is sold to ethnic wholesalers and its addition strengthens our existing competence and expertise in this sector.

## **PRIMARY FOOD & AGRICULTURE**

	<b>2005</b>	2004
<b>Sales £m</b>	<b>1,541</b>	1,672
<b>Operating profit £m</b>	<b>187</b>	189

Sales fell by 8% to £1,541m and profit fell by 1% to £187m. As expected there was a decline in profit at British Sugar in the UK but this was virtually offset by a strong increase in profit from our overseas sugar operations in Poland and particularly China and from our animal feeds businesses. Sales declined primarily as a result of the sale of the UK arable business to Frontier, the joint venture established with Cargill.

In the UK, British Sugar had another good campaign with 1.39 million tonnes of sugar produced. The crop proved to be high yielding and the UK performance was second in the European league for agricultural efficiency. Commercially there were further improvements in its product range and service performance. However, profit declined as a result of the over-supply of sugar in the EU this year and higher energy prices.

The EU saw the accession of ten new member states in May 2004, which at the point of entry also became members of the European sugar regime. In anticipation of the associated increase in sugar prices in the new member states it is now clear that sugar stocks were increased. There were no temporary quota cuts to maintain the balance between supply and demand within the EU in 2004/5. The consequent surplus of quota sugar severely pressured prices in many member states and led to lower value of exports of excess sugar onto the world market. The Commission has sought to rectify this imbalance in the coming year by invoking a temporary quota cut of 1.8 million tonnes across the EU and our share of this is 91,000 tonnes in the UK and Poland combined.

British Sugar Overseas improved its performance substantially over the previous year.

The full year benefits of accession came through in Poland albeit to a lesser extent than anticipated due to the impact of the over-supply of sugar in the EU and the strength of the zloty relative to the euro. Operational performance was strong and good progress was made in the first phase of a two-year capital development programme to bring standards of efficiency and product quality at the Glinojek sugar factory up to the standards of the best in Europe.

Our sugar business in China had its best year yet, driven by strong market conditions and consistent plant operations. Crop volumes were again lower due to adverse weather conditions but good factory performance improved extraction rates and restricted the overall decrease in sugar production. Prices continued to rise during the year as the market reacted to the smaller crop and increased consumption of sugar and there was an improvement in margins. Trading relationships continue to be built with major industrial customers in China who demand high quality and consistent service levels.

Draft detailed proposals for the reform of the EU sugar regime were tabled to the European Parliament and Council of Ministers in June 2005. We welcome the inclusion of a restructuring scheme which proposes to establish a fund, by levy on the industry lasting three years, to provide compensation to processors wishing to relinquish quota to the Commission. By this mechanism, the Commission expects to achieve the necessary industry restructuring without mandatory quota cuts. However, a more significant cut in the sugar reference price is proposed with a bigger associated cut in beet prices. Much debate and negotiation will be forthcoming before a final resolution is concluded. We expect some volatility in pricing over the next few years but our best estimate of the effect of these proposals will be a reduction in operating profit from our sugar operations by some £40m per annum in the long run.

British Sugar is now well prepared to deal with the outcome of reform. The improvements at Gliniojeck in Poland are underway and the installation of the UK's first bioethanol plant is expected to be complete by late 2006. Commercially a number of new products targeted at specific customers have been introduced and there have been investments in retail sugars in Poland. Work is underway to examine ways of reducing the cost base even further. We believe that these steps strengthen British Sugar's leadership position ahead of reform.

ABNA, our agriculture group, delivered its best ever result despite a difficult market for its UK pig and poultry feeds.

The animal feeds business in China delivered a strong performance. This success followed the buyout of our joint venture partners, expansion into new regions by leasing mills, and a strong demand for our products as a result of a government and industry drive to improve food safety.

In the UK, pig and poultry feeds faced a very difficult year due to manufacturing over-capacity and much higher energy costs which affected both production and distribution. Strong market shares were achieved. The British Standards Institute's ISO International Environmental Standard was obtained at all ten feed mills in the UK, which will help to reduce compliance costs significantly within the framework of the new Integrated Pollution and Prevention Control regulations. Good performances were delivered by the food ingredients and co-product divisions.

In April we completed the sale of Allied Grain to a new joint venture with Cargill which will trade as Frontier. The joint venture is a major purchaser and supplier of cereals and oil seeds in the UK and is also a leading supplier of seed and fertiliser to the UK farming community. The creation of Frontier will provide a more comprehensive range of products and services to customers across the UK.

## INGREDIENTS

	2005	2004
<b>Sales £m</b>	<b>603</b>	294
<b>Operating profit £m</b>	<b>72</b>	36

The acquisition of the international bakers' yeast and ingredients business and a strong performance from enzymes led to a doubling of sales and profit to £603m and £72m respectively.

Following the acquisition, a new organisation, AB Mauri, was established and the group's existing bakery ingredients operations were integrated with those acquired. A development team was created to ensure the transfer of best practice and technology between all of the international businesses. Bakery ingredients was strengthened during the year with the acquisition of a business specialising in enzyme applications technology. It brings a strong innovation and development capability in enzyme functionality research and a team well placed to commercialise high value bakery ingredients, initially in the large US plant bakery market and thereafter worldwide.

The profit of AB Mauri is lower than we expected at the time of acquisition. As previously reported, higher molasses, energy and distribution costs have affected the business. In many countries, increased prices have recovered this increase in input costs but, in North America and Turkey, we were unable to pass on these costs because of significant over-capacity in these markets. Growth was achieved in the South American and Eastern Asian markets, particularly China. Rationalisation of factories in India and Brazil cost £2m and the benefit of this will be realised next year.

Investment this year included the opening of a new factory in western China in Xinjiang and expansion in two further plants in China, one in India and another in Vietnam is underway. The relocation of the factory in New Zealand is also in progress.

The newly acquired yeast extracts business performed ahead of expectations. Further development is expected following the strengthening of management and a greater focus on research and development. Shortly after the year end we acquired a leading US manufacturer of whey protein concentrates and isolates. It targets the fast growing protein speciality market where key customer applications are nutritional, particularly dietary supplements and sport nutrition. Its expertise in people, products and technology complement the existing capabilities of the yeast extracts business.

Speciality lipids delivered a solid sales performance with medium chain triglyceride sales in the US achieving their highest level. In the US, the food polyol business saw good recovery in the second half of the year following the reduced market demand for polyols in low carbohydrate foods earlier in the year. The pharma ingredients business performed well with strong growth in sales of polyol excipients and antacids.

Growth in enzyme sales has been led by the bakery and feed sectors and geographically the strongest areas for growth have been Asia Pacific and Eastern Europe. The sale of enzymes to AB Mauri has developed in line with our acquisition model.

## RETAIL

	2005	2004
<b>Sales £m</b>	<b>1,006</b>	858
<b>Operating profit £m</b>	<b>140</b>	108

Primark, our value clothing retailer, has recorded another excellent performance. Profits increased 30% on sales ahead of last year by 17% which is all the more remarkable given the difficult trading environment this year on the UK high street.

Like-for-like sales for the year increased by 9% and were particularly strong in the second half. Sales further benefited from the additional retail selling space from new store openings and extensions to existing stores. The improvement in margin reflects better purchasing and favourable currency exchange rates.

Consumer awareness of the value of the Primark offering has dramatically increased this year. This has been reflected in the extensive coverage given to Primark in local and national press and fashion magazines.

A Primark opening has become something of an event and during the year new stores opened in Sunderland, Lincoln, Leeds, Kingston on Thames, Dundrum and Mullingar. We continued to develop more selling space at existing stores with extensions opening in Watford, Wrexham, Wakefield, Gloucester, Belfast, Drogheda and Cork. Four stores were closed following relocations to larger stores or as a result of a compulsory purchase order. By the year end we were trading from 122 stores and 2.5 million square feet of retail selling space in the UK and Republic of Ireland.

The store opening programme for the first half of the new financial year will add 0.3 million square feet and includes most of the stores acquired from Allders in the first half of the year. Leicester and Lakeside Thurrock have already opened and other new stores will open in Dundalk, Bromley, Hull, Cardiff and Oxford. Extensions will be made to a number of locations, most notably a doubling of the space at Hammersmith.

On 1 November 2005 the main warehouse which supplies Primark in the UK was destroyed by a fire. The management team responded well and, working with suppliers and our logistics provider, alternative arrangements were quickly made to continue the supply of stock to the UK stores. The business in Ireland was unaffected since it is supplied by a separate warehouse.

In July we completed the acquisition of Littlewoods stores which comprised an estate of 120 premises. This was a unique opportunity to acquire a portfolio of large stores in attractive high street locations. We intend to close the Littlewoods business in early January 2006 and its trading to date has been in line with our expectation at the time of acquisition. A provision of £47m has been made in these accounts for the full business closure costs.

We intend to refurbish and refit 41 of these stores as Primark adding a further 1.2 million square feet of selling space from spring 2006 until early 2007. The capital expenditure is expected to be some £250m bringing the total investment, net of disposals, to some £500m and the operating profit return is expected to exceed the group's pre-tax cost of capital in the first full year of trading.

Of the remaining 79 stores, agreement has already been reached to sell over half with completion agreed for early 2006. Negotiations to dispose of the remaining stores continue and there has been a high degree of interest in the sale process.

This investment programme will result in a 60% increase in the selling space of Primark from 2.5 million square feet today to over 4 million square feet at the beginning of 2007. We believe that there will be opportunities to expand the estate further.

## **FINANCE DIRECTOR'S REPORT**

### **GROUP PERFORMANCE**

Group sales increased by 9% to £5,622m and operating profit, before the amortisation of goodwill, increased by 18% to £565m.

The significant increase in operating profit mainly reflected the acquisition of the international yeast and bakery ingredients business and the US herbs & spices business at the beginning of the year and an outstanding performance from Primark. Good progress was made by many of our businesses, particularly international hot beverages, British Sugar Overseas and agriculture but our overall result was held back by profit declines at British Sugar in the UK and our bakery business in Australia.

The disposal of properties no longer required by the group resulted in a profit on disposal of fixed assets of £20m which compares with £8m last year. A loss of £6m on the disposal of two agriculture businesses during the year was principally due to the charging to the profit and loss account of goodwill previously written off to reserves on the original acquisitions.

Investment income less interest payable reduced from £36m to £15m following the substantial cash outflow on acquisitions during the period, over £660m of which was incurred at the beginning of the year. Other financial income, which represents the return on the group's defined benefit pension scheme assets less the interest on scheme liabilities, amounted to £10m.

Profit before tax fell from £494m to £479m reflecting a provision of £47m for the costs of closing the Littlewoods business, a £32m increase in the goodwill amortisation charge arising on recent acquisitions, and the net profit on the sale of fixed assets and businesses. Adjusted to exclude these items, profit before tax increased 12% from £525m to £590m.

### **TAXATION**

The tax charge of £139m included an underlying charge of £165m, at an effective tax rate of 28.0% on the adjusted profit before tax described above. The effective tax rate has been reduced as a result of an increase in the profits subject to a lower tax rate. The overall tax charge for the year benefited from a £15m (2004 - £9m) credit for tax relief on the amortisation of goodwill arising from recent asset acquisitions. This credit, together with the tax effect of the other exceptional items, has been excluded from the calculation of adjusted earnings per share.

### **EARNINGS AND DIVIDENDS**

Earnings reduced by £9m to £333m and the weighted average number of shares in issue remained constant at 789 million. Earnings per ordinary share therefore fell by 3% from 43.3p to 42.2p. A more consistent measure of performance is provided by the adjusted earnings per share which excludes the provision for the closure of Littlewoods, profits on the sale of businesses and fixed assets and the amortisation of goodwill net of any tax benefit. Adjusted earnings per share increased by 14% from 46.6p to 53.0p.

The interim dividend was increased by 14% to 6.0p and a final dividend has been proposed at 12.0p which represents an overall increase of 10% for the year. Dividends will cost a total of £142m and £191m will be transferred to reserves. The dividend is covered, on an adjusted basis, 2.9 times.

## **BALANCE SHEET**

Fixed assets increased by £1,235m to £3,287m due to the additional tangible assets and goodwill arising on acquisitions in the year, the acquisition of the Littlewoods stores and, with a much higher investment in Primark, a level of capital expenditure significantly higher than depreciation. Our interest in joint ventures increased by £24m almost all of which relates to the cost of acquisition of our interest in Frontier Agriculture Limited. On 4 April 2005 we contributed our Allied Grain business to a joint venture with Cargill PLC who contributed their UK grain trading operations. Both parties have a 50% interest in the new business. The transaction has been accounted for as a part disposal of our original investment and the acquisition of 50% of the Banks Cargill Agriculture operation. The segmental analysis includes the sales of Allied Grain up to the date of disposal. Sales of the joint venture thereafter are excluded from group turnover.

Net cash funds, being current asset investments and cash at bank less short-term borrowings and loans, were £1,034m lower than last year at £224m. Working capital, including tax and dividend accruals, increased by £56m.

Pension assets, which are the net of the market value of the assets and liabilities, net of tax, of the group's defined benefit pension schemes, fell by £7m but remain in surplus at £51m.

The group's net assets increased by £229m to £3,725m.

A currency gain of £29m arose on the translation into sterling of the group's non-sterling net assets. This largely resulted from a strengthening of the Australian dollar against sterling year on year.

Although operating profit increased substantially, the high level of investment made this year in acquisitions and capital expenditure has resulted in a small decline in return on capital employed for the group from 24.4% to 24.0%. Return on capital employed is defined as operating profit before the amortisation of goodwill expressed as a percentage of average capital employed for the year.

## **CASH FLOW**

Net cash flow from operating activities was £647m compared to £631m last year. The increase in operating profit before goodwill amortisation and depreciation contributed £110m of additional cash generation which was partly offset by an adverse working capital movement year on year of £69m and an increased level of pension contributions.

Capital expenditure during the year was £403m of which £221m was spent on the acquisition of new stores and the refitting of existing Primark stores. The balance was used principally to upgrade, modernise and expand existing manufacturing facilities including investment in new factories in Australia and China. In addition to the expenditure on new Primark stores included within capital expenditure, a further £407m is included in acquisitions in respect of the purchase of the Littlewoods business. £657m was spent on the AB Mauri acquisition and a further £66m was spent on the acquisitions of smaller businesses to complement our grocery and ingredients operations together with the buyout of a number of minority interests in our Polish sugar businesses. £18m was contributed for the shares in the Frontier joint venture and £8m was realised on the disposal of small businesses resulting in a net cash outflow on acquisitions and disposals of £1,140m.

## **TREASURY POLICY AND CONTROLS**

The group's cash and current asset investments totalled £1,198m at the year end including £660m placed with professional investment managers who have full discretion to act within closely monitored and agreed guidelines.

The investment objective is to preserve the underlying assets, whilst achieving a satisfactory return. The investment guidelines are kept under constant review with the objective of monitoring and controlling risk levels. The guidelines require that investments must carry a minimum credit rating of AA-/A1 for long and short-term paper respectively, and also set down conditions relating to sovereign risk, length of maturity, exchange rate exposure and type of investment instrument. Aggregate limits for each category of investment and risk exposure are set for each manager.

The group's UK cash balances are managed 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.

A number of the group's businesses are exposed to changes in exchange rates on sales and purchases made in foreign currencies and to changes in commodity prices. British Sugar is exposed to movements in the euro exchange rate on the price of sugar in the UK and Poland, Primark sources garments from overseas primarily in US dollars and many businesses purchase raw materials in foreign currencies largely US dollar denominated.

Significant cross-border transactions are covered by forward purchases and sales of foreign currency, or foreign currency options as appropriate. The majority of the group's commodity exposures are managed through forward purchase contracts with only very limited use being made of options. All derivative transactions are tightly controlled within set limits and speculative trading is not undertaken. The group does not hedge the translation effect of exchange rate movements on the profit and loss account. The group regards its interest in its overseas subsidiary undertakings as long-term investments and does not hedge the translation effect of exchange rate movements on them.

## **FINANCIAL REPORTING STANDARDS AND ACCOUNTING POLICIES**

There have been no changes in accounting policies during the year. International Financial Reporting Standards (IFRS) will be adopted for the year ending 16 September 2006, the impact of which was described in our accounts for 2004. The principal differences identified were accounting for financial instruments, intangible assets and deferred tax although the impact on adjusted earnings per share is not expected to be material. The form and content of our financial statements will also be different under IFRS. Our 2005 results, net assets and cash flows, restated in accordance with IFRS, will be published in December 2005.

## **POST BALANCE SHEET EVENT**

On 1 November 2005 the main warehouse which supplied Primark in the UK was destroyed by fire. The group is fully insured for the consequent stock loss and business interruption. The warehouse was owned by a third party.

### **John Bason**

Finance Director

The annual report and accounts will be available on 10 November 2005 and the annual general meeting will be held at The Royal College of Surgeons, London at 11am on Friday, 9 December 2005.

**CONSOLIDATED PROFIT AND LOSS ACCOUNT**  
for the year ended 17 September 2005

	Note	Continuing		Total 2005 £m	Total 2004 £m																														
		Ongoing 2005 £m	Acquisitions 2005 £m																																
<b>Turnover of the group including its share of joint ventures</b>		5,341	433	5,774	5,181																														
Less share of turnover of joint ventures		(140)	(12)	(152)	(16)																														
<b>Group turnover</b>	1	5,201	421	5,622	5,165																														
Operating costs		(4,749)	(396)	(5,145)	(4,744)																														
<b>Group operating profit</b>		452	25	477	421																														
Share of operating results of: joint ventures		2	2	4	8																														
associates		6	-	6	3																														
<b>Total operating profit</b>	1	460	27	487	432																														
<table> <tr> <td>Operating profit before amortisation of goodwill</td> <td></td> <td>506</td> <td>59</td> <td>565</td> <td>478</td> </tr> <tr> <td>Amortisation of goodwill</td> <td></td> <td>(46)</td> <td>(32)</td> <td>(78)</td> <td>(46)</td> </tr> </table>						Operating profit before amortisation of goodwill		506	59	565	478	Amortisation of goodwill		(46)	(32)	(78)	(46)																		
Operating profit before amortisation of goodwill		506	59	565	478																														
Amortisation of goodwill		(46)	(32)	(78)	(46)																														
Profits less losses on sale of fixed assets				20	8																														
Profits less losses on sale of businesses				(6)	7																														
Provision for loss on termination of an operation				(47)	-																														
Investment income				49	59																														
<b>Profit on ordinary activities before interest</b>				503	506																														
Interest payable				(34)	(23)																														
Other financial income				10	11																														
<b>Profit on ordinary activities before taxation</b>				479	494																														
<table> <tr> <td>Adjusted profit before taxation</td> <td></td> <td></td> <td></td> <td>590</td> <td>525</td> </tr> <tr> <td>Profits less losses on sale of fixed assets</td> <td></td> <td></td> <td></td> <td>20</td> <td>8</td> </tr> <tr> <td>Profits less losses on sale of businesses</td> <td></td> <td></td> <td></td> <td>(6)</td> <td>7</td> </tr> <tr> <td>Provision for loss on termination of an operation</td> <td>2</td> <td></td> <td></td> <td>(47)</td> <td>-</td> </tr> <tr> <td>Amortisation of goodwill</td> <td></td> <td></td> <td></td> <td>(78)</td> <td>(46)</td> </tr> </table>						Adjusted profit before taxation				590	525	Profits less losses on sale of fixed assets				20	8	Profits less losses on sale of businesses				(6)	7	Provision for loss on termination of an operation	2			(47)	-	Amortisation of goodwill				(78)	(46)
Adjusted profit before taxation				590	525																														
Profits less losses on sale of fixed assets				20	8																														
Profits less losses on sale of businesses				(6)	7																														
Provision for loss on termination of an operation	2			(47)	-																														
Amortisation of goodwill				(78)	(46)																														
Tax on profit on ordinary activities	3			(139)	(146)																														
<b>Profit on ordinary activities after taxation</b>				340	348																														
Minority interests – equity				(7)	(6)																														
<b>Profit for the financial year</b>				333	342																														
Dividends	4			(142)	(129)																														
<b>Transfer to reserves</b>				191	213																														
Basic and diluted earnings per ordinary share	5			42.2p	43.3p																														
Adjusted earnings per ordinary share	5			53.0p	46.6p																														

The results of acquisitions shown separately above are those of both the US herbs & spices business (sales and operating profit: £97m and £12m) and the international yeast and bakery ingredients business (sales and operating profit: £324m and £47m) which were acquired from Burns Philp and which were negotiated concurrently. The acquisition of herbs & spices completed on 3 September 2004. The acquisition of yeast and bakery ingredients completed on 30 September 2004.

The group has no discontinued operations within the meaning of the Financial Reporting Standards during either 2005 or 2004.

**CONSOLIDATED BALANCE SHEET**  
**at 17 September 2005**

	2005	2004
	£m	£m
<b>Fixed assets</b>		
Intangible assets - goodwill	1,035	593
Tangible assets	<u>2,252</u>	<u>1,459</u>
	<u>3,287</u>	<u>2,052</u>
Interest in net assets of		
- joint ventures	36	12
- associates	15	11
Other investments	<u>-</u>	<u>1</u>
Total fixed asset investments	<u>51</u>	<u>24</u>
	<u>3,338</u>	<u>2,076</u>
<b>Current assets</b>		
Stocks	558	496
Debtors	719	600
Investments	901	1,547
Cash at bank and in hand	<u>297</u>	<u>136</u>
	<u>2,475</u>	<u>2,779</u>
<b>Creditors</b> amounts falling due within one year		
Short-term borrowings	(447)	(68)
Other creditors	<u>(958)</u>	<u>(829)</u>
	<u>(1,405)</u>	<u>(897)</u>
<b>Net current assets</b>	<u>1,070</u>	<u>1,882</u>
<b>Total assets less current liabilities</b>	<u>4,408</u>	<u>3,958</u>
<b>Creditors</b> amounts falling due after one year		
Loans	(527)	(357)
Other creditors	<u>(4)</u>	<u>(8)</u>
	(531)	(365)
<b>Provision for liabilities and charges</b>	<u>(203)</u>	<u>(155)</u>
<b>Net assets excluding pension assets and liabilities</b>	<u>3,674</u>	<u>3,438</u>
Pension assets	68	58
Pension liabilities	<u>(17)</u>	<u>-</u>
<b>Net assets</b>	<u>3,725</u>	<u>3,496</u>
<b>Capital and reserves</b>		
Called up share capital	47	47
Revaluation reserve	3	3
Other reserves	173	173
Profit and loss reserve including pension reserve	<u>3,473</u>	<u>3,246</u>
<b>Equity shareholders' funds</b>	<u>3,696</u>	<u>3,469</u>
<b>Minority interests in subsidiary undertakings - equity</b>	<u>29</u>	<u>27</u>
	<u>3,725</u>	<u>3,496</u>

**CONSOLIDATED CASH FLOW STATEMENT**  
**for the year ended 17 September 2005**

	Note	2005 £m	2004 £m
<b>Cash flow from operating activities</b>	6	<u>647</u>	<u>631</u>
<b>Dividends from joint ventures</b>		<u>2</u>	<u>4</u>
<b>Dividends from associates</b>		<u>2</u>	<u>2</u>
<b>Return on investments and servicing of finance</b>			
Investment income		54	55
Interest paid		(29)	(23)
Dividends paid to minorities		<u>(4)</u>	<u>(1)</u>
		<u>21</u>	<u>31</u>
<b>Taxation</b>		<u>(132)</u>	<u>(128)</u>
<b>Capital expenditure and financial investment</b>			
Purchase of tangible fixed assets		(403)	(223)
Sale of tangible fixed assets		39	29
Loan repayment from joint venture		<u>51</u>	<u>-</u>
		<u>(313)</u>	<u>(194)</u>
<b>Acquisitions and disposals</b>			
Purchase of subsidiary undertakings		(1,130)	(229)
(Purchase)/sale of joint ventures and associates		(18)	1
Sale of subsidiary undertakings		<u>8</u>	<u>24</u>
		<u>(1,140)</u>	<u>(204)</u>
<b>Equity dividends paid</b>		<u>(135)</u>	<u>(119)</u>
<b>Net cash inflow before use of liquid funds and financing</b>		<u>(1,048)</u>	<u>23</u>
<b>Management of liquid resources</b>		<u>649</u>	<u>(18)</u>
<b>Financing</b>			
Borrowings due within one year	- repayment of loans	(111)	(97)
	- increase in loans	476	81
Borrowings due after one year	- repayment of loans	(205)	(6)
	- increase in loans	375	2
Increase/(decrease) in bank borrowings		9	(6)
Inflow from reduction in/(increase in cost of) own shares held		<u>7</u>	<u>(2)</u>
		<u>551</u>	<u>(28)</u>
<b>Increase/ (decrease) in cash</b>		<u>152</u>	<u>(23)</u>

**CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES  
for the year ended 17 September 2005**

	2005	2004
	£m	£m
<b>Profit for the financial year</b>	<b>333</b>	342
Actuarial (losses) / gains on net pension assets	(7)	43
Deferred tax associated with net pension assets	-	(13)
Currency translation differences on foreign currency net assets	29	(75)
Tax on currency translation differences	(1)	1
<b>Total recognised gains and losses relating to the year</b>	<b><u>354</u></b>	<b><u>298</u></b>

**CONSOLIDATED STATEMENT OF HISTORICAL COST PROFITS  
for the year ended 17 September 2005**

There is no material difference between the group results as reported and on an unmodified historical cost basis. Accordingly no note of historical cost profits and losses has been prepared.

**RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS  
for the year ended 17 September 2005**

	2005	2004
	£m	£m
Opening shareholders' funds	<b>3,469</b>	3,304
Profit for the financial year	<b>333</b>	342
Dividends	(142)	(129)
Goodwill written back	7	(3)
Net decrease/(increase) in own shares held	8	(1)
Other recognised gains and losses relating to the year	21	(44)
<b>Closing shareholders' funds</b>	<b><u>3,696</u></b>	<b><u>3,469</u></b>

**NOTES TO THE PRELIMINARY ANNOUNCEMENT  
for the year ended 17 September 2005**

**1. Segmental analysis**

	Group turnover		Operating profit		Capital employed	
	2005	2004	2005	2004	2005	2004
	£m	£m	£m	£m	£m	£m
<b>Analysis by business</b>						
Grocery	2,608	2,446	188	160	835	765
Primary food & agriculture	1,541	1,672	187	189	672	686
Ingredients	603	294	72	36	335	125
Retail	1,006	858	140	108	515	338
Inter company sales	(147)	(165)	-	-	-	-
Central costs / capital employed	-	-	(22)	(19)	342	(24)
	<b>5,611</b>	<b>5,105</b>	<b>565</b>	<b>474</b>	<b>2,699</b>	<b>1,890</b>
Businesses disposed:						
Grocery	-	22	-	1	-	2
Primary food & agriculture	11	38	-	3	-	4
	<b>5,622</b>	<b>5,165</b>	<b>565</b>	<b>478</b>	<b>2,699</b>	<b>1,896</b>
Amortisation of goodwill	-	-	(78)	(46)	-	-
	<b>5,622</b>	<b>5,165</b>	<b>487</b>	<b>432</b>	<b>2,699</b>	<b>1,896</b>
<b>Analysis by geography (by origin and destination)</b>						
United Kingdom	2,979	2,942	316	298	1,707	1,165
Rest of Europe	652	526	71	59	268	191
The Americas	1,104	865	108	66	328	255
Australia, Asia & Rest of World	959	834	70	51	396	279
Inter company sales	(83)	(62)	-	-	-	-
	<b>5,611</b>	<b>5,105</b>	<b>565</b>	<b>474</b>	<b>2,699</b>	<b>1,890</b>
Businesses disposed:						
United Kingdom	11	41	-	-	-	4
Rest of Europe	-	5	-	-	-	2
Australia, Asia & Rest of World	-	14	-	4	-	-
	<b>5,622</b>	<b>5,165</b>	<b>565</b>	<b>478</b>	<b>2,699</b>	<b>1,896</b>
Amortisation of goodwill	-	-	(78)	(46)	-	-
	<b>5,622</b>	<b>5,165</b>	<b>487</b>	<b>432</b>	<b>2,699</b>	<b>1,896</b>

Turnover and operating profit of the businesses acquired from Burns Philp are included in the grocery and ingredients segments and amount to £114m and £319m respectively in sales and £22m and £37m respectively in operating profit.

Turnover for primary food & agriculture in 2005 includes sales of £171m by the Allied Grain business up to the point of its disposal to Frontier Agriculture Limited, a joint venture in which the group has a 50% interest. Sales made by the joint venture thereafter are not consolidated.

The amortisation of goodwill arises in primary food & agriculture £1m (2004 - £2m), ingredients £35m (2004 - £6m) and grocery £42m (2004 - £38m). By geography, the charge arises in the United Kingdom £10m (2004 - £11m), Rest of Europe £21m (2004 - £8m), the Americas £37m (2004 - £23m) and Australia, Asia & Rest of World £10m (2004 - £4m).

**NOTES TO THE PRELIMINARY ANNOUNCEMENT continued  
for the year ended 17 September 2005**

**1. Segmental analysis continued**

Capital employed comprises tangible fixed assets, interests in joint ventures and associates, current assets (excluding deferred tax, cash and investments), creditors (excluding borrowings, tax and dividends), and provisions for liabilities and charges excluding deferred tax. A reconciliation of capital employed to net assets together with an analysis of goodwill by segment is shown below.

<b>Reconciliation to Net Assets</b>	<b>2005</b>	2004
	<b>£m</b>	£m
Capital employed	<b>2,699</b>	1,896
Goodwill	<b>1,035</b>	593
Other investments	-	1
Current asset investments	<b>901</b>	1,547
Cash	<b>297</b>	136
Borrowings	<b>(974)</b>	(425)
Tax	<b>(117)</b>	(114)
Dividends	<b>(95)</b>	(88)
Deferred tax	<b>(72)</b>	(108)
Pension asset	<b>51</b>	58
Net assets	<u><b>3,725</b></u>	<u>3,496</u>

Goodwill shown in the above reconciliation arises in primary food & agriculture £26m (2004 - £19m), ingredients £517m (2004 - £50m) and grocery £492m (2004 - £524m). By geography, the goodwill arises in the United Kingdom £93m (2004 - £83m), Rest of Europe £321m (2004 - £152m), the Americas £470m (2004 - £346m) and Australia, Asia & Rest of World £151m (2004 - £12m).

**2. Provision for loss on termination of an operation**

On 30 July 2005 the entire issued share capital of Littlewoods Stores Limited, St James's Street Properties Limited and Littlewoods Stores Holdings Limited ("Littlewoods") was acquired. The group intends to close the Littlewoods business by mid January 2006. Provision of £47m has been made in these accounts for the costs associated with the termination of this business. The tax effect of these costs reduces the group's tax charge by £11m. 41 of the stores acquired are expected to be retained and will be refitted and trade as Primark. The remaining stores will be sold.

	<b>2005</b>	2004
	<b>£m</b>	£m
<b>3. Tax on profit on ordinary activities</b>		
The charge for the year comprises:		
UK corporation tax at 30% (2004 - 30%)	<b>84</b>	94
Overseas income and corporation tax	<b>48</b>	30
Joint ventures and associates	<u><b>3</b></u>	<u>2</u>
Current tax charge	<b>135</b>	126
UK deferred tax	<b>(5)</b>	7
Overseas deferred tax	<u><b>9</b></u>	<u>13</u>
Total tax charge	<b>139</b>	146
Add back:		
Tax credit on goodwill amortisation	<b>15</b>	9
Tax credit/(charge) on exceptional items	<u><b>11</b></u>	<u>(4)</u>
Underlying tax charge	<u><b>165</b></u>	<u>151</u>
<b>4. Dividends</b>		
First interim dividend of 6.00p per share (2004 - 5.25p)	<b>47</b>	41
Proposed final dividend of 12.00p per share (2004 - 11.15p)	<u><b>95</b></u>	<u>88</u>
	<u><b>142</b></u>	<u>129</u>

The first interim dividend was paid on 4 July 2005. The proposed final dividend will be paid on 13 January 2006.

**NOTES TO THE PRELIMINARY ANNOUNCEMENT continued  
for the year ended 17 September 2005**

	<b>2005</b>	2004
	<b>£m</b>	£m
<b>5. Earnings per ordinary share</b>		
Adjusted profit for the financial year	<b>418</b>	368
Profits less losses on sale of fixed assets	<b>20</b>	8
Profits less losses on sale of businesses	<b>(6)</b>	7
Provision for loss on termination of an operation	<b>(47)</b>	-
Tax effect on above	<b>11</b>	(4)
Amortisation of goodwill	<b>(78)</b>	(46)
Tax credit on goodwill amortisation	<b>15</b>	9
Profit for the financial year attributable to shareholders	<b><u>333</u></b>	<u>342</u>
Adjusted earnings per ordinary share	<b>53.0p</b>	46.6p
Earnings per ordinary share on:		
- sale of fixed assets	<b>2.5p</b>	1.0p
- sale of businesses	<b>(0.8p)</b>	0.9p
- provision for loss on termination of an operation	<b>(5.9p)</b>	-
- tax effect on above adjustments	<b>1.4p</b>	(0.5p)
- amortisation of goodwill	<b>(9.9p)</b>	(5.8p)
- tax credit on goodwill amortisation	<b>1.9p</b>	1.1p
Earnings per ordinary share	<b><u>42.2p</u></b>	<u>43.3p</u>

The weighted average number of ordinary shares in issue during the year was 789 million (2004 - 789 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 businesses and fixed assets, provision for loss on termination of an operation, goodwill amortisation 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 789 million (2004 - 789 million).

	<b>2005</b>	2004
	<b>£m</b>	£m
<b>6. Reconciliation of operating profit to cash flow from operating activities</b>		
Group operating profit	<b>477</b>	421
Amortisation of goodwill	<b>78</b>	46
Depreciation	<b>161</b>	139
(Increase)/decrease in working capital		
- stocks	<b>(33)</b>	30
- debtors	<b>(20)</b>	(39)
- creditors	<b>(9)</b>	16
Other provisions	<b>-</b>	4
Pension cost less contributions	<b>(8)</b>	13
Other movement in own shares held reserve	<b>1</b>	1
Net cash from operating activities	<b><u>647</u></b>	<u>631</u>

**NOTES TO THE PRELIMINARY ANNOUNCEMENT continued  
for the year ended 17 September 2005**

	<b>2005</b>	2004
	<b>£m</b>	£m
<b>7. Reconciliation of net cash flow to movement in net funds</b>		
Increase/ (decrease) in cash	<b>152</b>	(23)
Management of liquid resources	<b>(649)</b>	18
Net (increase)/decrease in borrowings	<b>(544)</b>	26
Change in net funds resulting from cash flows	<b>(1,041)</b>	21
Effect of currency changes	<b>11</b>	8
On acquisition of subsidiary undertakings	<b>(4)</b>	(9)
Movement in net funds	<b>(1,034)</b>	20
Opening net funds	<b>1,258</b>	1,238
Closing net funds	<b>224</b>	1,258

**8. Analysis of net funds**

	At 18 September 2004 £m	Cash flow £m	Acquisition of subsidiary undertakings £m	Exchange adjustments £m	At 17 September 2005 £m
Cash at bank and in hand	136	152	-	9	<b>297</b>
Short-term borrowings	(68)	(374)	(4)	(1)	<b>(447)</b>
Investments	1,547	(649)	1	2	<b>901</b>
Loans over one year	(357)	(170)	(1)	1	<b>(527)</b>
	<u>1,258</u>	<u>(1,041)</u>	<u>(4)</u>	<u>11</u>	<u><b>224</b></u>

**9. Other information**

The financial information set out above does not constitute the group's statutory financial statements for the years ended 17 September 2005 and 18 September 2004, but is derived from them. The 2004 financial statements have been filed with the Registrar of Companies whereas those for 2005 will be delivered following the company's annual general meeting. The auditor's opinions on these financial statements were unqualified and did not include a statement under section 237 (2) or (3) of the Companies Act 1985.

## ACCOUNTING POLICIES

### Basis of preparation

These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain assets, and in accordance with applicable accounting standards and the Companies Act 1985.

### Basis of consolidation

The group accounts comprise a consolidation of the accounts of the company and its subsidiary undertakings, together with the group's share of the results and net assets of its joint ventures and associates. The financial statements of the company and its subsidiary undertakings are made up for the 52 weeks ended 17 September 2005, except that, to avoid delay in the preparation of the consolidated financial statements, those of the Australian, New Zealand, China, Poland and the North and South American subsidiary undertakings are made up to 31 August 2005.

### Acquisitions

The consolidated profit and loss account includes the results of new subsidiary undertakings, joint ventures and associates attributable to the period since change of control.

### Disposals

The results of subsidiary undertakings, joint ventures and associates sold are included up to the dates of change of control. The profit or loss on the disposal of an acquired business takes into account the amount of any related goodwill previously written off directly to reserves, or the net amount of capitalised goodwill remaining unamortised, as appropriate.

### Intangible fixed assets

Intangible fixed assets consist of goodwill arising on acquisitions since 13 September 1998, being the excess of the fair value of the purchase consideration of new subsidiary undertakings over the fair value of net assets acquired. Goodwill is capitalised in accordance with FRS 10 and amortised over its useful economic life, not exceeding 20 years. Goodwill previously written off against reserves has not been reinstated. Goodwill arising on the acquisition of joint ventures and associates is included in the carrying value of the investments.

### Tangible fixed assets

Tangible fixed assets are carried at their original cost less accumulated depreciation.

### Depreciation

Depreciation is provided on the original cost of assets and is calculated on a straight line basis at rates sufficient to reduce them to their estimated residual value. No depreciation is provided on freehold land or payments on account. Leaseholds are written off over the period of the lease. The anticipated life of other assets is generally deemed to be not longer than:

Freehold buildings	66 years
Plant, machinery, fixtures and fittings	
- sugar factories	20 years
- other operations	12 years
Vehicles	8 years

### Fixed asset investments

Joint ventures and associates are accounted for in the financial statements of the group under the equity method of accounting. Other fixed asset investments in the group's accounts, and all fixed asset investments in the accounts of the company, are stated at cost less amounts written off in respect of any impairment.

### Stocks

Stocks are valued at the lower of cost or net realisable value, after making due provision against obsolete and slow-moving items. In the case of manufactured goods the term "cost" includes ingredients, production wages and production overheads.

### Current asset investments

Current asset investments are stated at the lower of cost or market value.

## **ACCOUNTING POLICIES continued**

### **Foreign currencies**

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at rates of exchange ruling at the balance sheet date or at the contracted rate as appropriate. The assets and liabilities of overseas operations are translated into sterling at the rates of exchange ruling at the balance sheet date. The results of overseas operations have been translated at the average rate prevailing during the year. Exchange differences arising on consolidation are taken directly to reserves. Other exchange differences are dealt with as part of operating profits.

### **Group Turnover**

Turnover represents the net invoiced value of goods and services delivered to customers excluding sales taxes. Revenue is recognised when the risks and rewards of the underlying products and services have been substantially transferred to the customer.

### **Pension and post-retirement benefits**

In accordance with 'FRS 17 – Retirement Benefits', the operating and financing costs of pension and post-retirement schemes are recognised separately in the profit and loss account. Service costs are systematically spread over the service lives of the employees and financing costs are recognised in the period in which they arise. The costs of past service benefit enhancements, settlements and curtailments are also recognised in the period in which they arise.

The difference between actual and expected returns on assets during the year, including changes in actuarial assumptions, are recognised in the statement of total recognised gains and losses.

### **Research and development**

Expenditure in respect of research and development is written off against profits in the period in which it is incurred.

### **Leases**

All material leases entered into by the group are operating leases, whereby substantially all of the risks and rewards of ownership of an asset remain with the lessor. Rental payments are charged against profits on a straight line basis over the life of the lease.

### **Financial instruments**

Forward foreign exchange contracts and currency options are used to hedge forecast transactional cash flows and accordingly, any gains or losses on these contracts are recognised in the profit and loss account when the underlying transaction is settled. Derivative commodity contracts are used to hedge committed purchases or sales of commodities and accordingly, any gains or losses on these contracts are recognised in the profit and loss account in the same accounting period as the underlying purchase or sale. Gains or losses arising on hedging instruments that are cancelled due to the termination of the underlying exposure are taken to the profit and loss account immediately.

### **Deferred tax**

Provision for deferred tax is made on all timing differences that have originated, but not reversed at the balance sheet date. A deferred tax asset is regarded as recoverable and therefore recognised only when it is regarded as more likely than not that there will be sufficient future taxable profits. Deferred tax is not discounted.