Associated British Foods plc
Annual Report & Accounts 2006

Associated British Foods is a diversified international food, ingredients and retail group with global sales of £6.0bn, and 75,000 employees in 46 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.

UK
British Sugar, which is constructing the UK's first biofuel plant, signed an agreement to co-operate with BP and DuPont on commercial development of UK biofuels.

UK and Spain
Primark opened 27 new stores in the year adding 40% to its selling area and spreading its value message to Spain for the first time. More stores are planned.

European Union
With the new sugar regime in force British Sugar has consolidated its European production across 6 factories in England and Poland. It has indicated its intention to buy additional sugar quota.

Africa
Following the acquisition of a 51% holding in Illovo, Africa's largest sugar producer, two thirds of our sugar production next year will be outside the EU.

Asia
AB Mauri continued to expand its yeast production to meet strong growth in Asia. The new plant in Xinjiang, China, is to be expanded as were the plants in Harbin and Hebei this year. Production was also expanded in Vietnam.

China
Our sixth Chinese animal feed mill was constructed in only 280 days, on-budget and with a 100% safety record. A seventh will open in early 2007.

Financial & operational highlights

Financial highlights 2006

- Adjusted operating profit up 1% to £561m*
- Group revenue up 7% to £6.0bn
- Adjusted profit before tax down 4% to £559m**
- Adjusted earnings per share down 3% to 50.9p**
- Dividends per share up 4% to 18.75p
- Investment in capital expenditure and acquisitions of £760m
- Net debt of £298m
- Operating profit down 21% to £413m, profit before tax down 20% to £419m and basic earnings per share down 21% to 38.1p, after an exceptional charge for reorganisation of British Sugar of £97m.

Operational highlights 2006

- Acquisition of 51% controlling stake in Illovo in Africa
- Opening of 27 Primark stores
- Collaboration with BP and DuPont on UK biofuels

*before amortisation of intangibles, profits less losses on the sale of PP&E and exceptional items

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

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At a glance

Primary food & agriculture

Sales £1,302m (2005 – £1,435m)

Adjusted operating profit £131m (2005 – £186m)

% of total sales 22% (2005 – 26%)

Sugar, Europe British Sugar is the sole processor of the UK sugar beet crop. Over 1 million tonnes of sugar are processed each year at six factories. The company is Europe's most efficient producer. Two beet sugar factories are operated in Poland. The Glinojeck factory, with a capacity of over 100,000 tonnes of sugar a year, is Poland's largest.

Sugar, China British Sugar Overseas has majority interests in four cane sugar factories in Guangxi Province, South East China. Substantial investment, training and modernisation has taken place since the first joint venture in 1995 and production has risen to 500,000 tonnes of sugar each year.

Sugar, Southern Africa Illovo is Africa's largest producer with extensive operations in six countries.

Agriculture Our agriculture group is one of the UK's largest agribusinesses, with operations in China and international sales of specialist products. The group produces animal feeds; feed micro-ingredients; and, through Frontier, sells arable supplies to UK farmers and purchases grain and oilseeds from them.

Grocery

Sales £2,656m (2005 – £2,590m)

Adjusted operating profit £185m (2005 – £185m)

% of total sales 44% (2005 – 46%)

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

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

Bread and baked goods In the UK and Australia we produce leading bakery brands, Kingsmill, Ryvita, Tip Top and Noble Rise.

Ethnic foods Rice, noodles and sauces are amongst the foods from around the world marketed throughout the UK under the Blue Dragon brand and through specialist and foodservice outlets to ethnic communities.

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

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

Retail

Sales £1,309m (2005 – £1,006m)

Adjusted operating profit £185m (2005 – £140m)

% of total sales 22% (2005 – 18%)

Primark Stores Primark is a major value retail group employing over 18,000 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 has a full range of departments including womenswear, lingerie, childrenswear, menswear, footwear, accessories, hosiery and homeware.

Ingredients

Sales £729m (2005 – £583m)

Adjusted operating profit £82m (2005 – £65m)

% of total sales 12% (2005 – 10%)

Yeast The company has a global presence in yeast production through its AB Mauri operations, with 42 plants in 25 countries. The business was acquired in 2004 and is the market leader in bakers' yeast in the US, South America and Asia and is number three in Europe.

Bakery ingredients AB Mauri is also the technology leader in bread improvers, dough conditioners and bakery mixes. It is an international supplier to plant and artisanal bakers, and the foodservice and wholesale channels. 17 factories around the world produce bread ingredients and mixes, flour confectionery, toppings and fillings, colours and flavours, bakery fats and margarines and other speciality ingredients.

Other ingredients ABF Ingredients produces a wide range of ingredients with applications in the food, beverage, pharmaceutical and personal care sectors. Speciality ingredients are also used in the animal feed, textile and paper industries.

Chairman's statement

The developments... in our two major businesses give a strong basis for future progress. The group is well placed for the longer term.

The past year has seen major long-term developments for the group, the most important of which have been in our two largest businesses. The sugar operations are being radically reshaped and the extensive programme of new Primark store openings is now approaching completion.

Overall adjusted group operating profits were marginally ahead of last year. There were very satisfactory advances in several businesses which were offset by the £34m impact of sugar regime reform and a £64m increase in energy costs, most of which could not be recovered in pricing.

Developments

British Sugar has responded to the fundamental changes in the EU sugar regime with a number of significant initiatives to reposition the business for growth. Within the EU it has announced a rationalisation of its UK factories and has restructured its operations in Poland. Furthermore, it has confirmed its intention to purchase additional quota with the result that more sugar will be produced by fewer factories in the future. The acquisition of 51% of the southern Africa based company, Illovo Sugar Limited, provides a new platform for growth, based on low cost operations in developing markets. From 2008/9 it will be able to sell into the EU market taking advantage of its Least Developed Countries ('LDC') status. Finally, a collaboration with BP and DuPont has been announced to develop biofuels in the UK.

The consequence of this reshaping is that, after the transition to the new EU regime, we will have a sustainable base of production in the EU which, together with LDC sales into the EU, will take our potential scale in Europe to 2 million tonnes. Our total production capacity will be around 4 million tonnes, one third in Europe and two thirds in southern Africa and China.

Over the 18 months from September 2005 to March 2007 Primark will have taken its selling space from 2.5 million sq ft to 4.3 million sq ft, an increase of over 70%. The major part of this increase comes from the conversion of former Littlewoods stores to the Primark format. The rollout of the stores, which began in May this year, is continuing on schedule. Primark now has a vastly improved coverage in its main markets, although opportunities remain for further profitable development.

Trading

Primark delivered a strong trading performance with a major increase in retail selling space and 3% like-for-like sales growth. This was achieved while coping with the impact of the fire which destroyed the UK warehouse a year ago and managing the significant expansion programme. As expected, results in the yeast and bakery ingredients business, AB Mauri, moved sharply ahead after the initial year of consolidation following its acquisition. There were also good results in many of the grocery businesses in the UK, particularly Twinings Ovaltine, and ACH in North America.

We are now well into the transition from the old sugar regime to the new and there was a big impact on prices as producers positioned themselves for the new structure. The combination of lower prices and higher energy costs resulted in sharply reduced European profits. The income statement includes an exceptional charge of £97m for the cost of restructuring British Sugar's UK production. Trading at Allied Bakeries continued to be unsatisfactory with lower volumes, and profit fell as a result.

Building on the substantial investment of £1.5bn in acquisitions and fixed assets last year, the group has invested a further net £760m this year on capital expenditure in the existing businesses, including the purchase and fit-out of new stores for Primark, and on the acquisition of the stake in Illovo as well as other smaller businesses. We financed this investment from our own resources and at the end of the financial year the group had net debt of £298m. The combination of the group's ability to generate cash and the very low level of gearing at the year end provides the group with the ability to back further investment in our businesses as appropriate opportunities occur.

As a result of the heavy investment of the past two years, the group now has a net interest bill and adjusted profits before tax fell by 4%. Adjusted earnings per share fell by 3% from 52.5p to 50.9p. In the circumstances, I believe this was a satisfactory performance.

Board changes

On 1 November 2006, Michael Jay and Javier Ferrán were appointed to the Board. Lord Jay's career has been in public service, culminating in his role as Permanent Under Secretary at the Foreign & Commonwealth Office from 2002 to 2006 and British Ambassador to France from 1996 to 2001. Mr Ferrán is a partner at Lion Capital LLP. He was previously with the Bacardi Group for many years, latterly as President and Chief Executive. Among their many other attributes, both Lord Jay and Mr Ferrán have extensive international experience. I am confident that both will make valuable contributions to the board.

Employees

At the end of the year the group employed 75,000 people in 46 countries. They have faced the demanding trading conditions in the group's markets and reacted with resourcefulness and determination. I am grateful to them all for their efforts to maximise the group's results. I would also particularly like to welcome all those in Illovo, who account for 27,000 of the people now working in the ABF group.

Dividends

Although adjusted earnings per share are 3% down this year, the directors have confidence in the future growth of the business and have proposed an increase of 4% in the dividend for the year. A final dividend of 12.5p is proposed to be paid on 12 January 2007 to shareholders on the register on 1 December 2006. Together with the interim dividend of 6.25p already paid, this will make a total of 18.75p for the year.

Outlook

Most of our businesses continue to trade well and expect positive developments in their results. The profitability of the European sugar businesses will be further affected by the consequences of the EU sugar regime reform.

The phase of exceptionally rapid growth in Primark's floor space will be completed early in 2007. The extra space will fuel sales and profit growth. This will occur not just in the current year but as trading develops at the new stores over a period of time.

Looking beyond the current year, the developments referred to earlier in our two major businesses give a strong basis for future progress. We will continue to back our other businesses with appropriate levels of investment. The group is well placed for the longer term.

Martin Adamson
Chairman

This has been a year of resilient performance and significant investment for the group.

Operating review

Group revenue increased by 7% to £6.0bn and adjusted operating profit increased by 1% to £561m.

This has been a year of resilient performance and significant investment for the group. The reform of the EU sugar regime has been anticipated for many years but there has been uncertainty as to the timing and extent of the impact. This year we estimate the profit impact at £34m with a further £21m for energy cost increases within British Sugar which we were unable to recover through pricing because of the trading environment. This substantial impact was more severe and earlier than we had expected.

Many businesses delivered excellent growth in the period. Notably these included Primark, from a combination of like-for-like sales growth and an extensive programme of new store openings and extensions, continued organic growth in Twinings and Ovaltine and strong trading from AB Mauri which is now performing well after its acquisition two years ago.

It has been a very disappointing year for Allied Bakeries with revenue declines in both Kingsmill and own label and profitability has sharply reduced. The new management team has developed detailed plans for the reinvigoration of the brand. With the need for brand investment, no immediate improvements in profitability should be expected next year.

In Australia the problems in commissioning the new Sydney bakery have been largely overcome in the second half of this year. This is a state-of-the-art bakery and we can look forward to having the capacity to supply the New South Wales market with quality products with much improved customer service. It is also encouraging to see the improvement in profitability of the meat & dairy business in Australia after two difficult years that saw the consolidation of production facilities and challenging trading issues. Further improvements in efficiency are planned for the coming year.

The shape of ABF has changed considerably over recent years, and the acquisition of Illovo in September this year will further transform our sugar operations from a very UK-centric business only a few years ago to what is now the second largest sugar producer in the world. ABF now operates in 46 countries and has built critical mass in a number of businesses through acquisition and organic growth. We have strengthened our positions in international hot beverages and branded grocery, taken a leading position in global yeast production and firmly established Primark as a major clothing retailer in the UK and Ireland. It is this strength in depth, combined with a wider geographic spread, that provides the group with the ability to absorb economic challenges and still deliver a resilient performance.

That said, the structural reform of the EU sugar regime has such a major impact on the profits of European producers that a fundamental change to British Sugar is required if it is to continue to compete effectively. We have announced the closure of two of our six UK factories at the end of the forthcoming campaign and the intention to purchase additional quota that will become available from the regime reform. This will reinforce British Sugar's position as the lowest cost beet sugar producer in the EU. Illovo will benefit from these regime changes from 2009 when the EU market will be opened to producers in Least Developed Countries.

Primark's expansion programme has progressed well with the opening of 27 stores during the year. This increased our retail selling space by 40% to 3.5 million sq ft and included the opening of our first store in Spain. It would have been very easy for an expansion programme of this scale to have absorbed management to the detriment of the day-to-day business. It is therefore to the credit of the management team that, despite this considerable distraction, good like-for-like sales growth was achieved when many competitors on the high street found trading difficult. This was all the more impressive given the severe disruption caused by the fire that completely destroyed the main UK warehouse and is testament to the dedication of the Primark workforce.

The Chairman has mentioned the contribution our people have made during the year and I endorse his comments. Our expansion into southern Africa through Illovo has added 27,000 people to the group. In recognition of its interdependence with the communities in which it operates, Illovo provides and co-ordinates a wide range of social programmes focusing on basic needs such as the provision of water and sanitation, healthcare, education delivery and involvement in community outreach programmes. Illovo also provides considerable training and support to farmers in order to promote sustainable agriculture and economic development activities.

Primary Food & Agriculture

Primary Food	2006	2005
Revenue	**£671m**	£700m
Adjusted operating profit	**£115m**	£166m
Agriculture	**2006**	**2005**
Revenue	**£631m**	£735m
Adjusted operating profit	**£16m**	£20m

Primary Food & Agriculture

In Primary Food, the sharp decline in profit from £166m to £115m is attributable to the EU operations of British Sugar. The imbalances in supply and demand within the EU sugar market and changes in producer behaviour in anticipation of the new regime resulted in price pressure in the first half of the year. The impact in the second half was in line with our expectations. In addition, profit was reduced by a weaker euro and significantly higher energy costs, particularly gas prices in the UK. The impact on the business of the changes to the EU sugar regime is estimated at £26m, excluding Silver Spoon, with a further impact of £21m for unrecovered energy cost increases.

This year's processing campaigns were excellent with sugar production of 1.34 million tonnes in the UK and 206,000 tonnes in Poland. A number of production records were set covering productivity, sugar yields and energy usage. Our Chinese cane sugar operations performed well in their first campaign following the expansion of the Shibie and WuXuan factories. Capacity is now more than half a million tonnes although the factories have produced substantially below this level this year because of the much reduced cane crop following severe drought earlier in the year. The profit impact of this was, however, largely mitigated by higher sugar prices.

In July the European sugar industry commenced the implementation of the EU Commission's reform of the EU sugar regime. These changes will result in the progressive withdrawal of institutional price support and marginal producers will be encouraged to exit the sector, not only to reduce surplus production, but to create a deficit in local production. This deficit is aimed at providing import opportunities by 2009 for Least Developed Countries (LDC). During the transition period, the impact of these changes and continued imbalances in supply and demand can be expected to continue to affect the profit at British Sugar. In anticipation of a difficult transition, the Commission has imposed a 2.5 million tonne transitional quota cut for 2006/7 which equates to 133,000 tonnes for British Sugar in the UK and 20,000 tonnes for Poland. This is higher than the temporary quota cut imposed in 2005/6. The Commission also confirmed that the restructuring levy, the means by which a fund is established to compensate processors who exit, of €126 per tonne will be based on the full permanent quota. A number of European processors have already taken the option to withdraw, reducing quota production for sugar and inulin by 1.5 million tonnes for the 2006/7 campaign. Decisions on renunciation for the 2007/8 campaign are expected to be made by other EU processors by Spring 2007. There is a possibility that the Commission's target of a further three million tonnes reduction will not be met. In these circumstances the Commission has reserved the right, in the new regulations, to impose permanent pro rata quota cuts.

Next year, sugar supply in the EU will be substantially lower as a consequence of a likely smaller crop and the temporary quota cut already announced by the EU Commission. The smaller crop in the UK is, however, still expected to meet quota, including additional quota to be purchased.

British Sugar has announced a number of developments which reposition the group's sugar businesses for the future.

The York and Allscott beet sugar factories will close after the end of the 2006/7 campaign and processing will be consolidated at the four remaining factories in the UK. British Sugar has confirmed its intention to purchase the 83,000 tonnes of additional sugar quota available in the UK as a result of regime reform. As a result, we will produce more sugar from four factories than we currently produce from six. These developments follow the consolidation of British Sugar's Polish operations into two factories last year and the application to acquire 11,000 tonnes of additional sugar quota available in Poland. Together these will reinforce British Sugar's position as the lowest cost processor in the EU beet sugar industry.

An exceptional charge of £97m has been included in the consolidated income statement comprising £64m of asset write-down and £33m of estimated cash costs

Illovo

Illovo Sugar is a leading, low-cost sugar producer and a significant manufacturer of high-value downstream products. The group is Africa's biggest sugar producer with extensive agricultural and manufacturing operations in six African countries

Excellent climatic and soil conditions in the group's countries of operation, accompanied by irrigation from secure water sources, are ideal for the cultivation of high-yielding and excellent quality sugar cane. Annual cane production of approximately 5.5 million tonnes is produced on agricultural estates in South Africa, Malawi, Zambia, Swaziland, Tanzania and Mozambique. Annual sugar output amounts to approximately 1.9 million tonnes comprising 900,000 tonnes produced in South Africa, Malawi 270,000 tonnes, Zambia 250,000 tonnes, Swaziland 230,000 tonnes, Tanzania 140,000 tonnes and Mozambique 70,000 tonnes.

Of the six countries in which Illovo operates, three are in the top ten lowest-cost producers in the world, and all six are within the top 25.

The group is a major supplier of sugar to African consumer and industrial markets, particularly in its own countries of operation. It also has significant and increasing access to preferential markets in the European Union and the United States, whilst the African operations outside South Africa also have access to the South African Customs Union market in terms of the Southern African Development Community (SADC) Sugar Protocol on Trade. Sugar in consumer packs is supplied into other regional markets within Africa. The group, through the South African, Swaziland and Mozambique industries, also exports sugar into the world market.

Illovo runs a wide range of social investment programmes focusing on basic needs such as the provision of water and sanitation, access to healthcare, education delivery and involvement in community outreach programmes.


WHITE SUGAR

BP and DuPont collaborate with ABF on UK biofuel production

British Sugar leads the way in UK biofuels
Climate change affects us all but despite increasing concern about the impact of global warming, UK carbon emissions, in some sectors, are still rising.

Transport in particular is responsible for nearly a quarter of all UK carbon emissions, which have been linked to global warming and poor air quality.

Now there's a real alternative that will make a difference.

British Sugar is launching a pioneering project to reduce carbon emissions by developing the manufacturing capacity to produce large amounts of clean, green, renewable fuels.

Biofuels are renewable fuels produced from crops using fermentation processes. They are sustainable too because unlike fossil fuels, biofuels do not deplete the earth's finite resources.

British Sugar is building the UK's first ever bio-refinery dedicated to producing a secure supply of biofuel which can be added directly to petrol.

Starting in 2007, the fermentation and distillation plant at our Wissington sugar factory will produce 55,000 tonnes of biofuel each year from sugar beet – that's enough to provide one million cars with a 5% blend.

Our process for making biofuel is very energy-efficient, thanks to the use of state-of-the-art technology and gas turbine combined heat and power generation.

The use of biofuel as a transport fuel has a vital role to play in reducing the carbon emissions that contribute to climate change. It can be added easily to petrol, forming 5% of the mix to reduce carbon emissions from vehicles. It's compatible with existing vehicles and offers a similar fuel performance to conventional petrol. Biofuels are already in use in many other countries.

The carbon emissions from biofuels are naturally absorbed by the crops grown to produce them. It is this continuous carbon-cycle which makes these fuels such effective renewable sources. All sugar beet supplied to British Sugar for the biofuels process will be grown on existing agricultural land.

Through investing in this technology, ABF is taking on the challenge of reducing carbon emissions from transport. We're bringing clean, renewable fuel to the UK for the benefit of all.

associated with the reorganisation. This charge has been excluded from the calculation of adjusted earnings. The investment in additional quota in the UK and Poland is expected to cost £47m dependent on the success in securing the targeted volumes. This cost will be capitalised and amortised over nine years.

On 4 September 2006 we completed the acquisition of a 51% interest in Illovo Sugar Limited, the largest sugar producer in Africa and one of the world's leading low-cost producers, for a cash consideration of £288m. It is the leading producer in South Africa, Malawi, Zambia, Swaziland and Tanzania and has a strong and growing presence in Mozambique. It produced 1.9 million tonnes of sugar in 2005/6 and has identified development programmes to expand this capacity substantially.

ABF will support Illovo's stated plans for capacity expansion and development in its African markets. It is expected that Illovo will benefit from the application of British Sugar's proven expertise in improvement in operational efficiency, co-product development, marketing and product innovation. In turn, British Sugar's Chinese cane sugar operations will benefit from Illovo's agricultural expertise.

The changes to the EU sugar regime will provide free access for exports to the EU from LDCs from 2009. The LDC classification includes Malawi, Zambia, Tanzania and Mozambique. British Sugar will provide an efficient route to market for these exports from Illovo.

In the first full year after acquisition the operating profit return is expected to meet ABF's cost of capital, and will be earnings enhancing. As a result of this acquisition, two thirds of the group's sugar production next year is expected to be outside the EU. The combination of British Sugar and Illovo will create a powerful partnership in Africa and Europe.

In June, we announced a collaboration with BP and DuPont to produce biofuels in the UK. Construction has already started on a production facility at Wissington, and the 55,000 tonne, 70 million litre unit is expected to commence operations in 2007. Discussions are continuing to develop detailed plans for further production facilities.

This has been another challenging year for Agriculture. Revenue fell by £104m to £631m reflecting the sale, in April last year, of the grain trading business, Allied Grain, into Frontier, a joint venture with Cargill. Profit at £16m was below last year reflecting the impact of avian influenza and higher energy costs. Good progress was made in the targeted growth sectors of feed micro-ingredients, speciality feeds and the animal feed business in China.

The UK feeds business benefited from a restructuring to provide a better alignment with customer needs. Frontier traded very well in its first full year of operation and cost savings have been achieved ahead of the original business plan for the joint venture.

In China, the opening of the new feed mill in South Henan in April brought the number of mills to six. China is the world's biggest pig producer and Henan is the country's second largest pig producing province. We have had a strong presence in North Henan since 2002 and the new mill will enable further expansion. A new mill is being constructed in the North East of China and should begin production by the New Year. Avian influenza had a major, direct impact on our China business, where delayed restocking on poultry farms reduced the demand for animal feeds.

Retail

Primark	2006	2005
Revenue	**£1,168m**	£989m
Adjusted operating profit	**£166m**	£141m
Littlewoods	**2006**	**2005**
Revenue	**£141m**	£17m
Adjusted operating profit	**£19m**	£(1)m

Retail

Primark again delivered very strong revenue and profit growth, both increasing by 18% to £1,168m and £166m respectively.

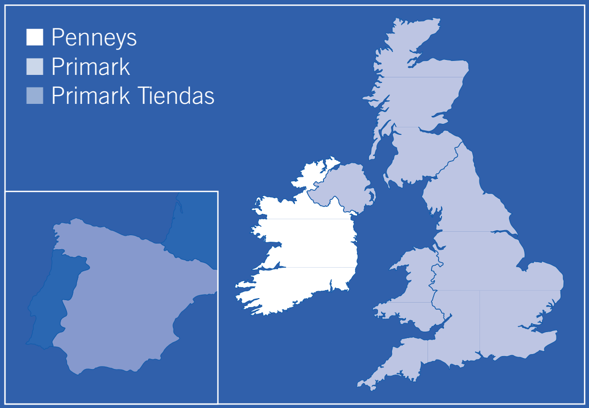
The revenue increase resulted from 3% growth in like-for-like sales and a substantial increase in retail selling space. Like-for-like growth was 6% in the first half of the year. However, it was flat in the second half after the exceptionally strong 12% increase in the same period last year.

Retail selling space increased by 40% over the year from 2.5 million sq ft to 3.5 million sq ft. Much of this space was added towards the end of the financial year and the increase in the weighted average floor space for this year over last was 17%. In total, 27 stores were opened during the year and, following the closure of six smaller stores, Primark was trading from 143 stores at the year end.

The first store in Spain, at Plenilunio outside Madrid, was opened in May and this has been followed by a store in Murcia after the year end. Both stores are trading satisfactorily.


PRIMARK

Primark – Cardiff



Primark in prime locations

For the shopper in the high street whether in Ireland, England, Scotland, Wales and from this year for the first time in Spain, value means Primark.

Our customers come back to us time and time again because they know that right across the store our prices are simply unbeatable. But it's more than just low prices on the high street. Our customers judge value based on the whole shopping experience. They want the latest fashions, manufactured to good quality and ethical standards, imaginatively displayed in a pleasant, modern environment.

Primark meets all these expectations and because of this, word of mouth plays a vital part in our marketing mix. No TV advertising campaigns or paid-for celebrity endorsements. Our customers tell their friends and families that Primark is where it's happening and they vote with their feet.

Spotting trends

Primark's buying teams in Ireland and England are constantly on the look out for the next big thing in fashion. Primark's success is built on spotting a trend as it is still emerging and getting it in store at the lowest price, quicker than anyone else on the high street.

How does it do this? First, the buyers live and breathe fashion. They travel the world, meeting suppliers, visiting the shows, checking out the look on the street in London, Paris, Madrid and Milan. In fact anywhere that style matters. Surfing the internet and trawling the fashion magazines is also a must.

Having decided on the 'look', the buyers then go into action ordering samples from suppliers, checking out garment quality and agreeing commercial terms prior to placing orders. No corners can be cut but speed is of the essence. Success is down to the special relationship that Primark's buyers have forged over many years with their suppliers. It may come as a surprise to know that nearly half of the merchandise bought comes from just fifty suppliers with whom Primark has had a consistent relationship for more than a decade.

New store openings	
Ayr	Leicester
Bradford	Luton
Bromley	Maidstone
Cardiff	Mansfield
Croydon	Nottingham
Darlington	Oxford
Dundalk	Portsmouth
Exeter	Preston
Gateshead (Metro)	Southend
Glasgow (Argyle Street)	Southport
Harlow	Sutton
Hull	Swansea
Lakeside Thurrock	Plenilunio (Madrid)
Leeds	

Stores closed	
Bristol (compulsory purchase)	Darlington (resite)
Bromley (resite)	Southend (resite)
Cardiff (resite)	Swansea (resite)

The major programme for the refit and opening of the former Littlewoods stores is on schedule and 18 of the 41 stores were open at the financial year end. Of the 79 stores not required, 69 have either been sold or are under offer and proceeds of £144m have been received. Negotiations for the sale of the remainder are continuing.

The Primark trading performance is remarkable given the disruption caused by the fire which destroyed the main UK warehouse last November. Swift action by the management team mitigated the potentially disastrous effect on the supply of stock to the stores. Deliveries to stores were restocked after 48 hours and a temporary warehouse was quickly replenished with specially arranged deliveries from suppliers. The stock loss, additional costs of working and business interruption were insured and most of the cash for the stock loss and additional costs of working has been received. However, an element of the claim was self-insured and the profit for the year includes a charge for this. The warehouse operation is being transferred to the rebuilt warehouse.

Primark was accepted as a member of the Ethical Trading Initiative (ETI) in May. The ETI is an alliance of companies, trade unions and non-profit organisations that aims to promote respect for the rights of people in factories and farms worldwide. As a member of the ETI, Primark has committed to monitoring and progressively improving working conditions in the factories that supply Primark's products.

The Littlewoods retail business, acquired in July 2005, was very successfully traded out and finally closed in January. The profit from this trade out was £19m

A day in the life of Primark

On any normal day, every single one of Primark's 107 UK stores receives a delivery from its central distribution warehouse at Magna Park. The distribution park is strategically situated on the junctions of the M1 and M6 motorways which run up and down the spine of the country linking many important towns and cities.

It is the speed and precision of this operation that ensures that the appropriate items are ordered and delivered to store. And it is the speed at which the latest fashions move from docks to warehouse onto the trucks and into the stores which ensures the latest trends are always in store at Primark and that our costs are optimised. This concentration on efficiency and control of costs enables us to give our customers the best prices on the high street.

We are now commissioning our new warehouse complex following the complete destruction by fire of our previous facility. The new complex features two buildings linked by a special corridor. The buildings can be isolated from one another by automatic fire shutters. Inventory is automatically spread between the two by conveyors capable of transporting products on pallets, in cartons and on hanging rails.

The complex has the security of two buildings with the efficiency of one. Consignments destined for store delivery are picked, sorted and then transported through the warehouse to one of 26 individual loading bays where the trucks are loaded for their daily journey.

and was well ahead of our expectation at the time of the acquisition.

The principal driver of sales and profit growth in 2007 will be the additional floor space although the higher depreciation charge associated with the investment in the new stores will have a detrimental effect on operating profit margins. The like-for-like sales growth measure will become of limited use as a guide to the performance of Primark over the next year or so as this rapid expansion of selling space takes place. This measure excludes new and extended stores for their first year of trading and will only therefore cover trading in less than half of the selling space at the next half year. Furthermore, we would expect that the opening of so much space will inevitably affect sales in some of our existing stores. Many of these existing stores currently have very high sales densities and this development is seen as positive. At the half year we will show the existing like-for-like measure and one adjusted to exclude stores affected by new openings.

For the coming year, it is expected that all the remaining former Littlewoods stores will be opened with a further 18 trading by Christmas and the remaining five in 2007. A 70,000 sq ft store is planned to open in Oxford Street, London in Spring 2007. We anticipate a year-on-year increase in the weighted average floor space of some 45% and, with a year end total of 4.5 million sq ft of selling space, Primark's position as a major fashion retailer in the high streets of the UK and Ireland will be firmly established.

Grocery

	2006	2005
Revenue	**£2,656m**	£2,590m
Adjusted operating profit	**£185m**	£185m
Adjusted operating margin	**7.0%**	7.1%
Return on average capital employed	**20.2%**	21.9%

Grocery

Revenue increased by 3% to £2,656m and profit was level at £185m. Strong progress was made by Ryvita, International Hot Beverages, ACH and our ethnic foods business, Westmill. However, profitability was held back by particularly difficult trading at Allied Bakeries, with lower volumes and lower sugar pricing in Silver Spoon.

At ACH, the Mexican sales, marketing and distribution infrastructure is now well established. Capullo, the premium canola oil brand, has grown strongly and, supported by a new advertising campaign, increased its market share. The business has successfully integrated the Karo syrup brand in Mexico and, building on our expertise in the US, the brand is performing well. In the US the consumer brands in spices and yeast traded in line with expectation. Good progress was made with the development of the premium spice brand, Spice Islands. The consumer oil category suffered a decline during the year following publicity around health concerns over the use of trans fatty acids. Although not containing trans fatty acids, Mazola volumes suffered as a consequence of the general category decline. Despite lower oil volumes and the impact of higher energy costs and increased vegetable oil costs, profitability was improved over last year through efficiencies.

The UK core crispbread market demonstrated value growth during the year and Ryvita outperformed the market, strengthening its position as the leading brand. The premium range of wholeseed crispbreads had a particularly successful year. Ryvita Minis, launched last year in the growing healthy bagged-snack market, continued to perform well supported by launches of sweet flavours and a further savoury variety. Ryvita further enhanced its position as a healthy eating snack brand with the launch of better-for-you cereal bars branded 'Ryvita Goodness'. For some years now Ryvita has delivered consistent sales and profit growth driven by increased marketing support and new product introductions.

Our international hot beverage brands, Twinings and Ovaltine, continued to grow well with investment in new products and marketing. Twinings showed strong growth in the UK where premium Everyday tea is now well established and Green Tea sales were well ahead of last year. The television advertising, featuring Stephen Fry, was extended both to Green Teas and infusions promoting their health benefits. In the US, the Twinings range has been relaunched with an updated packaging design and market share has increased. Good progress has also been made in a number of overseas markets. The tea-packing supply chain rationalisation was completed successfully with the closure of plants in France and the US, and the new facility in Shanghai is operating well. Ovaltine continued to show good growth particularly in Thailand and China with the successful launch of new products.

In Australia, the commissioning of the new bakery in Sydney has been difficult. This facility replaces the Fairfield bakery destroyed by fire in 2002, the Chatswood bakery and the Chipping Norton distribution centre. Severe operational difficulties were experienced in the first half of the year which led to significantly increased costs and unacceptable levels of customer service. Good progress has been made in the second half bringing with it major improvements in production efficiency, logistics and

ABF produces leading grocery brands for markets around the world

Alimentos Capullo

ACH established its branded grocery operations in Mexico following the acquisition of the Capullo brand in May 2004. It has built a dedicated 135 person sales and marketing organisation which has grown sales and operating profit rapidly. The portfolio now has a complement of attractive brands including Inca, Mazola, Karo and Aladino. Much of this success is attributable to the investment in and consequent growth of the Capullo brand, Mexico's leading premium brand of canola cooking oil and the fifth largest Mexican grocery brand.

Supported by a new 'heart healthy' advertising campaign, 'From the Heart', featuring animated talking food characters, Capullo grew its volume by 25% this year and market share is growing too.The Capullo brand's resurgence is also supported by innovative in-store displays and trade demonstrations.

customer service. Outside New South Wales the baking business achieved good sales growth. The launch of Australia's first low GI (Glycaemic Index) white bread in January 2006 is proving to be very successful. The results of the meat & dairy business improved following a sharper commercial drive and a reduction in factory costs.

Performance at Allied Bakeries has been unsatisfactory during the year with volume declines in both Kingsmill and own label. A new management team is now in place and is taking steps to stabilise the business. Two new Kingsmill products have been launched, the promotional strategy has been revised and full recovery plans have been developed. The combination of reduced volumes, increased promotional spend and higher energy costs resulted in a much reduced level of profitability. The recent substantial increases in wheat costs will not be recovered immediately by bread price increases and, with the investment necessary to support the recovery plans, we do not anticipate a major improvement in profitability next year.

In Silver Spoon, as a further consequence of EU sugar regime change, granulated sugar came under retail pricing pressure and sustained some volume reduction impacting profit by £8m. However, Billington's unrefined cane sugars and our lower calorie 'Light' sugar both grew strongly.

Westmill again delivered good profit growth. Its established position as a leading supplier to the UK ethnic food sector was strengthened with the acquisition, in March, of the Rajah, Green Dragon and Lotus brands from Heinz together with distribution rights to the Amoy brand into the ethnic food channel. These additions enable Westmill to sell a complete range of ethnic foodstuffs into the wholesale and food service sectors including spices, sauces, rice, edible oils, flour and noodles. Its brands inspire strong consumer loyalty among the five million people in Britain who make up its target ethnic communities.

Westmill Foods

Westmill Foods is the largest supplier in the UK of foods to the ethnic wholesale trade. This trade channel targets five million ethnic people in Britain through specialist outlets, as well as providing foodservice distribution to Indian and Chinese restaurants. This market sector continues to show strong growth as ethnic communities grow and the UK population continues to develop a taste for ethnic cuisine.

Westmill supplies a wide range of ethnic foodstuffs such as spices, sauces, rice, edible oils, flour and noodles. Its strength lies in its brands and in each food category it has won significant market share with products that command strong consumer loyalty.

Having supplied the market for over 30 years, Westmill has built strong relationships with its 700 customers. In this segmented market, customer relationships are critical and the business has a strong focus on understanding the cultural diversity of the many growing ethnic communities that live in Britain. Having achieved the necessary scale, the business now provides exceptional customer service through its own distribution fleet.

The recent acquisition of the Rajah, Green Dragon and Lotus brands together with distribution rights to the Amoy brand, strengthens the business and provides a base from which to expand into the growing ethnic wholesale trade in Europe.

AB Mauri

There are many examples of global businesses and brands that see the world as one marketplace. At AB Mauri, ABF's international yeast and bakery ingredients business, nothing could be further from the truth.

Our people understand that the definition of a perfect loaf, cake or other bakery product varies not only from country to country, but often from district to district – sometimes even from town to town.

AB Mauri's business ethic is to treat each local market as unique and every local customer as an individual. Far from producing a standard global solution, the company draws on the insights and knowledge gleaned from its local presence to refine and adapt each bakery ingredient offering to the needs of that particular market. AB Mauri's global resources exist and are applied to help every customer in his locality achieve new heights of product performance and manufacturing efficiency.

Ingredients

	2006	2005
Revenue	**£729m**	£583m
Adjusted operating profit	**£82m**	£65m
Adjusted operating margin	**11.2%**	11.1%
Return on average capital employed	**21.6%**	21.1%

Ingredients
AB Mauri, our international yeast and bakery ingredients business, contributed strongly to the 25% increase in revenue to £729m and 26% increase in profit to £82m. This reflected a full year's contribution following its acquisition in November 2004, the benefits of price and volume increases in yeast, and growth in bakery ingredients.

Good progress was made in recovering higher raw material costs, particularly molasses and energy, through price increases and cost savings in a number of key markets including North America, China, India, Turkey, Australia and Western Europe.

Strong demand in Asia has resulted in substantial further investment in production capacity in the region. The factory in Xinjiang, Western China, which opened last year, is operating well and is already running close to capacity. The existing Harbin and Hebei plants in China were expanded as were plants in Vietnam and at Chiplun in India. The Chiplun investment enabled the closure of a smaller plant in Kolkata. A new plant was commissioned in New Zealand and construction has commenced on further expansion of capacity at Harbin and Xinjiang.

In bakery ingredients, much effort has gone into transferring our technology across the group. Sales and technical support teams are now working with customers in most markets with further opportunities to be developed particularly in China and South America. Since this business was created in 2005 it has grown strongly, especially in its key emerging markets of China, South America and South and West Asia. Agreement has been reached to sell a small bakery mix and icings business based in Denver, Colorado. The operation was not well located and was loss-making. A loss of £4m arising on the sale of this business has been included in the income statement.

ABF Ingredients comprises businesses operating in speciality proteins, enzymes, lipid technologies and polyols. In speciality proteins, the yeast extracts businesses have seen strong growth and have benefited from improvement in manufacturing efficiency and yield. Plans are proceeding to expand production capacity, increase the product range and broaden our customer base. Protient, a producer of dairy protein concentrates and isolates, was acquired during the year and complements our yeast-based proteins business.

The enzymes business continued to focus on the introduction of new products, particularly in the textile and bakery sectors.

Despite higher energy costs our polyols business traded in line with last year, with food polyols benefiting from improved manufacturing efficiencies and antacids maintaining the improvement in manufacturing performance seen last year. In speciality lipids, the sterols business has had some success in developing new technology in the manufacture of sterols from wood-based raw materials as well as our traditional soy-based products.

George Weston
Chief Executive

Financial review

The group invested a net £760m in capital expenditure and acquisitions during the year.

Group performance

Group sales increased by 7% to £5,996m and operating profit, adjusted to exclude exceptional items, the amortisation of intangibles and profits on the sale of property, plant & equipment, increased by 1% to £561m.

The small improvement in adjusted operating profit before exceptional items was delivered despite much higher energy costs and the significant reduction from British Sugar arising from sugar regime reform. This was offset by another strong performance from Primark and good progress in many of our food and ingredients businesses.

The disposal of properties, plant & equipment resulted in a profit of £10m compared with £20m last year. Additional costs of £8m have been charged in respect of the closure of the former Littlewoods business following the decision to cease trading earlier than previously envisaged, resulting in higher void costs prior to disposal of the stores not required by Primark. These additional costs were more than compensated by the higher than anticipated trading profit generated through the closure process which are reflected in operating profit. A loss of £4m was incurred on the disposal during the year of three small businesses in the US and China.

Financial income and financial expenses in the income statement include the gross amounts in respect of the group's defined benefit pension schemes. The net charge of £2m compares with net income last year of £25m. This year-on-year change of £27m results primarily from the heavy investment, through acquisition and refurbishment, in new stores for Primark.

Profit before tax fell from £527m to £419m reflecting an exceptional charge of £97m for the costs of closing two British Sugar factories and a £16m increase in the intangible amortisation charge arising on recent acquisitions together with the small net loss on the sale of fixed assets and businesses. Adjusted to exclude these items, profit before tax fell 4% from £580m to £559m.

Taxation

The tax charge of £111m included an underlying charge of £150m, at an effective tax rate of 26.8% on the adjusted profit before tax described above. The effective tax rate has reduced from 27.4% as a result of an increase in the profits subject to lower tax rates. The overall tax charge for the year benefited from a £13m (2005 – £7m) credit for tax relief on the amortisation of intangible assets and 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 attributable to equity shareholders reduced by £78m to £301m and the weighted average number of shares in issue was 790 million. Earnings per ordinary share therefore fell by 21% from 48.0p to 38.1p. A more consistent measure of performance is provided by the adjusted earnings per share which excludes the provision for the British Sugar factory closures, profits on the sale and closure of businesses and fixed assets and the amortisation of intangibles net of any tax benefit. Adjusted earnings per share fell by 3% from 52.5p to 50.9p.

The interim dividend was increased by 4% to 6.25p and a final dividend has been proposed at 12.5p 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 £99m and will be charged next year. The dividend is covered, on an adjusted basis, 2.7 times.

Balance sheet

Non-current assets increased by £761m to £4,392m due to the acquisitions in the year, principally Illovo, and a level of capital expenditure significantly higher than depreciation with continued investment in Primark.

The use of current asset investments to finance the acquisition of Illovo has resulted in net borrowings of £298m at the year end compared with net cash funds of £212m last year. Working capital, including tax accruals and provisions, increased by £204m, of which £131m is accounted for by the inclusion of Illovo.

The net surplus in the group's defined benefit pension schemes, employee benefit assets less liabilities, increased from £76m last year to £127m this year.

The group's net assets increased by £305m to £4,182m.

A currency loss of £74m arose on the translation into sterling of the group's non-sterling net assets. This resulted from a strengthening of sterling against most overseas currencies year-on-year.

The high level of investment made this year in acquisitions and capital expenditure has resulted in a decline in return on capital employed for the group from 23.6% to 18.9%. Return on capital employed is defined as operating profit before exceptional items and the amortisation of intangibles expressed as a percentage of average capital employed for the year.

Cash flow

Net cash flow from operating activities was £419m compared to £515m last year. This reduction is primarily the result of an adverse working capital movement year-on-year of £75m and the use of the provision established last year for the closure of the former Littlewoods stores.

The group invested a net £760m in capital expenditure and acquisitions during the year. Capital expenditure amounted to £432m 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. £382m was spent on the Illovo acquisition, including debt assumed, and a further £114m was spent on the acquisitions of smaller businesses to complement our grocery, animal feed and ingredients operations. £181m was realised from the disposal of property, plant & equipment, principally the surplus former Littlewoods stores.

Treasury policy and controls

The group's cash and current asset investments totalled £402m at the year end including £75m 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 harvest. Since the year end the Company has refinanced its external borrowings and has negotiated a multicurrency $1.2bn syndicated loan facility with a term of five years with two one-year extension options. It will be used for general corporate purposes. The new facility has been provided by our existing bank group.

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 or futures 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 income statement.

Financial reporting standards and accounting policies

The financial statements for the year ended 16 September 2006 have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed and adopted for use in the EU. The results for the comparative year ended 17 September 2005 are also presented in accordance with IFRS. Accounting policies applicable under IFRS are set out on pages 52 to 57. The provisions of IAS 32 and IAS 39 have been adopted with effect from 18 September 2005. Reconciliations between primary statements produced under UK GAAP and IFRS, together with explanations of the principal differences, are provided in note 34 to the financial statements.

John Bason
Finance Director

Corporate citizenship

The purpose and values of the business
Associated British Foods plc is an international food, ingredients and retail group with annual sales of £6bn and 75,000 employees.

The group is one of Europe's largest food companies with a wide range of successful brands and products in the food sector, and an increasingly strong presence in advanced research and technology, where we are turning natural products into innovative ingredients for the food, personal care and pharmaceutical industries. A significant supplier of branded and non-branded grocery products and a leading textile retailer, we have major businesses around the world.

Our aim is to concentrate our energies and our expertise to achieve strong, sustainable leadership positions in markets that offer potential for profitable growth. As a group, we are also constantly searching for better, more efficient and more profitable ways to manufacture food and ways to employ our technology in other related sectors.

As a responsible corporate citizen, we aim to act in a socially responsible manner at all times. The group's organisational structure is highly decentralised and as such our companies devise procedures appropriate to and compliant with local laws, culture and operating conditions but within the overall context of minimum overriding principles.

Overriding principles
Employees
Our employees are our most crucial resource, and therefore we abide by the following principles:

- Equal opportunities – we are 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 – we consider health and safety as equal in importance to that of any other function of the company and its business objectives. The policy and full global report is available on the company website at www.abf.co.uk

- Harassment – we will not tolerate sexual, mental or physical harassment in the workplace. We expect 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 our 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.'

  We remunerate fairly with respect to skills, performance, our peers and local conditions.

- Communication – we 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 we will at all times take the necessary steps to minimise risks to their safety.

Associated British Foods plc encourages an open culture in all its dealings between employees and people with whom it comes in contact. Effective and honest communication is essential if malpractice and wrongdoing are to be effectively dealt with. The 'ABF Whistleblowing Procedure' sets out guidelines for individuals who feel they need to raise certain issues with Associated British Foods plc or their own operating company, in confidence. We will make all efforts to protect the confidentiality of those who raise concerns, and employees may come forward without fear for their position. A full copy of the procedure is available on our website www.abf.co.uk

Ethical business practices
- Competition – we are committed to free and fair competition and we will compete strongly but honestly complying with all local competition laws.

- Bribery – we will not condone the offering or receiving of bribes or other such facilitating payments to any person or entity for the purpose of obtaining or retaining business or influencing political decisions.

- Political donations – financial donations are not permitted to political parties within the European Union. The consent of the Chief Executive is required for any other donation to a political party.

- Confidentiality and accuracy of information – the confidentiality of information received in the course of business will be respected and never be used for personal gain. False information will not be given in the course of commercial negotiations.

- Conflict of interest – any personal interest, which may prejudice or might reasonably be deemed by others to prejudice, the impartiality of employees, must be formally declared to a senior manager. Examples of this include owning shares in business partners and personal or family involvement in trading contracts.

- Business gifts and hospitality – gifts, other than items of very small intrinsic value, are not accepted. Employees who receive hospitality must not allow themselves to reach a position whereby they might be deemed by others to have been influenced in making a business decision as a consequence. However, giving and receiving reasonable business-related products, marketing materials and entertainment are permitted.

- Insider trading – employees are prohibited from buying or selling shares or other securities (such as bonds, derivatives or spreadbets) on the basis of inside information. Inside information is defined as information that is not available to the public, and includes financial data, plans for mergers, acquisitions or divestitures, changes in dividends, new products or major management changes. Trading in shares in Associated British Foods plc or any other publicly traded company on the basis of inside information is prohibited, as is the passing on of insider information to anyone who uses it to purchase or sell securities. Insider trading is illegal and may result in prosecution.

Food safety

We recognise and acknowledge that consumer confidence in the quality and safety of our food products is essential. To this end a high priority is placed on all aspects of food safety.

To manage food safety risks, our 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. Our food products are made to high standards regardless of where they are manufactured. We will always put food safety before economic considerations.

Environment

Associated British Foods plc recognises the impact that its businesses have on the environment. Therefore, as a minimum, we will comply with current applicable legislation of the countries in which we operate.

The environmental performance of our businesses will be regularly reported to and reviewed by the board. The policy and full global report is available on the company website www.abf.co.uk

Stakeholder relationships

Customers

We seek to be honest and fair in our relationships with our customers and above all to provide the standards of product and service that have been agreed whilst at the same time offering value for money. At all times we take all reasonable steps to ensure the safety and quality of the goods or services that we produce.

Green tomatoes

Cornerways, the fresh produce business of British Sugar, is doubling its nursery site to 27 acres.

The business, established in 2000, is based near Downham Market in Norfolk and is the UK's largest producer of classic round tomatoes. Located next to the Wissington sugar factory it is able to use waste heat and carbon dioxide produced as part of the sugar manufacturing process. Improvements in energy efficiency have facilitated this expansion.

The use of low grade heat and carbon dioxide, which would otherwise be lost to the atmosphere, enables British Sugar to improve the overall cost effectiveness of its Wissington operation as well as reducing its environmental impact.

There will also be a welcome reduction in food miles as a consequence since increased production from the site will be used to supply the UK tomato market where more than 83% of volume is currently imported.

The power of Primark

Green is the new black at Primark after it struck an innovative deal with its UK electricity suppliers. Under the arrangement the company's entire energy consumption is sourced against the green power generated and sold into the grid by sister company, British Sugar. This power is generated by low carbon fuel-efficient CHP (combined heat and power) plants which reduce fossil fuel use by 25%. Conventional electricity generation… so 'last season'!

Shareholders

Associated British Foods plc is committed to increasing shareholder value, and we will communicate our achievements and prospects to our 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 interim 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. Stockbrokers, Hoare Govett, offer a low cost share dealing service in our shares. The Company offers a Dividend Reinvestment Plan, operated by our Registrars.

Suppliers

We will carry out our business honestly, ethically and with respect for the rights and interests of our suppliers. We will settle our bills promptly being a signatory to the Better Payment Practice Code and we will co-operate with suppliers to improve quality and efficiency. We seek to develop relationships with supplier companies consistent with these basic principles, and specifically with respect to human rights and conditions of employment. Where supplier audits show shortcomings in any of these areas, we will strive to encourage a programme of improvement leading to compliance. Responsibility for specific supply codes and agreements rests with individual companies.

The wider community

We recognise our responsibilities as a member of the communities in which we operate and encourage our operating companies to engage with the local community in their areas of operation. Examples of this include cultural and community sponsorship in Australia through George Weston Foods and the community activities of British Sugar through the British Sugar Foundation (whose Policy and Guidelines are reproduced in full on the British Sugar website).

The Garfield Weston Foundation was set up by the late W. Garfield Weston in 1958. It is one of the UK's foremost philanthropic organisations and derives a substantial proportion of its funds from its interests in Associated British Foods plc's ultimate holding company, Wittington Investments Limited. Further information can be found on www.garfieldweston.org

Applying our principles

These business principles apply to all our employees and are a minimum standard for their behaviour; operating companies may have additional standards. Failure to comply with our principles may result in disciplinary action.

Mauri chooses bio-gas

AB Mauri in Hull is set to reduce its consumption of electricity generated by fossil fuel by more than 25%. It has added to its existing natural gas powered CHP generator a further on-site generator which burns bio-gas captured during the yeast production process. Not only does Mauri benefit from this highly cost-effective, renewable power source but the environment benefits from the reduced emissions.

Board of directors

Martin G Adamson
Non-executive director (age 67)
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.

George G Weston
Executive director (age 42)
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.

John G Bason
Executive director (age 49)
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.

Michael R Alexander
Independent non-executive director (age 58)
Appointed a director on 16 January 2002, he spent his earlier career with BP plc and latterly as chief operating officer of Centrica plc. He is a former chief executive of British Energy Group plc, a former non-executive director of The Energy Savings Trust and current chairman of GT Solar International Inc. He is a fellow of the Chemical, Engineering and Technology, and Gas Engineering Institutions as well as a chartered engineer and scientist.

Rt. Hon. Lord MacGregor of Pulham Market, OBE
Senior independent non-executive director (age 69)
A director since 1994, he was a Member of Parliament from 1974 to 2001, with 15 years in Government and nine in the Cabinet in five different posts, including Minister of Agriculture, Fisheries and Food. He is a director of Friends Provident plc, a non-executive member of the supervisory board of DAF Trucks N.V., and a Life Peer since 2001.

WG Galen Weston OC
Non-executive director (age 66)
A director since 1964, he is chairman and president of George Weston Limited, Canada. He is also chairman of Selfridges & Co. Limited and a non-executive director of Wittington Investments Limited.

Jeffery F Harris
Independent non-executive director (age 58)
Appointed a director on 21 May 2003, he is chairman of Filtrona plc. He was non-executive chairman of Alliance UniChem plc until April 2005, having previously held the positions of chief executive and finance director since joining the group in 1985. He is a chartered accountant and is a non-executive director of Bunzl plc and Anzag AG.

Timothy Clarke
Independent non-executive director (age 49)
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.

Lord Jay of Ewelme GCMG
Independent non-executive director (age 60)
Appointed a director on 1 November 2006, he was British Ambassador to France from 1996 to 2001, Permanent Under Secretary at the Foreign & Commonwealth Office from 2002 to 2006, and the Prime Minister's Personal Representative for the G8 Summits at Gleneagles and St Petersburg in 2005 and 2006. His early career included time at the World Bank in Washington and the British High Commission in New Delhi.

Javier Ferrán
Independent non-executive director (age 50)
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. He is a non-executive director of Abbot plc and vice-chairman of William Grant and Sons Limited.

Directors' report
for the year ended 16 September 2006

The directors submit to the members their seventy-first annual report together with the audited financial statements of the Company for the 52 weeks ended 16 September 2006.

Principal activities and business review
The activities of the group principally concern the processing and manufacture of food worldwide and textile retailing in the UK and the Republic of Ireland. Comments on the development of the business during the period under review and on the future outlook are contained within the Chairman's statement, and the Operating review.

Associated British Foods plc ('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 97.

The information that fulfils the requirements of the Business Review and which should be treated as forming part of this report is included in the Operating review on pages 6 to 21 which includes a review of the external environment, key strategic aims, performance measures and the Company's policy on treatment of its employees. Further information is included in the Financial review on pages 22 and 23 and in the Corporate citizenship report on pages 24 to 27.

The audited financial statements of the group and Company appear on pages 48 to 118.

Results and dividends
The consolidated income statement is on page 48. Profit for the financial year attributable to equity shareholders amounted to £301m. The directors recommend a final dividend of 12.5p per ordinary share, to be paid, if approved, on 12 January 2007 which, together with the interim dividend of 6.25p per share paid in July, amounts to 18.75p 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.

We have major technical centres in the UK at the Allied Technical Centre and the animal feed Central Laboratories. Facilities also exist at ACH Food Companies in the US, Weston Technologies 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 £0.4m (2005 – £0.3m). Political donations were made during the year by Food Investments Pty in Australia to the Liberal Party of Australia of £12,273 (2005 – £4,132). Payments were made in 2005 to the Australian Labour Party of £1,446 and to the National Party of Australia of £207. No such payments were made in 2006.

Payments to suppliers
Associated British Foods plc has no trade creditors but the group policy on payment of suppliers is detailed on page 27.

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 are unable to quantify the excess.

Substantial shareholding and controlling interest
Details of a controlling interest in the shares of the Company are given in note 32 on page 97.

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 9 December 2005, 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 8 December 2010. No such shares have been issued. The directors propose to renew this authority at the annual general meeting to be held on 8 December 2006 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 8 December 2006 and the directors will seek to renew this authority for the following year.

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 preparing their report on page 47.

Auditors
In accordance with Section 384 of the Companies Act 1985, 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 7 November 2006 appear on pages 28 and 29.

Lord Jay of Ewelme GCMG and Javier Ferrán were appointed as non-executive directors on 1 November 2006 and in accordance with the Articles of Association will be standing for election at the AGM. Also in accordance with the Articles of Association and the Combined Code on Corporate Governance, Galen Weston and

Lord MacGregor who have served for more than nine years, and Jeff Harris retire from the board and being eligible, offer themselves for re-election.

Four directors of operating subsidiaries benefited from qualifying third party indemnity provisions provided by ABF Investments plc during the financial year and at the date of this report.

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

- Galen Weston and George Weston are trustees of a trust, in which they have no beneficial interests, which at 16 September 2006 held 683,073 ordinary shares of 50p (2005 – 683,073) in Wittington Investments Limited.

Subsequent changes
The interests shown above remained the same at 7 November 2006.

By order of the Board
Paul Lister, *Company Secretary*
7 November 2006

The board remains committed to maintaining high standards of corporate governance throughout the group. 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'). This report is published pursuant to the Combined Code in effect at the Company's year end. The principles of this Combined Code deal with directors, directors' remuneration, relations and accountability to shareholders and the audit of the Company.

Statement of compliance

Following the publication in June 2006 of the findings of a review by the Financial Reporting Council of the implementation of the Combined Code (as published in July 2003), amendments have been proposed and the revised Combined Code ('the revised Code') is encouraged to be applied voluntarily for financial years beginning on or after 1 November 2006. Formal requirements for the application of the revised Code will apply only once consultation has concluded.

The board recognises that the Combined Code represents best practice and this report, together with the Remuneration report, gives details of how the principles of the Combined Code and the revised Code have been applied within the Company.

The board considers that the Company has complied fully with the provisions set out in Section 1 of the Combined Code during the year, except for the following:

The Combined Code provides that the Remuneration committee should only comprise independent non-executive directors.
The board of Associated British Foods plc does not accept this recommendation as it considers that Martin Adamson, as Chairman, should participate in any decisions concerning remuneration due to his experience and the fact that, encompassed in his role is the supervision of the board. Indeed, the revised Code recognises this viewpoint and allows the chairman of the Company to be a member of the Remuneration committee (but not chair the committee) if he was considered to be independent on appointment. No director has any involvement in the determination of his own remuneration.

The Combined Code provides that the terms and conditions of appointment of non-executive directors should be made available for inspection. For Galen Weston the board has not considered it appropriate to enter into a formal letter of appointment. This is due to his relationship with the ultimate holding company of Associated British Foods plc, Wittington Investments Limited. 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

The business and the management of the Company are the responsibility of the whole board. The board met formally nine times during the year. The individual attendance by directors is detailed on page 33. There is a formal schedule of matters reserved to the board for decision which include the approval of annual and interim results, the Company's strategic plans, annual budget, larger capital expenditure and investment proposals and the overall system of internal control and risk management. Other 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.

The board comprises the non-executive Chairman Martin Adamson, the Chief Executive George Weston, the Finance Director John Bason and six non-executive directors, with effect from 1 November 2006, 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, who is not regarded as independent. 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 28 and 29.

The roles of the Chairman and the Chief Executive are separately held and are so defined as to ensure a clear division of responsibilities. Lord MacGregor, who has served on the board for 12 years, is the recognised senior independent director. The board is fully satisfied as to his independence, given the manner in which he discharges his duties with the Company, but reviews this annually in the light of the provisions of the Combined Code.

The Articles of Association require that one third of the directors retire by rotation at the annual general meeting in 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 those otherwise seeking election, Galen Weston and Lord MacGregor, who have served for more than nine years, and Jeffery Harris will be subject to re-election at the forthcoming annual general meeting.

On joining the board, directors are given background documents describing the Company and its activities. The Company offers major shareholders the opportunity to meet new non-executive directors. New directors are provided with an appropriate induction programme and site visits are arranged to major business units. Ongoing training is provided as necessary.

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.

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

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

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

Board committees
Attendance during the year ended 16 September 2006

	Audit committee		Nomination committee		Remuneration committee		Full board meeting	
Directors	**Possible**	**Actual**	**Possible**	**Actual**	**Possible**	**Actual**	**Possible**	**Actual**
Martin Adamson	–	–	2	2	6	6	9	9
George Weston	–	–	–	–	–	–	9	9
John Bason	–	–	–	–	–	–	9	9
Lord MacGregor	4	4	2	2	6	6	9	9
Mike Alexander	4	4	2	2	6	6	9	9
Jeff Harris	4	4	2	2	6	5	9	8
Tim Clarke	4	4	2	2	6	6	9	9
Galen Weston	–	–	–	–	–	–	9	2

Nomination committee
Current members: Martin Adamson, Mike Alexander, Jeff Harris, Lord MacGregor, Tim Clarke.

Chairman: Martin Adamson.

Further details of the Nomination committee can be found on page 34.

Audit committee
Current members: Mike Alexander, Jeff Harris, Lord MacGregor, Tim Clarke.

Chairman: Jeff Harris.

Further details of the Audit committee can be found on pages 34 to 36.

Remuneration committee
Current members: Martin Adamson, Mike Alexander, Jeff Harris, Lord MacGregor, Tim Clarke.

Chairman: Martin Adamson.

Details of the Remuneration committee and its policies can be found on pages 40 to 45.

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

Performance evaluation
In the final financial quarter Spencer Stuart, the global executive search firm and corporate governance consultants, led the annual process which enabled the board to evaluate the effectiveness of its performance. This involved an individual discussion between Spencer Stuart 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 2006 confirmed that all directors continued to contribute effectively and with proper commitment, including of time, to their roles.

Relations with shareholders
The manner in which the Company communicates with its shareholders is described in the Corporate citizenship section on page 27 of the 2006 annual report.

The annual general meeting takes place in London and 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 the board. 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 46 of this annual report and accounts. The independent auditor's report on page 47 of this annual report and accounts 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, and reports to regulators, as well as 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 118.

Report of the Nomination committee
The committee comprises the Chairman of the board who also chairs the committee together with the independent non-executive directors. 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 a successor to the chairmanship, in which case the committee is chaired by a non-executive director elected by the remaining members. The committee met twice during the year.

Duties
The 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 committee uses external advisors to facilitate searches for potential candidates.

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

The 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 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 performance 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 committee makes recommendations to the board on succession for executive directors, the re-appointment of any non-executive director 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 Spencer Stuart, the global executive search firm, conducted a thorough search and identified a number of high quality candidates in connection with the recent appointment of two new non-executive directors.

The committee recommended the appointment of Lord Jay of Ewelme GCMG and Javier Ferrán to the board and they became non-executive directors on 1 November 2006.

Corporate website
The terms of reference of the committee, which set out the 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 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 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 Audit 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:

Name	Date of appointment
Jeff Harris	May 2003, and appointed chairman in September 2003
Lord MacGregor	December 1994
Mike Alexander	January 2002
Tim Clarke	January 2005

Membership of the committee is determined by the board, on the recommendation of the Nomination committee and in consultation with the Audit 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 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 committee structure requires the inclusion of one financially qualified member (as recognised by the Consultative Committee of Accountancy Bodies). Currently the Audit committee chairman fulfils this requirement. All Audit committee members are expected to be financially literate.

The board expects 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 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 management 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 committee receives and reviews presentations and reports from the group's senior management, consulting as necessary with the external auditors.

During the year, the committee formally reviewed draft interim and annual reports and associated interim and preliminary year end results announcements. It also reviewed the group's preparation for the adoption, and issuance, of financial statements under IFRS. These reviews considered:

- the accounting principles, policies and practices adopted in the group's accounts, 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 auditor's management letters and audit highlights memoranda;
- internal audit reports on key audit areas and significant control environment deficiencies;
- reports on the systems of internal controls and risk management; and
- reports on frauds perpetrated against the group.

The Audit committee is responsible for the development, implementation and monitoring of the group's policy on external audit. The group's policy on external audit sets out the categories of non-audit services which the external auditors will, and will not, be allowed to provide to the group, subject to de minimis levels.

To fulfil its responsibility regarding the independence of the external auditors, the 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 letter 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; and
- the level and nature of non-audit activity performed by internal audit.

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 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 committee will be present at the annual general meeting to answer questions on this report, matters within the scope of the Audit 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 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 mis-statement or loss.

The directors confirm that there is an ongoing process for identifying, evaluating and managing the risks faced by the group, which has been in place for the year under review and up to the date of approval of the annual report and accounts; further details of the Risk Management Review are set out on pages 37 to 39. The directors have regularly reviewed the system of internal controls utilising the review process set out below.

Standards
There are guidelines on the minimum group-wide 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 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.

A significant part of the group's cash reserves is managed by independent fund managers operating within detailed guidelines specified by the group relating to, inter alia, permitted investments and counterparties, currency exposures and approved instruments. The balance of the group's cash reserves is managed by its treasury function in accordance with guidelines referred to in the Financial review on page 23.

Clearly defined guidelines have been established for capital expenditure and investment decisions encompassing budgets, appraisal and review procedures and levels of authority.

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, with the exception of four businesses within Grocery, where independent peer review audits are carried out. 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 conduct 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 Audit committee reviews annually the adequacy 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 Audit 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 risk management process in Associated British Foods plc 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 Company derives over 55% of its turnover from the production and sale of food. Food products include bread, crispbreads, flour, rice, noodles, teas, sugar and sweeteners, vegetable oils, cakes, meat and dairy products.

To manage food safety risks, our 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. Our food products are made to high standards regardless of where they are manufactured. The group always puts food safety before economic considerations.

British Sugar plc encourages farmers to minimise herbicides and pesticides and Associated British Foods plc as a whole markets a wide range of organic foods and animal feeds.

2. Supply chain labour standards

Companies in our sector, especially those with global supply chains, are at greater risk of controversies relating to breaches by suppliers of the International Labour Organisation core labour standards. The group mitigates this risk of possible damage to its reputation by working hard to ensure that it does not buy from factories with poor working conditions. Primark requires all the factories that manufacture its clothes to sign up to Primark's Supplier Code of Conduct which lays out strict guidelines on working conditions. Primark's buyers visit all factories before they start working with them and will not buy from factories with obviously poor conditions. In addition, every year the Company sends independent auditors to a selection of factories to check that they are keeping to our standards. In this way we try to ensure that the factories around the world that make our clothes do so in a responsible way.

Primark is a member of the Ethical Trading Initiative, an alliance of companies, trade unions and non-profit organisations that aims to promote respect for the rights of people in factories and farms worldwide. The Company is committed to monitoring and progressively improving the conditions of the people that make its products.

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.

3. Competition rules

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

4. Environment

Associated British Foods plc recognises the impact that its businesses have on the environment. Therefore, as a minimum, we aim to comply with current applicable legislation of the countries in which we operate, and our 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 and natural resources are used efficiently and energy consumption is monitored and 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; and
- effective emergency response procedures are in place to minimise the impact of foreseeable incidents.

Energy
The efficient use of energy is a major element of our environmental policy. Our manufacturing operations in the UK are participating in the UK Government's Climate Change Agreement Scheme to reduce specific energy consumption and thereby reduce emissions of carbon dioxide and combat the serious threat of climate change. 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.

In 2005, our factories and stores consumed 10,600 GWh of energy, of which 44% was consumed outside the UK. Given the variety of our operations there is a correspondingly wide range in the amount of energy they consume per tonne of product manufactured.

Although the absolute quantity of energy used by the Company has grown over time this is a reflection of the growth of the group.

Carbon dioxide emissions
Carbon dioxide, a gas which contributes to climate change, is emitted both directly by the combustion of fossil fuels at our sites to create steam, heat and electricity, and indirectly by the power stations from which we buy our electricity. The energy generated from the burning of bagasse, sugar cane waste, is rated as CO_2 neutral as it is a renewable energy source and accounted for 12% of ABF's energy usage. The use of bagasse eliminates the need to use virgin fossil fuels and last year prevented the emission of approximately 400,000 tonnes of CO_2.

Our use of energy in 2005 led to the emission of 2.45 million tonnes of carbon dioxide, either directly or indirectly, worldwide.

Water
In 2005, our factories used 65 million tonnes of water from a variety of sources. We treat all our cooling and waste water and recharge it, cleansed, into the environment. The acquisition of the AB Mauri yeast and ingredients factories, whose processes require considerable quantities of water, increased our water consumption. The increase has been partly offset by savings in existing factories.

Solid waste
In 2005, our operations generated some 283,000 tonnes of waste for disposal, of which 1,000 tonnes were classified as hazardous waste. This is 14% less waste than in 2004. The quantity of waste finally disposed equates to an average of 2.3% of the tonnage of products – a highly efficient use of raw materials. Independent verification reports are available on the Company's website: www.abf.co.uk

5. Health and safety
We consider health and safety as equal in importance to that of any other function of the Company and its business objectives. We seek to provide a safe and healthy workplace and system of work in line with local regulations in order to protect all employees, visitors and the public, insofar as they come into contact with foreseeable work hazards. Our employees are expected to adopt a proactive attitude towards this end. We will continue to develop safety awareness amongst all employees and will measure, manage and further improve our health and safety performance.

Fatalities
We very much regret that there were two deaths in our factories during the year. One involved rotating machinery and the other involved a mechanical tail-lift fitted to a delivery vehicle. They were both fully investigated by our own experts and by the external regulatory authorities.

Injuries
In 2005 we reported 666 injuries to the regulators. There was an increase in the absolute number of injuries in 2005 due to the acquisition of 44 more factories, both in the UK and internationally. However, there were good performances and safety improvements in the established ABF companies.

6. Currency/commodity/energy price fluctuation
In common with other global businesses in our sectors, the group is exposed to risks from currency fluctuations and changes in commodity and energy prices. Group businesses operate strict hedging and procurement policies, assisted by the group treasury function, to mitigate the effects of volatility in these areas. The group has a treasury policy to which group businesses must adhere when implementing risk management strategies.

7. 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. This readiness to deal with the unexpected is exemplified by the response to the potentially catastrophic fire which destroyed Primark's major UK warehouse in November 2005, when alternative arrangements were quickly made to continue supply of stock to Primark stores, and minimise disruption.

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 consists of five non-executive directors. The members of the committee are Martin Adamson (chairman), Lord MacGregor, Mike Alexander, Jeff Harris and Tim Clarke.

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
Mark Goodridge – Interim Group Human Resources Director (until December 2005)
Des Pullen – Group Human Resources Director (from January 2006)
Both the HR Directors named above provided support and liaison with Towers Perrin.

3. Directors' remuneration policy

The remuneration policy of the Company aims to:

- Provide alignment between remuneration and the Company's business objectives
- Attract and retain high calibre directors
- Motivate directors to achieve challenging performance levels
- Recognise both individual and corporate achievement
- 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.

Over the past year the Remuneration committee has undertaken a detailed review of the total remuneration package of executive directors and other senior executives of the Company, both in relation to the level of potential payouts and in relation to the targeting and monitoring of appropriate performance measures.

It has been 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 better align the interests of executives with those of shareholders. Although the proportion of variable pay to fixed pay has increased over the past few years, this proportion will increase further with the new annual and long-term incentive arrangements which have been put in place from September 2006.

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

Each executive director is 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. Targets are set by the Remuneration committee at the beginning of the financial year. In 2005/6, the scheme provided an incentive opportunity in the range of 0% to 65% of base salary for executive directors with an expected value of around 40% for 'on target' performance.

Following the review of incentives mentioned above, the Remuneration committee has determined that with effect from the beginning of the new financial year the annual incentive opportunity for executive directors will be in the range 0 to 100% of base salary, with an 'on target' value of around 53%.

Long-term incentives

The Associated British Foods Executive Share Incentive Plan 2003 ('the Share Incentive Plan') was established for executive directors and other key executives for the three year period ending 16 September 2006. The plan rewards superior growth in profits and cash flow and encourages investment in suitable growth opportunities.

Awards under the Share Incentive Plan are in the form of a conditional allocation of shares, which will be released if, and to the extent that, the performance targets are satisfied over the specified three year period. Allocations of Company shares to a maximum value of 150% of salary were made in December 2003 following shareholder approval at the 2003 annual general meeting, and shares to meet these obligations have been acquired on the market.

The face value of this long-term incentive was 150% of base salary over three years and was subject to testing at the end of the performance period, in 2006, against a pre-determined operating profit target range modified by return on capital employed. These targets were demanding, but awards were also subject to a further performance hurdle whereby no awards would be made to participants if earnings per share were below RPI + 4% per annum on average over the three year period of the plan.

The 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	Value vested	Conditional allocations of shares as at 18.09.05	Conditional allocations of shares as at 16.09.06
George Weston	17.12.03	565p	16.09.06	17.12.06	–	–	70,354	70,354
John Bason	17.12.03	565p	16.09.06	17.12.06	–	–	110,177	110,177

Following the end of the 2003-2006 performance period, it has been determined that under the rules of the scheme, 65.1% of the conditional shares allocated in December 2003 will vest in December 2006.

From the beginning of the 2006/7 financial year, under the revised incentive plan arrangements, executive directors will receive annual grants of conditional shares, with overlapping three year performance periods. Grants will continue to be made under the Associated British Foods Executive Share Incentive Plan 2003 with the face value of these grants at 125% per annum. Long-term performance under this plan will be based on compound growth in adjusted earnings per share, in a range of 5% to 11% per annum.

Share option schemes

There are two schemes under which options may be granted as both Inland Revenue approved and unapproved options.

- The Associated British Foods plc 1994 Share Option Scheme ('the 1994 Scheme') under which options may be granted to purchase ordinary shares in the Company to selected qualifying employees over the ten years from November 1994. Options granted must be held for five years before they become exercisable at which point they are not subject to any performance criteria.

  Until December 2000, the 1994 scheme was the only share option scheme operated by ABF. Following approval by shareholders in December 2000 of the 2000 scheme (described below), which contained performance criteria, no further options have been granted under the 1994 Scheme other than options required to be granted to John Bason under pre-existing contractual arrangements, which have now been satisfied.

- The Associated British Foods 2000 Executive Share Option Scheme ('the 2000 Scheme') requires that options granted under this scheme 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. Options under this scheme may be granted to selected employees over the ten years from 15 December 2000.

The committee confirmed last year that although share options may continue to be granted on a selective basis, share option awards will not form part of the normal ongoing remuneration package for executives.

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.

4. Directors' remuneration

	For the year to 16 September 2006				
	Salary or fees £'000	Bonus £'000	Benefits £'000	2006 Total £'000	2005 Total £'000
Non-executive directors					
Martin Adamson	229	–	–	229	190
Galen Weston	–	–	–	–	–
Lord MacGregor	51	–	–	51	43
Mike Alexander	44	–	–	44	38
Jeff Harris	51	–	–	51	43
Tim Clarke	44	–	–	44	33
Executive directors					
George Weston	647	74	13	734	691
John Bason	472	251*	24	747	670

*This figure includes a special bonus of £200,000 awarded by the Remuneration committee for his exceptional contribution during a time of transition. This bonus will be paid in December 2006.

5. Directors' pensions
The Remuneration committee aims to ensure that retirement benefits should be 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 pension 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 Inland Revenue approved.

Directors' pension disclosure for year ended 16 September 2006
The table below shows the defined benefit pension entitlements from the Associated British Foods Pension Scheme ('the ABF Scheme'), and unfunded unapproved arrangements where appropriate, of executive directors of Associated British Foods plc who were members of the ABF Scheme during the year ending 16 September 2006.

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 16.09.06 £'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 16.09.06 £'000 (F)	Value of accrued pension at 17.09.05 £'000 (G)	Total change in value during period £'000 (H)
George Weston	54	51	150	16	353	1,091	700	375
John Bason	19	17	92	16	187	1,097	739	342

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 9.2 of guidance note GN11 issued by the actuarial profession.

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 directors' contributions during the year (D) are excluded from this value.

5. Both directors opted out of the ABF Scheme on 5 April 2006, and from then on earned benefits in the Employer Financed Retirement Benefit Scheme.

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%.

6. Directors' share options

At 16 September 2006 the market value of the Company's ordinary shares was 835p. During the previous 12 months the price ranged from 699.5p to 880.5p.

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

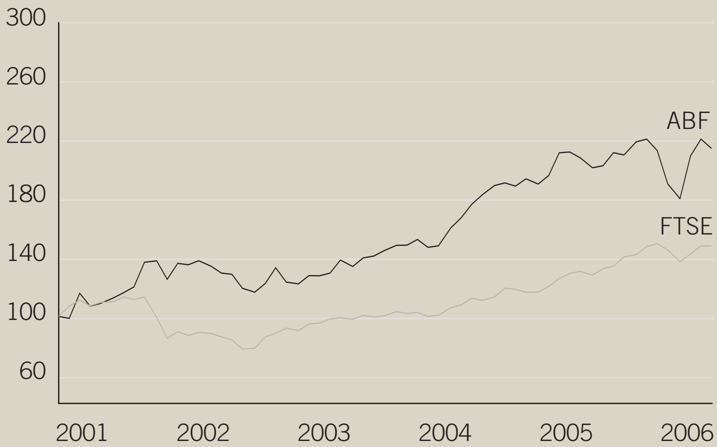
	Options as at 17.09.05	Lapsed in year	Exercised during year	Options as at 16.09.06	Exercise price	Earliest normal exercise date	Expiry date	Exercise date	Price on exercise
George Weston	15,000*	–	–	15,000	561.50p	28.04.2003	27.04.2008	–	–
	22,500**	–	–	22,500	484.00p	17.01.2004	16.01.2011	–	–
John Bason	50,000**	–	–	50,000	484.00p	17.01.2004	16.01.2011	–	–
	50,000*	–	–	50,000	497.00p	07.12.2006	06.12.2011	–	–
	50,000*	–	–	50,000	564.00p	09.12.2007	08.12.2012	–	–

*Granted under the Associated British Foods 1994 Executive Share Option Scheme.
**Granted under the Associated British Foods 2000 Executive Share Option Scheme.

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 (2001 = 100)



8. Directors' service contracts

It is the Company's policy that all executive directors have rolling contracts with 12 month notice periods. The Articles of Association of Associated British Foods plc require that all directors retire from office at every third annual general meeting. The details of the directors' contracts of service as at 16 September 2006 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
Jeff Harris	21.05.03	21.05.03	6 months	6 months
Tim Clarke	03.11.04	03.11.04	6 months	6 months

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 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 16 September 2006 had the following beneficial interests in the shares and debentures of the Company, its holding company and fellow subsidiary undertakings.

As at	16 September 2006	17 September 2005
Martin Adamson		
Associated British Foods plc, ordinary shares of $5\frac{15}{22}$p	50,000	50,000
George Weston		
Wittington Investments Limited, ordinary shares of 50p	5,862	5,862
Associated British Foods plc, ordinary shares of $5\frac{15}{22}$p	3,146,761	3,146,761
John Bason		
Associated British Foods plc, ordinary shares of $5\frac{15}{22}$p	9,735	9,621
Galen Weston		
Wittington Investments Limited, ordinary shares of 50p	37,953	37,953
Associated British Foods plc, ordinary shares of $5\frac{15}{22}$p	5,672,560	5,672,560
Lord MacGregor	2,045	2,045
Mike Alexander	1,205	1,205
Jeff Harris	2,000	2,000
Tim Clarke	3,000	1,500

In addition to the above, George Weston and John Bason were allocated a conditional grant of shares under the Associated British Foods Executive Share Incentive Plan 2003, details of which are shown on page 41.

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.

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.

Paul Lister, *Company Secretary*
7 November 2006

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 16 September 2006 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 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 directors’ 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 auditor’s 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, for preparing the parent company financial statements in accordance with applicable law and UK Accounting Standards (‘UK Generally Accepted Accounting Practice’) and for preparing the directors’ remuneration report are set out in the statement of directors’ responsibilities on page 46.

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 presented in the Operating review and Financial review 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 2003 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 directors’ 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 directors’ 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 directors’ 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 16 September 2006 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 16 September 2006;
- the parent company 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
- 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

7 November 2006

Consolidated income statement
for the year ended 16 September 2006

Continuing operations	Note	Before exceptional items 2006 £m	Exceptional items[1] 2006 £m	Total 2006 £m	2005 £m
Revenue	1	5,996	–	5,996	5,622
Operating costs before exceptional items	2	(5,486)	–	(5,486)	(5,099)
Impairment of property, plant & equipment	10	–	(64)	(64)	–
Restructuring costs	2	–	(33)	(33)	–
		510	(97)	413	523
Share of profit after tax from joint ventures and associates	12	10	–	10	7
Profits less losses on sale of property, plant & equipment		10	–	10	20
Operating profit		530	(97)	433	550
Adjusted operating profit	1	561	–	561	555
Profits less losses on sale of property, plant & equipment		10	–	10	20
Amortisation of intangibles	9	(41)	–	(41)	(25)
Exceptional items		–	(97)	(97)	–
Profits less losses on sale of businesses	24	(4)	–	(4)	(1)
Provision for loss on termination of an operation		(8)	–	(8)	(47)
Profit before interest	1	518	(97)	421	502
Financial income	4	149	–	149	162
Financial expenses	5	(151)	–	(151)	(137)
Profit before taxation		516	(97)	419	527
Adjusted profit before taxation		559	–	559	580
Profits less losses on sale of property, plant & equipment		10	–	10	20
Amortisation of intangibles		(41)	–	(41)	(25)
Exceptional items		–	(97)	(97)	–
Profits less losses on sale of businesses		(4)	–	(4)	(1)
Provision for loss on termination of an operation		(8)	–	(8)	(47)
Taxation – UK		(89)	29	(60)	(82)
– Overseas		(51)	–	(51)	(59)
	6	(140)	29	(111)	(141)
Profit for the period		376	(68)	308	386
Attributable to:					
Equity shareholders		369	(68)	301	379
Minority interests		7	–	7	7
Profit for the period	23	376	(68)	308	386
Basic and diluted earnings per ordinary share	8			38.1p	48.0p

[1]Refer to accounting policy on page 53.

Consolidated balance sheet
at 16 September 2006

	Note	2006 £m	2005 £m
Non-current assets			
Intangible assets	9	1,542	1,152
Property, plant & equipment	10	2,479	2,255
Biological assets	11	46	–
Investments in joint ventures	12	54	36
Investments in associates	12	15	15
Employee benefits assets	13	169	95
Deferred tax assets	14	82	78
Other receivables	15	5	–
Total non-current assets		4,392	3,631
Current assets			
Assets classified as held for sale	16	53	9
Inventories	17	681	556
Biological assets	11	51	–
Trade and other receivables	15	913	678
Other investments	18	53	269
Cash and cash equivalents	19	349	929
Total current assets		2,100	2,441
TOTAL ASSETS		6,492	6,072
Current liabilities			
Liabilities classified as held for sale	16	(11)	–
Interest-bearing loans and overdrafts	20	(531)	(447)
Trade and other payables	21	(997)	(750)
Income tax		(85)	(113)
Provisions	22	(49)	(61)
Total current liabilities		(1,673)	(1,371)
Non-current liabilities			
Interest-bearing loans	20	(176)	(539)
Income tax		–	(4)
Provisions	22	(21)	(29)
Deferred tax liabilities	14	(398)	(233)
Employee benefits liabilities	13	(42)	(19)
Total non-current liabilities		(637)	(824)
TOTAL LIABILITIES		(2,310)	(2,195)
NET ASSETS		4,182	3,877
Equity			
Issued capital	23	47	47
Other reserves	23	173	173
Translation reserve	23	(29)	44
Hedging reserve	23	(6)	–
Retained earnings	23	3,773	3,584
		3,958	3,848
Minority interests	23	224	29
TOTAL EQUITY		4,182	3,877

The financial statements on pages 48 to 110 were approved by the board of directors on 7 November 2006 and were signed on its behalf by:
Martin Adamson, *Chairman* and John Bason, *Director.*

Consolidated cash flow statement
for the year ended 16 September 2006

	Note	2006 £m	2005 £m
Cash flow from operating activities			
Profit before taxation		419	527
Add back non-operating items			
Profits less losses on sale of property, plant & equipment		(10)	(20)
Profits less losses on sale of businesses		4	1
Provision for loss on termination of an operation		8	47
Exceptional items		97	–
Financial income		(149)	(162)
Financial expenses		151	137
Adjustments for			
Share of profit from joint ventures and associates		(10)	(7)
Amortisation		41	25
Depreciation		177	161
Pension cost less contributions		(1)	(8)
Increase in inventories		(29)	(25)
Increase in receivables		(178)	(20)
Increase/(decrease) in payables		78	(9)
(Decrease)/increase in provisions		(62)	–
Cash generated from operations		536	647
Income taxes paid		(117)	(132)
Net cash from operating activities		419	515
Cash flows from investing activities			
Dividends received from joint ventures		1	2
Dividends received from associates		3	2
Purchase of property, plant & equipment		(432)	(403)
Purchase of intangibles		(13)	–
Sale of property, plant & equipment		181	39
Purchase of subsidiary undertakings	24	(496)	(1,130)
Sale of subsidiary undertakings	24	–	8
Purchase of joint ventures and associates	24	–	(18)
Interest received		36	54
Loan repayment from joint venture		–	51
Net cash from investing activities		(720)	(1,395)
Cash flows from financing activities			
Dividends paid to minorities		(6)	(4)
Dividends paid to shareholders		(144)	(135)
Interest paid		(47)	(29)
Decrease in other current asset investments		216	273
Financing:			
(Decrease)/increase in short-term loans		(46)	364
(Decrease)/increase in long-term loans		(365)	170
Inflow from reductions in own shares held		1	7
Net cash from financing activities		(391)	646
Net decrease in cash and cash equivalents		(692)	(234)
Cash and cash equivalents at the beginning of the period		894	1,120
Effect of movements in foreign exchange		(4)	8
Cash and cash equivalents at the end of the period	19	198	894

Consolidated statement of recognised income and expense
for the year ended 16 September 2006

	2006 £m	2005 £m
Actuarial gains/(losses) on defined benefit schemes	43	(7)
Deferred tax associated with defined benefit schemes	(12)	–
Effect of movements in foreign exchange	(88)	44
Tax on effect of movements in foreign exchange	–	(1)
Net gain on hedge of net investment in foreign subsidiaries	14	2
Movement of cash flow hedging position	(13)	–
Net (loss)/gain recognised directly in equity	(56)	38
Profit for the period	308	386
Total recognised income and expense for the period	252	424
Adjustments relating to adoption of IAS 32 and IAS 39 on 18 September 2005 (Equity shareholders)	7	–
	259	424
Attributable to:		
Equity shareholders	246	416
Minority interests	6	8
	252	424

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 16 September 2006 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 7 November 2006.

Statement of compliance

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'). These are the group's first consolidated financial statements prepared under Adopted IFRS and IFRS 1 has been applied.

An explanation of how the transition to Adopted IFRS has affected the reported financial position, financial performance and cash flows of the group is provided in note 34.

The Company has elected to prepare its parent company financial statements under UK Generally Accepted Accounting Principles. These are presented on pages 111 to 118.

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 derivative financial instruments, biological assets and other current investments are stated at their fair value. Non-current assets held for sale are stated at the lower of carrying amount and fair value less costs to sell.

The preparation of financial statements under IFRS requires management to make judgements, estimates and assumptions about the reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience. Actual results may differ from these estimates. Judgements made by management in the application of 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 33.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised.

The financial statements of the Company and its subsidiary undertakings are prepared for the 52 weeks ended 16 September 2006, except that, to avoid delay in the preparation of the consolidated financial statements, those of Australia, New Zealand, China, Poland and the North and South American subsidiary undertakings are made up to 31 August 2006. Adjustments are made for significant transactions or events occurring between 31 August and 16 September.

The accounting policies set out below have been applied to all periods presented except where the policy relates to the implementation of the following Adopted IFRS, as permitted by IFRS 1:

Business combinations – the provisions of IFRS 3 have been applied from 3 September 2004. The net carrying value of goodwill at 18 September 2004, after adjustment to include the acquisition of the US Herbs & Spices business on 3 September 2004 under IFRS, has been deemed to be the cost at 19 September 2004;

Financial instruments – the provisions of IAS 32 and IAS 39 have been adopted from 18 September 2005. Comparatives have not been restated;

Cumulative translation differences arising on consolidation of subsidiaries – IAS 21 requires such differences to be held in a separate reserve rather than included in the profit and loss reserve under UK GAAP. The translation reserve has been deemed to be nil on 19 September 2004;

Share-based payments – the measurement provisions of IFRS 2 have not been applied to share options granted prior to 7 November 2002 nor to any options that vested prior to 19 September 2004;

Employee benefits – pursuant to IAS 19, all cumulative actuarial gains and losses in relation to employee benefit schemes were recognised as at the date of transition of 19 September 2004; and

Non-current assets held for sale and discontinued operations – IFRS 5 has been early adopted from 19 September 2004.

Basis of consolidation

The consolidated financial statements include the results of the Company and all of its subsidiary undertakings from the date that control commences to the date that control ceases. The consolidated financial statements also include the group's share of the results of its joint ventures 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.

Subsidiary undertakings 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.

Joint ventures are those entities over whose activities the group has joint control, 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.

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 paragraphs 86 and 87 of IAS 1, *Presentation of Financial Statements.*

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 vested 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. The difference between the market value of plan assets and the present value of plan liabilities is disclosed as an asset or liability on the consolidated balance sheet. Any related deferred tax (to the extent it is recoverable) is disclosed separately on the consolidated balance sheet. Any actuarial gains or losses are recognised immediately 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.

Share-based payments: employee benefits
The Share Incentive Plan allows executives to receive an allocation of shares to be received at the end of 2005/6 subject to attainment of certain financial performance criteria. 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 upon 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 substantially 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 substantially 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 instruments

The group has adopted the exemption granted by IFRS 1 that IAS 32 and IAS 39 need not be applied to the comparative period. Consequently the 2005 disclosure provided for financial instruments (note 27) is in accordance with UK GAAP. Under UK GAAP, forward foreign exchange contracts hedging transactional exposures were revalued at year end exchange rates with net unrealised gains and losses being deferred to match the maturity of the underlying exposures. The accounting policies described below for financial instruments are applicable from 18 September 2005 and are in accordance with IFRS. The effect of adopting these standards was to recognise a net derivative asset of £7m in the opening balance sheet (refer to note 34).

Derivative financial instruments

The group uses derivative financial instruments to hedge its exposure to fluctuations in foreign exchange and interest rates and also to changes in the price of certain commodities used in the manufacture of its products.

Derivative financial instruments are recognised in the balance sheet at their fair value calculated using either discounted cash flows or option pricing models consistently applied for similar types of instrument. Both techniques take into consideration assumptions based on market data. Changes in the fair value of derivatives that do not qualify for hedge accounting are charged or credited to the income statement.

The purpose of hedge accounting is to mitigate the impact on the group of changes in exchange or interest rates and commodity prices, by matching the impact of the hedged item and the hedging instrument in the income statement. 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 its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives designated as hedges to specific assets and liabilities or to specific firm commitments or forecast transactions. The group also documents its assessment, both at the hedge inception and on a quarterly basis, as to whether the derivatives that are used in hedging transactions have been, and are likely to continue to be, highly effective.

The group designates derivatives that qualify as hedges for accounting purposes as either: (a) a hedge of the fair value of a recognised asset or liability (fair value hedge), (b) a hedge of a forecast transaction or firm commitment (cash flow hedge), or (c) a hedge of a net investment in a foreign entity.

The method of recognising the resulting gains or losses from movements in fair values is dependent on whether the derivative contract is designated to hedge a specific risk and qualifies for hedge accounting.

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 any gain or loss on the derivative financial instrument is recognised directly in the hedging reserve. The ineffective part of any gain or loss is recognised in the income statement immediately.

When the forecast transaction subsequently results in the recognition of an asset or liability, the associated cumulative gain or loss is removed from reserves and is included in the initial measurement of the non-financial asset or liability. Otherwise the cumulative gain or loss is removed from reserves and is recognised in the income statement at the same time as the hedged transaction. To the extent that any part of the hedge is ineffective, the gain or loss on that part is recognised in the income statement.

Net investment hedges take the form of either foreign currency borrowings or derivatives. All foreign exchange gains or losses arising on translation of net investments are recorded in equity and included in the translation reserve. Monetary liabilities used as a net investment hedge are revalued at closing exchange rates with resulting gains or losses taken to equity. Foreign exchange contracts hedging net investments in overseas businesses are revalued at fair value. Fair value movements on effective hedges are taken to equity with any ineffectiveness recognised in the income statement.

Derivatives 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. In these circumstances the host contract is not carried at fair value with unrealised gains or losses on the derivative reported in the income statement for the period.

Non-derivative financial instruments

Financial assets and financial liabilities are measured initially at fair value, plus directly attributable transaction costs, and thereafter at amortised cost, except for other current investments. The group has designated some current investments ‘financial assets at fair value through profit and loss’ because these instruments are managed, and their performance is evaluated, on a fair value basis in accordance with the group’s risk management and investment strategy. Investments other than those designated as ‘at fair value through profit and loss’ are classified as investments available for sale, where gains and losses arising from changes in fair value are recognised directly in equity, until the security is disposed of or is determined to be impaired at which time the cumulative gain or loss previously recognised in equity is included in the income statement for the period.

Financial assets are derecognised when the contractual rights to the cash flows expire or the contractual rights to receive the cash flows are transferred. The contractual rights to receive cash flows are transferred when substantially all the risk and rewards of ownership of the financial asset are transferred. Financial liabilities are derecognised when the obligation specified in the contract is discharged, cancelled or expires.

Comparative accounting policy for 2005

The following accounting policy has been applied to the key financial instruments used by the group for the year ending 17 September 2005, in accordance with UK GAAP.

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 on hedging instruments that are cancelled due to the termination of the underlying exposure are taken to the profit and loss account immediately.

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 as follows:

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

Biological assets
Cane roots and growing cane are valued 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.
Growing cane – the estimated sucrose content valued at the estimated sucrose price for the following season, less the estimated costs for harvesting and transport.

Leases
Where the group has substantially all the risks and rewards of ownership of an asset that is subject to a lease, the lease is treated as a finance lease. Other leases are treated as operating leases. Finance leases are stated at the lower of fair value and present value of minimum lease payments less accumulated depreciation and impairment. 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 received is recognised in the income statement over the life of the lease.

Intangible assets other than goodwill
Intangible assets that are acquired by the group and have a finite life are stated at cost less accumulated amortisation and impairment charges.

Amortisation is charged to the income statement 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 as follows:

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

Goodwill
All business combinations are accounted for by applying the purchase method. Goodwill represents amounts arising on acquisition of subsidiary undertakings, associates and joint ventures. 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 has not been reconsidered in preparing the group's opening IFRS balance sheet at 18 September 2004.

Goodwill is not amortised but is tested for impairment at each balance sheet date.

Research and development
Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the income statement as an expense 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 assets, other than inventories and deferred tax assets, 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 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.

Goodwill was tested for impairment at 18 September 2004, the date of transition to IFRS, even though no indication of impairment existed.

Calculation of recoverable amount

The recoverable amount of assets is the greater of their net selling price 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.

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.

Cash and cash equivalents

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.

New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 16 September 2006 and have not been applied in preparing these consolidated financial statements:

IFRS 7 *Financial Instruments: Disclosures* and the *Amendments to IAS 1 Presentation of Financial Statements: Capital Disclosures* require extensive disclosures about the significance of financial instruments for an entity's financial position and performance, and qualitative and quantitative disclosures on the nature and extent of risks. IFRS 7 and amended IAS 1, which will be adopted for the group's 2007 financial statements, will require additional disclosures with respect to the group's financial instruments and share capital.

IFRIC 7 *Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies* addresses the application of IAS 29 when an economy first becomes hyperinflationary and in particular the accounting for deferred tax. IFRIC 7, which becomes mandatory for the group's 2008 financial statements, is not expected to have any significant impact on the consolidated financial statements.

IFRIC 8 *Scope of IFRS 2 Share-based Payments* addresses the accounting for share-based payment transactions in which some or all of goods or services received cannot be specifically identified. IFRIC 8 will become mandatory for the group's 2007 financial statements, with retrospective application required. The group has not yet determined the potential effect of the interpretation.

IFRIC 9 *Reassessment of Embedded Derivatives* requires that a reassessment of whether embedded derivatives should be separated from the underlying host contract should be made only when there are changes to the contract. IFRIC 9, which becomes mandatory for the group's 2007 financial statements, is not expected to have any significant impact on the consolidated financial statements.

IFRIC 10 *Interim Financial Reporting and Impairment* prohibits the reversal of an impairment loss recognised in a previous interim period in respect of goodwill, an investment in an equity instrument or a financial asset carried at cost. IFRIC 10 will become mandatory for the group's 2008 financial statements, and will apply to goodwill, investments in equity instruments, and financial assets carried at cost prospectively from the date that the group first applied the measurement criteria of IAS 36 and IAS 39 respectively (i.e. 18 September 2005). IFRIC 10 is not expected to have any significant impact on the consolidated financial statements.

The group does not consider that any other standards or interpretations issued by the IASB, but not yet applicable, 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, ethnic foods, herbs & spices and meat & dairy products which are sold into retail, wholesale and foodservice businesses.
– Primary Food	The 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, lipid technologies and polyols.
– 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

Geographically segmented revenues are shown by reference to the geographical location of customers. Segment assets are based on the geographical location of the assets.

	Revenue		Adjusted operating profit	
	2006 £m	**2005 £m**	**2006 £m**	**2005 £m**
Business segments				
Grocery	2,656	2,590	185	185
Primary Food	671	700	115	166
Agriculture	631	735	16	20
Ingredients	729	583	82	65
Retail	1,309	1,006	185	140
Central	–	–	(22)	(21)
	5,996	5,614	561	555
Businesses disposed:				
Agriculture	–	8	–	–
	5,996	5,622	561	555
Geographical segments				
United Kingdom	3,003	2,816	281	314
Europe, Middle East & Africa	746	720	73	72
The Americas	1,210	1,102	124	102
Asia Pacific	1,037	976	83	67
	5,996	5,614	561	555
Businesses disposed:				
United Kingdom	–	8	–	–
	5,996	5,622	561	555

1. Segmental analysis – for the year ended 16 September 2006

Business segments

	Grocery £m	Primary Food £m	Agriculture £m	Ingredients £m	Retail £m	Central £m	Eliminations £m	Total £m
Revenue from continuing operations	2,675	766	631	775	1,309	–	(160)	5,996
Internal revenue	(19)	(95)	–	(46)	–	–	160	–
Revenue from external customers	2,656	671	631	729	1,309	–	–	5,996
Adjusted operating profit	185	115	16	82	185	(22)	–	561
Exceptional items	–	(97)	–	–	–	–	–	(97)
Amortisation of intangibles	(12)	–	–	(29)	–	–	–	(41)
Profits less losses on sale of property, plant & equipment	4	4	(1)	–	2	1	–	10
Profits less losses on sale of businesses	3	(2)	–	(6)	–	1	–	(4)
Provision for loss on termination of an operation	–	–	–	–	(8)	–	–	(8)
Profit before financial income, financial expenses and taxation	180	20	15	47	179	(20)	–	421
Financial income						149	–	149
Financial expenses						(151)	–	(151)
Taxation						(111)	–	(111)
Profit for the period	180	20	15	47	179	(133)	–	308
Segment assets (excluding investments in associates and joint ventures)	1,782	1,497	158	1,010	1,302	14	–	5,763
Investments in associates and joint ventures	7	6	27	29	–	–	–	69
Segment assets	1,789	1,503	185	1,039	1,302	14	–	5,832
Cash and cash equivalents						356	–	356
Employee benefits assets						169	–	169
Deferred tax assets						82	–	82
Other investments						53	–	53
Segment liabilities	(303)	(338)	(48)	(113)	(214)	(60)	–	(1,076)
Interest-bearing loans and overdrafts						(707)	–	(707)
Income tax						(86)	–	(86)
Deferred tax liabilities						(398)	–	(398)
Employee benefits liabilities						(43)	–	(43)
Net assets	1,486	1,165	137	926	1,088	(620)	–	4,182
Capital expenditure	84	55	6	48	303	–	–	496
Depreciation	71	36	7	30	33	–	–	177
Amortisation	12	–	–	29	–	–	–	41
Impairment	–	64	–	–	–	–	–	64
Other significant non-cash expenses	–	30	–	–	10	–	–	40

Geographical segments

	United Kingdom £m	Europe, Middle East & Africa £m	The Americas £m	Asia Pacific £m	Eliminations £m	Total £m
Revenue from external customers	3,003	746	1,210	1,037	–	5,996
Segment assets	2,519	1,533	1,023	757	–	5,832
Capital expenditure	357	52	30	57	–	496
Depreciation	101	18	26	32	–	177
Amortisation	4	7	18	12	–	41
Impairment	64	–	–	–	–	64
Other significant non-cash expenses	40	–	–	–	–	40

Other significant non-cash expenses include a provision of £30m for costs associated with the closure of two UK sugar factories, announced on 4 July 2006 (see note 10), and a provision of £10m for costs associated with the termination of Littlewoods.

1. Segmental analysis – for the year ended 17 September 2005

Business segments

	Grocery £m	Primary Food £m	Agriculture £m	Ingredients £m	Retail £m	Central £m	Eliminations £m	Total £m
Revenue from continuing operations	2,604	802	747	620	1,006	–	(165)	5,614
Businesses disposed	–	–	11	–	–	–	(3)	8
Internal revenue	(14)	(102)	(15)	(37)	–	–	168	–
Revenue from external customers	2,590	700	743	583	1,006	–	–	5,622
Adjusted operating profit	185	166	20	65	140	(21)	–	555
Amortisation of intangibles	(5)	–	–	(20)	–	–	–	(25)
Profits less losses on sale of property, plant & equipment	(1)	24	(3)	–	–	–	–	20
Profits less losses on sale of businesses	1	–	3	–	–	(5)	–	(1)
Provision for loss on termination of an operation	–	–	–	–	–	(47)	–	(47)
Profit before financial income, financial expenses and taxation	180	190	20	45	140	(73)	–	502
Financial income						162	–	162
Financial expenses						(137)	–	(137)
Taxation						(141)	–	(141)
Profit for the period	180	190	20	45	140	(189)	–	386
Segment assets (excluding investments in associates and joint ventures)	1,756	663	160	923	872	276	–	4,650
Investments in associates and joint ventures	5	5	25	16	–	–	–	51
Segment assets	1,761	668	185	939	872	276	–	4,701
Cash and cash equivalents						929	–	929
Employee benefits assets						95	–	95
Deferred tax assets						78	–	78
Other investments						269	–	269
Segment liabilities	(348)	(96)	(55)	(99)	(230)	(12)	–	(840)
Interest-bearing loans and overdrafts						(986)	–	(986)
Income tax						(117)	–	(117)
Deferred tax liabilities						(233)	–	(233)
Employee benefits liabilities						(19)	–	(19)
Net assets	1,413	572	130	840	642	280	–	3,877
Capital expenditure	109	38	7	25	228	–	–	407
Depreciation	68	35	6	24	28	–	–	161
Amortisation	5	–	–	20	–	–	–	25
Other significant non-cash expenses	14	–	–	5	–	47	–	66

Geographical segments

	United Kingdom £m	Europe, Middle East & Africa £m	The Americas £m	Asia Pacific £m	Eliminations £m	Total £m
Revenue from external customers	2,824	720	1,102	976	–	5,622
Segment assets	2,319	717	954	711	–	4,701
Capital expenditure	263	54	21	69	–	407
Depreciation	94	15	24	28	–	161
Amortisation	2	10	10	3	–	25
Other significant non-cash expenses	51	5	8	2	–	66

Other significant non-cash expenses include a provision of £47m for costs associated with the termination of Littlewoods.

2. Operating costs and gross profit

	Note	Before exceptional items 2006 £m	Exceptional items[1] 2006 £m	Total 2006 £m	2005 £m
Operating costs					
Cost of sales (including amortisation of intangibles)		4,338	97	4,435	4,054
Distribution costs		770	–	770	722
Administration expenses		378	–	378	323
		5,486	97	5,583	5,099
Gross profit		510	(97)	413	523

	Note	2006 £m	2005 £m
Operating costs are stated after charging/(crediting):			
Employee benefits expense	3	848	779
Amortisation of intangibles		41	25
Depreciation of owned property, plant & equipment		177	161
Operating lease payments under property leases		57	31
Operating lease payments for hire of plant & equipment		6	6
Other operating income		(33)	(20)
Research and development expenditure		12	11
Impairment of trade receivables		(1)	3
Foreign exchange gains on operating activities		(3)	(15)
Foreign exchange losses on operating activities		5	15
Auditors' remuneration			
Group audit remuneration		3.5	3.2
Non-audit remuneration			
UK – tax		0.9	1.0
– transaction due diligence		0.2	0.7
– other assurance		0.8	1.1
		1.9	2.8
Overseas – tax		1.0	0.6
– other assurance		0.5	–
		3.4	3.4

[1]Refer to accounting policy on page 53.

On 4 July 2006 the group announced its intention to close two UK sugar factories following completion of the 2006/7 campaign. As a result, the group has recorded an exceptional charge of £97m of which £64m relates to the impairment of property, plant & equipment and £33m to restructuring charges. Details of the impairment charge are disclosed in note 10. The restructuring charge relates to redundancy costs of £17m and other costs to which the group is committed, primarily compensation of £16m payable to growers.

3. Employees

	Note	2006	2005
Average number of employees			
United Kingdom		24,277	20,929
Europe, Middle East & Africa		4,917	4,830
The Americas		4,544	4,196
Asia Pacific		12,965	12,420
		46,703	42,375

	Note	£m	£m
Employee benefits expense			
Wages and salaries		723	666
Social security contributions		58	51
Contributions to defined contribution schemes	13	21	19
Charge for defined benefit schemes	13	46	42
Share-based payment	25	–	1
		848	779

Details of directors' remuneration, share options and pension entitlements are shown in the remuneration report on pages 40 to 45.

4. Financial income

	Note	2006 £m	2005 £m
Interest income on bank deposits and investments		31	44
Gain on remeasurement of other current investments at fair value through profit and loss		1	5
Foreign exchange gains on financing activities		1	–
Expected return on pension scheme assets	13	116	113
		149	162

5. Financial expenses

	Note	2006 £m	2005 £m
Interest expense on bank loans		29	18
Interest expense on other loans		16	16
Foreign exchange losses on financing activities		2	–
Interest expense on finance leases		1	–
Interest charge on pension scheme liabilities	13	103	103
		151	137

6. Income tax expense

	2006 £m	2005 £m
Current tax expense		
UK – corporation tax at 30% (2005 – 30%)	37	84
Overseas – corporation tax	46	49
Over-provided in prior years	–	(1)
	83	132
Deferred tax expense		
UK deferred tax	21	(2)
Overseas deferred tax	8	12
Over-provided in prior years	(1)	(1)
Total income tax expense in income statement	111	141
Reconciliation of effective tax rate		
Profit before taxation	419	527
Less share of profit from joint ventures and associates	(10)	(7)
Profit before taxation excluding share of profit from joint ventures and associates	409	520
Nominal tax charge at UK corporation tax rate of 30% (2005 – 30%)	123	156
Lower tax rates on overseas earnings	(23)	(25)
Expenses not deductible for tax purposes	12	9
Utilisation of losses	–	(1)
Deferred tax not recognised	–	3
Adjustments in respect of prior periods	(1)	(1)
	111	141

Deferred taxation balances are analysed in note 14.

7. Dividends

	2006 pence	2005 pence
Per share		
2004 final	–	11.15
2005 interim	–	6.00
2005 final	12.00	–
2006 interim	6.25	–
	18.25	17.15
	£m	**£m**
Total		
2004 final	–	88
2005 interim	–	47
2005 final	95	–
2006 interim	49	–
	144	135

The 2006 interim dividend was declared on 19 April 2006 and paid on 3 July 2006. The 2006 final dividend of 12.5p, total value of £99m, will be paid on 12 January 2007 to shareholders on the register on 1 December 2006.

8. Earnings per share
The calculation of basic earnings per share at 16 September 2006 was based on the net profit attributable to equity shareholders of £301m (2005 – £379m), and a weighted average number of shares outstanding during the year of 790 million (2005 – 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 property, plant & equipment and businesses, provision for loss on temination of an operation, intangible amortisation, 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 (2005 – 789 million). There is no difference between basic and diluted earnings.

	2006 £m	2005 £m
Adjusted profit for the period	402	414
Profits less losses on sale of property, plant & equipment	10	20
Profits less losses on sale of businesses	(4)	(1)
Provision for loss on termination of an operation	(8)	(47)
Exceptional items	(97)	–
Tax effect on above	26	11
Amortisation of intangibles	(41)	(25)
Tax credit on intangible amortisation	13	7
Profit for the period attributable to equity shareholders	301	379

	2006 pence	2005 pence
Adjusted earnings per share	50.9	52.5
Earnings per share on:		
Sale of property, plant & equipment	1.3	2.5
Sale of businesses	(0.5)	(0.1)
Provision for loss on termination of operation	(1.0)	(6.0)
Exceptional items	(12.3)	–
Tax effect on above	3.3	1.4
Amortisation of intangibles	(5.2)	(3.2)
Tax credit on intangibles amortisation	1.6	0.9
Earnings per ordinary share	38.1	48.0

9. Intangible assets

	Goodwill £m	Technology £m	Brands £m	Customer relationships £m	Grower agreements £m	Other £m	Total £m
Cost							
At 18 September 2004	547	–	45	–	–	–	592
Acquired through business combinations	291	173	79	28	–	–	571
Effect of movements in foreign exchange	6	5	2	1	–	–	14
At 17 September 2005	844	178	126	29	–	–	1,177
Acquired through business combinations	191	26	36	29	161	14	457
Other acquisitions – externally purchased	–	5	1	–	–	4	10
Effect of movements in foreign exchange	(22)	(5)	(5)	(2)	–	(3)	(37)
At 16 September 2006	1,013	204	158	56	161	15	1,607
Amortisation and impairment							
At 18 September 2004	–	–	–	–	–	–	–
Amortisation for the year	–	11	9	5	–	–	25
At 17 September 2005	–	11	9	5	–	–	25
Amortisation for the year	–	19	15	7	–	–	41
Effect of movements in foreign exchange	–	(1)	–	–	–	–	(1)
At 16 September 2006	–	29	24	12	–	–	65
Net book value							
Net book value at 18 September 2004	547	–	45	–	–	–	592
Net book value at 17 September 2005	844	167	117	24	–	–	1,152
Net book value at 16 September 2006	1,013	175	134	44	161	15	1,542

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

Significant intangible assets details

	Description	Net book value £m	Remaining amortisation period
Intangible assets arising from US herbs and spices acquisition	Brands	38	13 years
Intangible assets arising from yeast and bakery ingredients acquisition	Technology	139	13 years
	Brands	51	13 years
	Customer relationships	17	3 years
Intangible assets arising from Illovo Sugar Limited acquisition	Technology	6	5 years
	Brands	8	3 years
	Customer relationships	25	5 years
	Grower agreements	161	10 years
	Other	13	4 years

9. Intangible assets continued

Impairment

Goodwill

As at 16 September 2006, the consolidated balance sheet included goodwill of £1,013m. In accordance with the requirements of IAS 36, *Impairment of Assets,* 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	2006 £m	2005 £m
ACH	Grocery	208	216
AB Mauri	Ingredients	232	232
Twinings/Ovaltine	Grocery	122	122
Capullo	Grocery	58	58
Illovo	Primary Food	148	–
Other*	Various	245	216
		1,013	844

*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.

10. Property, plant & equipment

	Land and buildings £m	Plant and machinery £m	Fixtures and fittings £m	Assets under construction £m	Total £m
Cost					
At 18 September 2004	757	1,478	307	48	2,590
Acquired through business combinations	478	96	1	1	576
Other acquisitions	156	141	98	12	407
Businesses disposed	(8)	(24)	(2)	–	(34)
Other disposals	(12)	(52)	(18)	–	(82)
Effect of movements in foreign exchange	10	29	–	3	42
At 17 September 2005	1,381	1,668	386	64	3,499
Acquired through business combinations	47	124	5	5	181
Other acquisitions	25	72	290	95	482
Businesses disposed	(3)	(25)	–	–	(28)
Other disposals	(149)	(69)	(12)	–	(230)
Transfer to non-current assets held for sale	(27)	(2)	–	–	(29)
Transfers from assets under construction	22	61	2	(85)	–
Effect of movements in foreign exchange	(12)	(19)	(2)	(2)	(35)
At 16 September 2006	1,284	1,810	669	77	3,840
Depreciation and impairment					
At 18 September 2004	171	843	129	–	1,143
Depreciation for the year	19	107	35	–	161
Businesses disposed	(1)	(16)	(2)	–	(19)
Other disposals	(7)	(37)	(17)	–	(61)
Effect of movements in foreign exchange	2	18	–	–	20
At 17 September 2005	184	915	145	–	1,244
Depreciation for the year	19	119	39	–	177
Impairment charge	23	41	–	–	64
Businesses disposed	(3)	(23)	–	–	(26)
Other disposals	(2)	(62)	(11)	–	(75)
Transfer to non-current assets held for sale	(6)	(1)	–	–	(7)
Effect of movements in foreign exchange	(2)	(14)	–	–	(16)
At 16 September 2006	213	975	173	–	1,361
Net book value					
Net book value at 18 September 2004	586	635	178	48	1,447
Net book value at 17 September 2005	1,197	753	241	64	2,255
Net book value at 16 September 2006	1,071	835	496	77	2,479

	2006 £m	2005 £m
Net book value of finance lease assets	12	12
Non-depreciable land	72	77
Land and buildings at net book value comprise:		
– Freehold	871	958
– Long leasehold	151	169
– Short leasehold	49	70
	1,071	1,197
Capital expenditure commitments – contracted but not provided for	158	77

10. Property, plant & equipment continued

Impairment

UK sugar operations

The reform of the EU sugar regime has impacted adversely on the performance of the group's European sugar operations and is expected to have further adverse consequences in the future. Management has considered the impact of the reform of the EU sugar regime on the group's operations and on 4 July 2006 announced its intention to close two UK factories following the 2006/7 campaign. As a result, the carrying value and useful lives of the factories to be closed have been assessed for impairment.

The carrying value of each of the two factories to be closed has been assessed separately for impairment on the basis of their value in use. The cash flow projections used for this purpose are based on the most recent budget resulting in an impairment charge of £64m being recognised in the income statement. The impairment has been recognised as a depreciation charge, recorded in operating costs in the income statement, and is included within the Primary Food segment.

11. Biological assets

	Current growing cane £m	Non-current cane roots £m	Total £m
Carrying value			
At 17 September 2005	–	–	–
Acquired through business combination	51	47	98
Effect of movements in foreign exchange	–	(1)	(1)
At 16 September 2006	51	46	97

Cane roots

Area under cane as at 16 September 2006	Hectares
South Africa	10,668
Malawi	18,381
Zambia	11,030
Swaziland	7,946
Tanzania	8,003
Mozambique	3,671
	59,699

Growing cane

The following assumptions have been used in the determination of the estimated sucrose tonnage at 16 September 2006:

	South Africa	Malawi	Zambia	Swaziland	Tanzania	Mozambique
Expected area to harvest (hectares)	6,173	18,072	10,948	7,572	7,815	3,649
Estimated yield (tonnes cane/hectare)	69.0	109.0	118.0	105.9	76.0	102.1
Average maturity of cane	56.10%	66.67%	66.67%	66.67%	50.00%	66.67%

12. Investments in joint ventures and associates

	Joint ventures Shares £m	Joint ventures Goodwill £m	Joint ventures Total £m	Associates Shares £m
At 18 September 2004	12	–	12	11
Additions	23	–	23	2
Profit for the period	3	–	3	4
Dividends received	(2)	–	(2)	(2)
Goodwill arising on acquisition of new joint venture	–	6	6	–
Transfer to subsidiary	(5)	–	(5)	–
Disposals	(1)	–	(1)	–
At 17 September 2005	30	6	36	15
Additions	5	–	5	2
Profit for the period	5	–	5	5
Dividends received	(1)	–	(1)	(3)
Goodwill arising on acquisition of new joint venture	–	8	8	–
Transfer from associates	3	–	3	(3)
Transfer to subsidiary	(2)	–	(2)	–
Effect of movements in foreign exchange	–	–	–	(1)
At 16 September 2006	40	14	54	15

Details of principal joint ventures and associates are listed on page 98.

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 2006 £m	Joint ventures 2005 £m	Associates 2006 £m	Associates 2005 £m
Non-current assets	21	19	7	7
Current assets	95	79	44	53
Current liabilities	(76)	(68)	(35)	(44)
Non-current liabilities	–	–	(1)	(1)
Goodwill	14	6	–	–
Net assets	54	36	15	15
Revenue	314	160	22	14
Expenses	(308)	(156)	(15)	(8)
Taxation	(1)	(1)	(2)	(2)
Profit for the period	5	3	5	4
Dividends received	(1)	(2)	(3)	(2)
Transfer to retained earnings	4	1	2	2

13. Employee entitlements

The group operates pension schemes, the majority of which are of the defined benefit type. The group's principal UK defined benefit schemes are closed to new members, with defined contribution arrangements in place for these members. 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 16 September 2006. 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 group also operates defined benefit pension schemes in Australia and New Zealand, the United States, the Republic of Ireland, Switzerland, Norway, Germany, France and the Philippines. With the acquisition of Illovo Sugar Limited on 4 September 2006 the group also now operates defined benefit schemes in South Africa and Zambia, both of which are closed to new members. The charge for the year is based on recommendations by qualified actuaries. 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:

	2006 %	2005 %	2004 %
Discount rate	5.10	5.00	5.60
Inflation	3.00	2.80	2.80
Rate of increase in salaries	4.50	4.50	4.80
Rate of increase for pensions in payment	2.80	2.50	2.80
Rate of increase for pensions in deferment (where provided)	3.00	2.80	2.80

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. The mortality rates underlying these tables have been adjusted to take account of the scheme's actual experience.

Examples of the resulting life expectancies are as follows:

Life expectancy from age 65 (in years)	Male	Female
Member aged 65 in 2006	19.3	22.1
Member aged 65 in 2026	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 some of the overseas schemes, regionally appropriate assumptions have been used where recommended by local actuaries.

13. 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	2006 %	2006 £m	2005 %	2005 £m	2004 %	2004 £m
Expected long-term rates of return:						
Equities	7.30	806	6.50	774	7.00	666
Government bonds	4.30	481	4.30	693	4.80	592
Non-government bonds	5.10	728	5.00	449	5.60	443
Property	5.80	86	5.80	68	6.30	67
Other	4.80	90	4.50	57	4.80	40
Total market value of assets		2,191		2,041		1,808
Present value of scheme liabilities		(2,040)		(1,947)		(1,732)
Aggregate net surplus of the plans		151		94		76
Irrecoverable surplus (a)		–		–		–
Net pension asset		151		94		76
Unfunded liability included in the present value of scheme liabilities above		(5)		(6)		(4)

Overseas schemes	2006 %	2006 £m	2005 %	2005 £m	2004 %	2004 £m
Expected long-term rates of return:						
Equities	8.65	122	6.95	79	6.90	58
Government bonds	5.70	27	4.85	17	4.10	40
Non-government bonds	4.00	25	7.00	24	5.80	–
Property	6.00	5	6.00	5	6.40	4
Other	3.85	23	6.15	16	3.60	5
Total market value of assets		202		141		107
Present value of scheme liabilities		(190)		(159)		(102)
Aggregate net surplus/(deficit) of the plans		12		(18)		5
Irrecoverable surplus (a)		(36)		–		–
Net pension asset/(liability)		(24)		(18)		5
Unfunded liability included in the present value of scheme liabilities above		(19)		(8)		(4)

(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 applies to these rates suitable risk premia that take account of historic market returns and current market long-term expectations for each asset class.

13. Employee entitlements continued

Income statement

The charge to the income statement comprises:

	2006 £m	2005 £m
Charged to operating profit:		
Defined benefit plans		
Current service cost	(47)	(41)
Past service cost	–	(1)
Gain on curtailment	1	–
Defined contribution plans	(21)	(19)
Total operating cost	(67)	(61)
Reported in losses on sale of businesses:		
Past service cost	–	(4)
Gain on curtailment	–	4
Net credit in relation to the sale of businesses	–	–
Reported in financial income and financial expenses:		
Expected return on assets	116	113
Interest on retirement benefit obligations	(103)	(103)
Total other finance income/(cost)	13	10
Net impact on the income statement (before tax)	(54)	(51)

The actual return on scheme assets was £191m (2005 – £268m).

Cash flow

Group cash flow in respect of pensions comprises contributions paid to funded plans and benefits paid by the Company in respect of unfunded plans. In 2006, the benefits paid in respect of unfunded plans was nil (2005 – nil). Company contributions to funded defined benefit plans are subject to periodic review. In 2006, contributions to funded defined benefit plans amounted to £48m (2005 – £50m). Contributions to defined contribution plans amounted to £21m (2005 – £19m).

Total contributions to funded plans and benefit payments by the group in respect of unfunded plans are currently expected to be about £67m in 2007 (2006 – £48m).

Statement of recognised income and expense

Amounts recognised in the statement of recognised income and expense:

	2006 £m	2005 £m
Actual return less expected return on pension scheme assets	75	155
Experience gains and losses arising on the scheme liabilities	4	77
Changes in assumptions underlying the present value of the scheme liabilities	(30)	(239)
	49	(7)
Change in unrecognised surplus	(6)	–
Net actuarial gain/(loss) recognised in the statement of recognised income and expense (before tax)	43	(7)

Cumulative actuarial gains from 19 September 2004 reported in the statement of recognised income and expense are £36m (2005 – £(7)m).

13. Employee entitlements continued

Reconciliation of change in assets and liabilities

	2006 Assets £m	2005 Assets £m	2006 Liabilities £m	2005 Liabilities £m
Asset/(liability) at beginning of year	2,182	1,915	(2,106)	(1,834)
Current service cost	–	–	(47)	(41)
Employee contributions	11	10	(11)	(10)
Acquisitions	60	8	(37)	(24)
Employer contributions	48	50	–	–
Benefit payments	(94)	(71)	94	71
Past service cost	–	–	–	(5)
Gain on curtailments	–	–	1	4
Financial income	116	113	–	–
Financial expenses	–	–	(103)	(103)
Actuarial gain/(loss)	75	155	(26)	(162)
Effect of movements in foreign exchange	(5)	2	5	(2)
Asset/(liability) at end of year	2,393	2,182	(2,230)	(2,106)

History of experience gains and losses	2006	2005	2004	2003
Difference between the expected and actual return on scheme assets				
– amount (£m)	75	155	(5)	45
– percentage of scheme assets	3.1%	7.1%	0.3%	2.4%
Experience gains and losses on scheme liabilities				
– amount (£m)	4	77	22	(3)
– percentage of scheme liabilities	0.2%	3.7%	1.2%	0.1%
Total amount included in statement of recognised income and expense				
– amount (£m)	49	(7)	43	95
– percentage of scheme liabilities	2.2%	0.3%	2.3%	5.3%

14. Deferred tax assets and liabilities

	£m
At 18 September 2004	(125)
Amount charged to the income statement	(9)
Amount charged to the statement of recognised income and expense	(1)
Acquisitions	(20)
At 17 September 2005	(155)
On implementation of IAS 32 and IAS 39 on 18 September 2005	(2)
At 18 September 2005 (restated)	(157)
Amount charged to the income statement	(28)
Amount charged to the statement of recognised income and expense	(8)
Acquisitions	(123)
At 16 September 2006	(316)

The analysis of the deferred tax position is as follows:

	2006 £m	2005 £m
Property, plant & equipment	(183)	(129)
Intangible assets	(99)	(24)
Employee benefits	(45)	(27)
Foreign exchange commodity financial assets and liabilities	2	–
Other temporary differences	(25)	(8)
Tax value of carry-forward losses recognised	34	33
	(316)	(155)
Analysed as:		
– Deferred tax assets	82	78
– Deferred tax liabilities	(398)	(233)
	(316)	(155)

The recoverability of deferred tax assets is supported by the expected level of future profits in the countries concerned. There are other deferred tax assets totalling £2m (2005 – £6m) that have not been recognised on the basis that their future economic benefit is uncertain.

In addition, there are temporary differences of £834m (2005 – £733m) relating to investments in subsidiaries and joint ventures. 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.

15. Receivables

	Note	2006 £m	2005 £m
Non-current – other receivables			
Long-term promissory note receivable		2	–
Other receivables		3	–
		5	–
Current – trade and other receivables			
Trade receivables		565	484
Amounts owed by joint ventures and associates		27	29
Prepayments and accrued income		201	58
Fair value derivatives	27	17	–
Other receivables		103	107
		913	678
Impairment of trade receivables recognised in the income statement during the period	2	(1)	3

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

16. Assets and liabilities classified as held for sale

On 4 October 2006, with effect from 29 September 2006, the group sold its Scandinavian distribution business, Haugen-Gruppen (‘Haugen’), to Icelandic distribution business Innnes. Haugen, which is part of the Grocery segment, comprised three businesses in Sweden, Denmark and Norway. The decision to sell was taken because the businesses were not core to group activities, and scale and focus benefits available to another distribution business meant Haugen was more valuable to the buyer than to the group. As at 16 September 2006 the disposal group comprised assets of £38m less liabilities of £11m.

Also included in the table below, in property, plant & equipment, are various properties classified as held for sale of £15m (2005 – £9m), within the Grocery, Agriculture and Ingredients segments, that the group expects to dispose of in the next 12 months.

	2006 £m	2005 £m
Assets classified as held for sale		
Property, plant & equipment	22	9
Inventories	11	–
Trade and other receivables	13	–
Cash and cash equivalents	7	–
	53	9
Liabilities held for sale		
Trade and other payables	9	–
Income tax	1	–
Employee benefits liability	1	–
	11	–

17. Inventories

	2006 £m	2005 £m
Raw materials and consumables	217	191
Work in progress	9	10
Finished goods and goods held for resale	455	355
	681	556
Write down of inventories	17	26

18. Other investments

	2006 £m	2005 £m
Current		
Investments at fair value through the profit and loss	53	269
	53	269

Investments at fair value through the profit and loss are debt securities, equity securities and time deposits that present the group with an opportunity to generate returns through interest income and trading gains.

19. Cash and cash equivalents

	2006 £m	2005 £m
Cash at bank and in hand	256	297
Cash equivalents	93	632
Cash and cash equivalents in the balance sheet	349	929
Cash and cash equivalents included in assets classified as held for sale	7	–
Bank overdrafts (included in note 20)	(158)	(35)
Cash and cash equivalents in the cash flow statement	198	894

20. Interest-bearing loans and overdrafts

This note provides information about the contractual terms of the group's interest-bearing loans and borrowings. For more information about the group's exposure to interest rate and currency risk, see note 27.

	2006 £m	2005 £m
Current liabilities		
Secured bank loans	15	28
Unsecured bank loans and overdrafts	516	419
	531	447
Non-current liabilities		
10¾% secured redeemable debenture stock 2013	150	150
Secured bank loans	9	–
Unsecured bank loans	5	377
Finance lease liabilities	12	12
	176	539
	707	986

The secured loans are secured by floating charges over the assets of subsidiary undertakings.

20. Interest-bearing loans and overdrafts continued

Terms and repayment schedule

	Bank loans and overdrafts		Redeemable debenture stock		Finance lease liabilities		Total	
	2006 £m	**2005 £m**	**2006 £m**	**2005 £m**	**2006 £m**	**2005 £m**	**2006 £m**	**2005 £m**
Within one year or on demand	531	447	–	–	–	–	531	447
Between one and two years	5	8	–	–	–	–	5	8
Between two and three years	5	369	–	–	–	–	5	369
Between three and five years	4	–	–	–	–	–	4	–
After five years	–	–	150	150	12	12	162	162
	545	824	150	150	12	12	707	986

Borrowing facilities

The group has various borrowing facilities available to it. The undrawn committed facilities available to the group in respect of which all conditions precedent have been met, are as follows:

	2006 £m	2005 £m
Expiring within one year	–	11
Expiring between one and five years	–	–
Expiring after five years	–	–
	–	11

Since the year end the Company has refinanced its external borrowings and has negotiated a multi-currency US$1.2bn syndicated loan facility with a term of five years with two one-year extension options. It will be used for general corporate purposes. The new facility has been provided by the group's existing bank group.

Finance lease liabilities

Finance lease liabilities are payable as follows:

	Minimum lease payments 2006 £m	**Interest 2006 £m**	**Principal 2006 £m**	**Minimum lease payments 2005 £m**	**Interest 2005 £m**	**Principal 2005 £m**
Within one year	1	1	–	1	1	–
Between one and five years	3	3	–	3	3	–
After five years	43	31	12	44	32	12
	47	35	12	48	36	12

Under the terms of the lease agreements, no contingent rents are payable.

21. Trade and other payables

	Note	2006 £m	2005 £m
Trade payables		445	368
Accruals and deferred income		500	359
Fair value derivatives	27	25	–
Other payables		27	23
		997	750

The directors consider that the carrying amount of trade and other payables approximates their fair value.

22. Provisions

	Restructuring £m	Other £m	Total £m
At 17 September 2005	61	29	90
Provisions made during the year	47	8	55
Provisions utilised during the year	(62)	(7)	(69)
Provisions reversed during the year	(2)	(8)	(10)
Acquisitions	2	3	5
Effect of movements in foreign exchange	–	(1)	(1)
At 16 September 2006	46	24	70
Current	44	5	49
Non-current	2	19	21
	46	24	70

Restructuring

Restructuring provisions relate to the cash costs, including redundancy, associated with the group's announced reorganisation plans, the majority of which will be utilised in 2006/7.

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.

23. Capital and reserves

Reconciliation of movement in capital and reserves

	Attributable to equity shareholders							
	Issued capital £m	**Other reserves £m**	**Translation reserve £m**	**Hedging reserve £m**	**Retained earnings £m**	**Total £m**	**Minority interests £m**	**Total equity £m**
At 18 September 2004	47	173	–	–	3,340	3,560	27	3,587
Actuarial losses on net pension assets	–	–	–	–	(7)	(7)	–	(7)
Net movement in own shares held	–	–	–	–	7	7	–	7
Effect of movements in foreign exchange	–	–	45	–	–	45	1	46
Tax on effect of movements in foreign exchange	–	–	(1)	–	–	(1)	–	(1)
Profit for the year	–	–	–	–	379	379	7	386
Dividends paid to shareholders	–	–	–	–	(135)	(135)	–	(135)
Dividends paid to minorities	–	–	–	–	–	–	(4)	(4)
Acquisitions and minority buy-outs	–	–	–	–	–	–	(2)	(2)
At 17 September 2005	47	173	44	–	3,584	3,848	29	3,877
On implementation of IAS 32 and IAS 39 on 18 September 2005	–	–	–	7	–	7	–	7
At 18 September 2005 (restated)	47	173	44	7	3,584	3,855	29	3,884
Actuarial gains on net pension assets	–	–	–	–	43	43	–	43
Deferred tax associated with net pension assets	–	–	–	–	(12)	(12)	–	(12)
Net movement in own shares held	–	–	–	–	1	1	–	1
Effect of movements in foreign exchange	–	–	(73)	–	–	(73)	(1)	(74)
Profit for the year	–	–	–	–	301	301	7	308
Dividends paid to shareholders	–	–	–	–	(144)	(144)	–	(144)
Dividends paid to minorities	–	–	–	–	–	–	(6)	(6)
Acquisitions, minority buy-outs and disposals	–	–	–	–	–	–	195	195
Movement of cash flow hedging position	–	–	–	(17)	–	(17)	–	(17)
Deferred tax associated with movement of cash flow hedging position	–	–	–	4	–	4	–	4
At 16 September 2006	47	173	(29)	(6)	3,773	3,958	224	4,182

23. Capital and reserves continued

Share capital

	Deferred shares of £1 each '000	Ordinary shares of $5\frac{15}{22}$p each '000	Nominal value £m
Authorised			
At 17 September 2005 and 16 September 2006	2,000	1,054,950	62
Issued and fully paid			
At 17 September 2005 and 16 September 2006	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.

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.

Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

24. Acquisitions and disposals

During the year, the group purchased Illovo Sugar Limited ('Illovo'), completed a number of small acquisitions and disposed of its interests in a number of small businesses.

Acquisitions

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

2006

		Illovo		Other		Total	
	Note	**Pre-acquisition carrying amounts £m**	**Recognised values on acquisition £m**	**Pre-acquisition carrying amounts £m**	**Recognised values on acquisition £m**	**Pre-acquisition carrying amounts £m**	**Recognised values on acquisition £m**
Net assets							
Intangible assets		2	213	–	53	2	266
Property, plant & equipment		128	166	18	15	146	181
Investments in joint ventures and associates		–	–	4	4	4	4
Inventories		103	106	14	12	117	118
Biological assets		98	98	–	–	98	98
Trade and other receivables		80	80	18	17	98	97
Cash and cash equivalents		19	19	7	7	26	26
Trade and other payables		(94)	(94)	(14)	(14)	(108)	(108)
Overdrafts		(113)	(113)	–	–	(113)	(113)
Interest-bearing loans and borrowings		(19)	(19)	(3)	(3)	(22)	(22)
Intercompany debt		–	–	(2)	(2)	(2)	(2)
Provisions		(4)	(4)	(1)	(1)	(5)	(5)
Taxation		(40)	(110)	(1)	(13)	(41)	(123)
Employee benefits		(7)	(7)	–	–	(7)	(7)
Net identifiable assets and liabilities		153	335	40	75	193	410
Goodwill on acquisitions	9		148		43		191
Goodwill on acquisition of joint ventures			–		8		8
Minority interests acquired/disposed of			(195)		(2)		(197)
Total consideration			288		124		412
Satisfied by							
Cash consideration			288		121		409
Deferred consideration			–		1		1
Interest in joint venture			–		2		2
Net cash							
Cash consideration			288		121		409
Cash/overdraft acquired			94		(7)		87
			382		114		496

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 £211m of intangibles which were recognised on the acquisition of Illovo, a £38 million adjustment to property, plant & equipment, and a £70m adjustment to deferred tax.

24. Acquisitions and disposals continued

Acquisition of Illovo Sugar Limited ('Illovo')

The acquisition of Illovo, the African cane sugar producer, was completed on 4 September 2006. The group acquired 51% of the shares in the company for £286m, satisfied in cash. £2m of acquisition costs were also incurred in relation to this acquisition. The subsidiary contributed net profit of nil to the consolidated net profit for the year, since acquisition date. The contribution to group revenue and net profit, had the acquisition occurred at the beginning of the year, has not been disclosed as it would be impracticable to determine these amounts due to the following reasons:

(i) Illovo has a different year end to the group;
(ii) whilst information is publicly available, it is not sufficient to determine accurately the fair value adjustments that would have been made to the balance sheet one year ago; and
(iii) the impact on world sugar markets as a result of the reform in the sugar regime may make disclosing Illovo's results for the last 12 months misleading in this context.

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

Income statement for the year ended 31 March 2006	2006 Rm
Revenue	5,468.8
Cost of sales	(3,448.8)
Gross profit	2,020.0
Distribution expenses	(419.2)
Administrative expenses	(621.0)
Other operating expenses	(228.3)
Operating profit	751.5
Dividend income	1.0
Net interest expense	(101.9)
Profit before taxation and material items	650.6
Material items	3.5
Profit before taxation	654.1
Taxation	(197.3)
Profit for the period	456.8
Atttributable to:	
Shareholders of Illovo Sugar Limited	357.7
Minority interest	99.1
	456.8

24. Acquisitions and disposals continued

2005

	Note	Littlewoods Pre-acquisition carrying amounts £m	Littlewoods Recognised values on acquisition £m	Yeast Pre-acquisition carrying amounts £m	Yeast Recognised values on acquisition £m	Other Pre-acquisition carrying amounts £m	Other Recognised values on acquisition £m	Total Pre-acquisition carrying amounts £m	Total Recognised values on acquisition £m
Net assets									
Intangible assets		–	–	–	244	–	36	–	280
Property, plant & equipment		342	419	147	147	10	10	499	576
Investments in joint ventures and associates		–	–	8	8	18	18	26	26
Inventories		19	19	29	37	5	5	53	61
Trade and other receivables		19	19	62	62	8	8	89	89
Cash and cash equivalents		6	6	33	33	4	4	43	43
Trade and other payables		(44)	(44)	(55)	(55)	(6)	(6)	(105)	(105)
Interest-bearing loans and borrowings		–	(12)	(3)	(3)	(1)	(1)	(4)	(16)
Provisions		(3)	(3)	–	–	–	–	(3)	(3)
Taxation		3	(31)	(7)	10	1	(8)	(3)	(29)
Employee benefits		–	–	(13)	(13)	–	–	(13)	(13)
Net identifiable assets and liabilities			373		470		66		909
Goodwill on acquisitions	9		34		231		26		291
Goodwill on acquisition of joint ventures			–		–		6		6
Minority interests acquired			–		(7)		9		2
Total consideration			407		694		107		1,208
Satisfied by									
Cash consideration			413		690		88		1,191
Deferred consideration			(6)		–		13		7
Shares in subsidiary undertaking			–		4		–		4
Interest in joint venture			–		–		6		6
Net cash									
Cash consideration			413		690		88		1,191
Cash acquired			(6)		(33)		(4)		(43)
			407		657		84		1,148

24. Acquisitions and disposals continued

Disposals

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

	Carrying values 2006 £m	Carrying values 2005 £m
Net assets		
Property, plant & equipment	2	15
Investments in joint ventures and associates	–	1
Inventories	–	28
Trade and other receivables	–	42
Overdrafts	–	(5)
Trade and other payables	–	(74)
Interest-bearing loans and borrowings	(2)	–
Intercompany debt	(4)	–
Net identifiable assets and liabilities	(4)	7
Minority interests disposed of	2	–
Recycle of foreign exchange differences	2	–
Loss on disposal	(4)	(1)
Total consideration	(4)	6
Satisfied by		
Cash consideration	–	2
Interest in joint venture	(4)	4
Net cash		
Cash consideration	–	2
Cash received in respect of prior year disposals	–	1
Overdraft disposed	–	5
	–	8

Costs associated with acquisitions and disposals are included within cash consideration.

25. Share-based payments

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

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

The Scheme was established by the Company in 1994. Under the terms of the Scheme, options to purchase ordinary shares in the Company were granted to selected qualifying employees over the ten years from November 1994. The exercise of options is not subject to specified performance criteria.

Associated British Foods 2000 Executive Share Option Scheme ('the Executive 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 Executive Scheme, options to purchase ordinary shares in the Company may be granted to selected employees over the ten years from 15 December 2000. 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 three plans can be found on pages 40 and 41 of the Remuneration report.

Details of the group's various 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
2006							
the Scheme	655,360	–	(85,750)	–	–	569,610	289,610
the Executive Scheme	259,500	–	(33,000)	–	–	226,500	187,500
the Share Incentive Plan	682,077	220,860	–	–	–	902,937	N/a
2005							
the Scheme	1,864,658	–	(994,298)	–	(215,000)	655,360	375,360
the Executive Scheme	662,000	–	(402,500)	–	–	259,500	220,500
the Share Incentive Plan	867,090	–	–	(57,500)	(127,513)	682,077	N/a

25. Share-based payments continued

	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
2006									
the Scheme	543.14	–	561.50	–	–	540.38	561.50	497-564	5
the Executive Scheme	506.35	–	564.00	–	–	497.95	484.00	484-565	3.5
2005									
the Scheme	538.70	–	530.25	–	564.29	543.14	561.50	497-564	6
the Executive Scheme	494.01	–	486.05	–	–	506.35	495.97	484-565	4.5

The weighted average market price for share options exercised during the year was 819 pence (2005 – 780 pence).

Ordinary shares already issued and subject to option under ‘the Scheme’ and ‘the Executive Scheme’, or subject to allocation under ‘the Executive Scheme’, are held in a separate trust. The trust is funded by an interest-free loan from the Company, repayable from the proceeds of the exercise of options. At 16 September 2006 the trust held 1,452,705 (2005 – 1,341,455) ordinary shares of the Company.

Fair values

The weighted average fair values for the Scheme and the Executive Scheme were determined using a binomial lattice model. The weighted average fair value of the Share Incentive Plan was calculated by taking the market price of the shares at the time of grant and discounting this for the fact that dividends are not paid during the vesting period.

The weighted average fair value of the shares awarded under the Share Incentive Plan during the year was 774 pence and the weighted average share price was 834 pence. The dividend yield used was 2.5%.

No shares were awarded under the Share Incentive Plan in 2005. No options were granted under the Scheme or the Executive Scheme in either 2005 or 2006.

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 expense of £nil (2005 – £1m).

26. Analysis of net funds/(debt)

	At 18 September 2005 £m	Cash flow £m	Acquisitions/ disposals £m	Exchange adjustments £m	At 16 September 2006 £m
Cash at bank and in hand, cash equivalents and overdrafts	894	(692)	–	(4)	198
Short-term borrowings	(412)	46	(6)	(1)	(373)
Investments	269	(216)	–	–	53
Loans over one year	(539)	365	(14)	12	(176)
	212	(497)	(20)	7	(298)

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.

27. Financial instruments

The principal financial risks to which the group is exposed are: foreign currency exchange rate risk; interest rate risk; commodity price risk and credit risk. The board has approved policies for the management of these risks.

In accordance with the option allowed by IFRS 1, the group has adopted IAS 39 and IAS 32 prospectively from 18 September 2005, and consequently information for the year ended 16 September 2006 is provided on this basis. For the year ended 17 September 2005, information has been provided on the previously published basis under UK GAAP.

Risk management policies and hedging activities

Foreign currency risk

Translation exposure

The group does not hedge the translation effect of exchange rate movements on the income statement.

Transaction exposure

The main transaction exposures in the group are:

– sugar prices in British Sugar UK and Poland to movements in the pounds sterling/euro and Polish zloty/euro exchange rates respectively;

– sugar prices in Illovo to movements in the South African rand/US dollar exchange rate; and

– sourcing for Primark (which is denominated in a number of currencies, predominantly pounds sterling, euros and US dollars).

Elsewhere, many other businesses purchase raw materials in foreign currencies largely US dollar denominated.

The group's policy is to hedge trade receivables and trade payables denominated in foreign currencies. The group also hedges its forecast foreign currency exposure in respect of future sales and purchases up to 12 months. Significant foreign currency transactions are covered by forward purchases and sales of foreign currency. The majority of forward foreign exchange contracts undertaken by the group have maturities of less than one year.

a) Forecast transactions

The group classifies its forward exchange contracts hedging forecast transactions as cash flow hedges and states them at fair value. The net fair value of forward exchange contracts used as hedges of forecast transactions at 16 September 2006 was a loss of £3m, comprising assets of £2m and liabilities of £5m that were recognised in receivables and trade and other payables respectively.

b) Recognised assets and liabilities

Changes in the fair value of forward exchange contracts that economically hedge monetary assets and liabilities in foreign currencies and for which no hedge accounting is applied are recognised in the income statement. Both the changes in fair value of the forward contracts and the foreign exchange gains and losses relating to the monetary items are recognised as part of operating costs.

The net fair value of forward exchange contracts used as economic hedges of monetary assets and liabilities in foreign currencies at 16 September 2006 was a loss of £2m comprising assets of £8m and liabilities of £10m that were recognised in receivables and trade and other payables respectively.

c) Hedge of net investment in foreign subsidiaries

The group's US$660m secured bank loan is designated as a hedge of the group's investment in its subsidiary businesses in the United States. The carrying amount of the loan at 16 September 2006 was £351m (2005 – £365m). A foreign exchange gain of £14m (2005 – £2m) was recognised in the translation reserve on translation of the loan to pounds sterling.

27. Financial instruments continued

Interest rate risk

The group's interest rate risk is primarily in relation to its fixed and floating rate borrowings. The group's policy is currently to maintain floating rate debt for a majority of its bank finance.

Commodity price risk

The group purchases commodities including wheat, oils, cocoa and tea in the ordinary course of its business. There are policies in place which are designed to hedge the exposure of the group to changes in the market price of such commodities and these policies include the use of futures and options contracts. The use of such contracts is tightly controlled within set limits.

The net fair value of futures contracts used as hedges of forecast transactions at 16 September 2006 was a loss of £6m comprising assets of £4m and liabilities of £10m that were recognised in receivables and trade and other payables respectively.

Credit risk

Cash and cash equivalents and other current investments

The group's cash and cash equivalents and other current investments totalled £409m at 16 September 2006 (2005 – £1,198m) including £75m 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, maturity, exchange rate exposure and type of investment instrument. Aggregate limits for each category of investment and risk exposure are set for each manager.

Other financial assets

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit.

Given their high credit ratings, management does not expect any counterparty to fail to meet its obligations, other than those provided for/impaired at 16 September 2006, as described in note 15.

At 16 September 2006 there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the balance sheet.

Liquidity risk

The group has a combination of financial investments (refer to cash and cash equivalents and other current investments section above) and committed bank facilities to ensure that it has available funds to meet its long-term capital and funding obligations and to meet any unforeseen obligations and opportunities.

As at 16 September 2006, the group had US$780m of committed bank facilities.

Since year end the Company has refinanced its external borrowings and has negotiated a multi-currency US$1.2bn syndicated loan facility with a term of five years with two one-year extension options. It will be used for general corporate purposes. The new facility has been provided by the group's existing bank group.

Embedded derivatives

The group's policy is to review contracts to identify embedded derivatives that are required to be separately accounted for under IFRS. As at 16 September 2006, no material embedded derivatives had been identified.

27. Financial instruments continued

Fair values

A comparison of the fair values of financial instruments with their carrying amounts shown in the balance sheet is presented below, analysed by the currencies in which the financial instruments are denominated.

	Note	Carrying amount 2006 £m	Sterling £m	US dollar £m	Euro £m	Other £m	Fair value 2006 £m
Other current investments	18	53	48	4	–	1	53
Receivables	(a)	711	247	103	73	288	711
Cash and cash equivalents	(b)	356	169	47	32	108	356
Forward exchange contracts							
– Assets		10	1	9	–	–	10
– Liabilities		(15)	–	(6)	–	(9)	(15)
Commodity futures							
– Assets		4	4	–	–	–	4
– Liabilities		(10)	(9)	(1)	–	–	(10)
Cross-currency interest rate swap – assets		3	–	3	–	–	3
Bank overdrafts	20	(158)	(6)	(22)	(2)	(128)	(158)
Secured bank loans	20	(24)	–	(12)	–	(12)	(24)
Unsecured bank loans	20	(363)	–	(357)	(3)	(3)	(363)
10¾% secured redeemable debenture stock	20	(150)	(150)	–	–	–	(180)
Finance lease liabilities	20	(12)	(12)	–	–	–	(12)
Trade and other payables	(c)	(981)	(490)	(134)	(81)	(276)	(981)
		(576)	(198)	(366)	19	(31)	(606)
Net unrecognised loss							(30)

(a) Receivables per above		711
Less Haugen group receivables (excluding prepayments) classified as held for sale	16	(11)
Receivables (excluding derivative assets and prepayments)	15	700
(b) Cash and cash equivalents per above		356
Less Haugen group cash and cash equivalents classified as held for sale	16	(7)
Cash and cash equivalents	19	349
(c) Trade and other payables per above		(981)
Less Haugen group payables classified as held for sale	16	9
Trade and other payables (excluding derivative liabilities)	21	(972)

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments reflected in the above table.

Other current investments

Fair value is determined by reference to a quoted market price in an active market at the reporting date.

Trade and other receivables/payables

For receivables/payables with a remaining life of less than one year, the notional amount is deemed to reflect the fair value. All other receivables/payables are discounted at the market rate of interest at the reporting date to determine the fair value.

27. Financial instruments continued

Derivatives

Forward exchange contracts are either marked to market using listed market prices or by discounting the contractual forward price and deducting the current spot rate. Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market rate for a similar instrument at the balance sheet date. Where other pricing models are used, inputs are based on market-related data at the balance sheet date.

Interest-bearing loans and borrowings

Fair value is calculated based on discounted expected future principal and interest cash flows.

Finance lease liabilities

The fair value is estimated as the present value of future cash flows, discounted at market interest rates for homogeneous lease agreements. The estimated fair values reflect changes in interest rates.

Sensitivity analysis

The table below presents the changes in fair value of the group's financial instruments to hypothetical changes in market rates. The analysis shows forward-looking projections of market risk based on our view of changes which are reasonably possible over a one year period. The sensitivity analysis assumes an instantaneous 1% movement in yield curves, an instantaneous 10% movement of pounds sterling against other currencies and an instantaneous 10% movement in commodity prices at balance sheet date. All other variables are assumed to be constant. This is a method of analysis used to assess risk and should not be considered a projection of likely future events and losses. Actual results and market conditions in the future may be materially different from those projected and changes in the instruments held or in the financial markets in which the group operates could cause gains or losses to exceed the amounts projected.

Based on the composition of our net debt as at 16 September 2006, a 1% increase in interest rates would result in an additional £2m in net interest expense being incurred per year.

		Fair value change: favourable/(unfavourable)					
		Interest rate movement		Exchange rate movement		Commodity price movement	
	Fair value 2006 £m	**+1% £m**	**-1% £m**	**+10% £m**	**-10% £m**	**+10% £m**	**-10% £m**
Other current investments	53	–	–	–	–	–	–
Receivables	711	–	–	(25)	25	–	–
Cash and cash equivalents	356	–	–	(18)	18	–	–
Forward exchange contracts							
– Assets	10	–	–	(4)	4	–	–
– Liabilities	(15)	–	–	(10)	10	–	–
Commodity futures							
– Assets	4	–	–	–	–	–	2
– Liabilities	(10)	–	–	–	–	5	(7)
Cross currency interest rate swap – asset	3	–	–	6	(6)	–	–
Bank overdrafts	(158)	–	–	14	(14)	–	–
Secured bank loans	(24)	–	–	2	(2)	–	–
Unsecured bank loans	(363)	–	–	1	(1)	–	–
10¾% secured redeemable debenture stock 2013	(180)	9	(9)	–	–	–	–
Finance lease liabilities	(12)	2	(3)	–	–	–	–
Trade and other payables	(981)	–	–	45	(45)	–	–
	(606)	11	(12)	11	(11)	5	(5)

27. Financial instruments continued

Effective interest rate and repricing analysis

In respect of income-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates at the balance sheet date and the periods of maturity or periods in which they reprice, whichever is earlier. The value shown is the carrying amount.

			Carrying amount 2006					
	Note	Effective interest rate %	Total £m	6 months or less £m	6-12 months £m	1-2 years £m	2-5 years £m	More than 5 years £m
Assets								
Other current investments[1]	18	4.30	53	49	3	1	–	–
Cash at bank and in hand[2]	(a)	2.89	263	263	–	–	–	–
Cash equivalents[3]	19	4.50	93	93	–	–	–	–
Liabilities								
Bank overdrafts[4]	20	6.61	(158)	(158)	–	–	–	–
Secured bank loans	20							
– USD floating rate loan		8.00	(2)	–	–	(1)	(1)	–
– USD fixed rate loan		7.00	(10)	(1)	(1)	(4)	(4)	–
– Other floating rate loan		4.14	(7)	(7)	–	–	–	–
– Other fixed rate loan		6.38	(5)	(4)	(1)			
Unsecured bank loans	20							
– USD floating rate loan		4.55	(351)	(351)	–	–	–	–
– USD fixed rate loan		5.97	(6)	(3)	–	–	(3)	–
– EUR fixed rate loan		3.00	(3)	–	(2)	–	(1)	–
– Other fixed rate loan		4.25	(3)	–	(3)	–	–	–
10¾% secured redeemable debenture stock[5]	20	10.75	(150)	–	–	–	–	(150)
Cross-currency interest rate swap		8.88	3	3	–	–	–	–
Finance lease liabilities[5]	20	4.98	(12)	–	–	–	–	(12)
			(295)	(116)	(4)	(4)	(9)	(162)

(a) Cash at bank and in hand per above		263
Less Haugen group cash classified as held for sale	16	(7)
Cash at bank and in hand	19	256

[1] Other current investments generally comprise funds invested with funds managers (i.e. investments in debt securities, equity securities and time deposits) that have an original maturity of greater than three months and are at fixed rates.

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

[3] 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 an original maturity of less than or equal to three months and are at fixed rates.

[4] Bank overdrafts generally bear interest at floating rates.

[5] These liabilities bear interest at a fixed rate.

27. Financial instruments continued

Derivative financial instruments

The table below shows changes in the cash flow hedging reserve (a component of equity) during the year ended 16 September 2006.

	2006 £m
Balance of cash flow hedging reserve at 18 September 2005	7
Effective portion of gains or losses on hedging instruments used in cash flow hedges	(16)
Gains or losses on hedging instruments transferred to profit or loss	(1)
Deferred tax associated with movement of cash flow hedging reserve	4
Balance of cash flow hedging reserve at 16 September 2006	(6)

The net loss on hedging instruments transferred to the profit and loss is recognised in operating costs in the income statement.

All gains and losses reported directly in the cash flow hedging reserve as at year end are expected to enter into the determination of net profit or loss in the following year.

Comparative information for 2005

This is provided on the previously published basis under UK GAAP.

Disclosures on financial risk management, treasury policies and use of financial instruments are also included in the Financial review. Short-term debtors and creditors have been excluded from the following disclosures except for the analysis of net currency exposures.

Interest rate risk profile of financial assets

The interest rate profile of the financial assets of the group was:

					Fixed rate financial assets	
	Financial assets on which no interest is received £m	Floating rate financial assets £m	Fixed rate financial assets £m	Total £m	Weighted average interest rate %	Weighted average period for which rate is fixed months
Sterling	33	289	565	887	4.2	4
Australian dollar	3	31	–	34	–	–
US dollar	10	88	21	119	2.5	10
Euro	20	19	–	39	–	–
Other	9	91	19	119	3.3	10
At 17 September 2005	75	518	605	1,198	4.1	4

The floating rate financial assets comprise cash, short-term deposits and other financial instruments, bearing interest based on local prevailing rates.

27. Financial instruments continued

Interest rate risk profile of financial liabilities

The interest rate profile of the financial liabilities of the group was:

	Floating rate financial liabilities £m	Fixed rate financial liabilities £m	Financial liabilities on which no interest is paid £m	Total £m	Fixed rate financial liabilities: Weighted average interest rate %	Fixed rate financial liabilities: Weighted average period for which rate is fixed months
Sterling	365	150	5	520	10.8	93
US dollar	373	–	3	376	–	–
Euro	2	–	2	4	–	–
Other	33	33	8	74	4.7	15
At 17 September 2005	773	183	18	974	9.6	79

The floating rate financial liabilities comprise short-term bank borrowings bearing interest based on local prevailing rates.

Currency exposure

The analysis below shows the net monetary assets and liabilities of the group that are not denominated in their functional currency and therefore give rise to exchange gains and losses in the profit and loss account. The amounts below take into account the effect of forward currency contracts.

	Functional currency of group operation				
	Sterling £m	Euro £m	US dollar £m	Other £m	Total £m
Sterling	–	(3)	6	(4)	(1)
US dollar	1	3	–	8	12
Euro	37	–	–	3	40
Other	1	1	–	–	2
At 17 September 2005	39	1	6	7	53

The group has various borrowing facilities available to it. The undrawn committed facilities available at 17 September 2005 in respect of which all conditions precedent have been met, were as follows:

	2005 £m
Expiring within one year	11
Expiring between one and five years	–
Expiring after five years	–
	11

27. Financial instruments continued

Fair value

The estimated fair values of the group's financial instruments are summarised below:

	Carrying amount 2005 £m	Estimated fair value 2005 £m
Primary financial instruments held or issued to finance the group's operations		
Cash	297	297
Current asset investments	901	904
Debtors receivable after one year	2	2
Loans due within one year	(447)	(447)
Loans due after one year	(527)	(581)
Derivative financial instruments held to manage currency and commodity exposure		
Forward foreign exchange contracts	–	9
Commodity swaps	–	(1)
Commodity futures	–	1

The group's current asset investments and loans due after one year are their market values.

The values of foreign exchange contracts and currency options are the estimated amounts which the group would expect to pay or receive on the termination of these contracts.

Unrecognised gains and losses on hedges

	Gains £m	Losses £m	Net gains/ (losses) £m
At 18 September 2004	15	(5)	10
Arising in previous years and recognised during the year	(15)	5	(10)
Arising in the year and not recognised during the year	95	(86)	9
At 17 September 2005	95	(86)	9
Expected to be recognised			
In one year or less	95	(86)	9
In later years	–	–	–
	95	(86)	9

28. Operating leases

Leases as a lessee

The total future minimum lease payments under operating leases are as follows:

Rentals due	2006 £m	2005 £m
Within one year	62	59
Between one and five years	185	143
After five years	623	482
	870	684

The group acts as a lessee for both land & buildings and plant & machinery.

Sublease receipts of £8m (2005 – £2m) were recognised in the income statement in the period. The total of future minimum sublease receipts expected to be received are £98m (2005 – £106m).

Refer to note 20 for details on finance leases.

29. 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 applies 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 group treats the guarantee contract 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 further payment under the guarantee.

As at 16 September 2006, group companies have provided guarantees in the ordinary course of business amounting to £139m (2005 – £80m).

30. Related parties

The group has a controlling related party relationship with its parent company, which is also its ultimate parent company (see note 32). The group also has a related party relationship with its associates (see note 12), joint ventures (see note 12) and with its directors. In the course of normal operations, related party transactions entered into by the group have been contracted on an arms-length basis.

	Sub note	2006 £'000	2005 £'000
Charges to Wittington Investments Limited in respect of services provided by the Company and its subsidiary undertakings		152	117
Dividends paid by ABF and received in a beneficial capacity by:			
(i) Trustees of the Garfield Weston Foundation	1	5,028	4,747
(ii) Directors of Wittington Investments Limited who are not Trustees of the Foundation		724	680
(iii) Directors of the Company who are not trustees of the Foundation and are not directors of Wittington Investments Limited	2	12	11
(iv) a member of the Weston family employed within the ABF group	3	531	499
Sales to fellow subsidiary undertakings on normal trading terms	4	2,663	2,802
Amounts due from fellow subsidiary undertakings on normal trading terms	4	679	436
Sales to joint ventures and associates on normal trading terms	5	116,987	78,390
Purchases from joint ventures and associates on normal trading terms	5	20,613	16,329
Amounts due from joint ventures and associates	5	26,979	28,628
Amounts due to joint ventures and associates	5	1,979	115

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 16 September 2006 held 683,073 shares in Wittington Investments Limited representing 79.2% of that company's issued share capital and is, therefore, the Company's ultimate controlling party. At 16 September 2006 trustees of the Foundation comprised four of the late W Garfield Weston's children and one grandchild and five of the late Garry H Weston's children.

2. Details of the directors are given on pages 28 and 29. Their beneficial interests, including family interests, in the Company and its subsidiary undertakings are given on page 44. Key management personnel are considered to be the directors and their remuneration and share options are disclosed on pages 41 and 43.

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. Details of the group's principal joint ventures and associates are set out in note 32.

Key management personnel are considered to be the directors and their remuneration is disclosed within the Remuneration report on pages 40 to 45.

31. Subsequent event

On 12 October 2006 the Company refinanced its external borrowings. See note 27 for further details.

32. 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 registered in England.

At 16 September 2006 Wittington Investments Limited together with its subsidiary undertaking, Howard Investments Limited, held 431,515,108 ordinary shares (2005 – 431,515,108) representing in aggregate 54.5% (2005 – 54.5%) of the total issued ordinary share capital of Associated British Foods plc.

Significant subsidiaries

A list of the group's significant subsidiary undertakings 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 position where subsidiary undertakings are owned by partly-owned intermediate subsidiary undertakings.

Manufacturing activities	Country of incorporation
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
Abitec Limited	UK
ABNA Limited	UK
ABNA (Shanghai) Feed Co., Ltd	China
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
Calsa de Colombia S.A.	Colombia
Cereform Limited	UK
Compania Argentina de Levanduras S.A.I.C	Argentina
Cukrownia Glinojeck S.A. (98%)	Poland
Deutsche Hefewerke GmbH	Germany
Food Investments Limited	UK
Foods International S.A.	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 (70%)	China
Guangxi Boqing Food Co., Ltd (60%)	China
Harbin Mauri Yeast Co., Ltd	China
Haugen-Gruppen AS*	Norway
Haugen-Gruppen Denmark AS*	Denmark
Haugen-Gruppen Sweden AB*	Sweden

Manufacturing activities	Country of incorporation
Illovo Sugar Limited (51%)	South Africa
Illovo Sugar (Malawi) Limited (39%)	Malawi
Jacksons of Piccadilly Limited	UK
Jordan Bros, (N.I.) 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 Maya Sanayi A.S.	Turkey
Mauri Products Limited	UK
Nambarrie Tea Company Limited	UK
R Twining & Co. Ltd	US
R Twining and Company Limited	UK
Serrol Ingredients Pty Limited	Australia
Shanghai AB Food & Beverages Limited	China
SPI Pharma	France
SPI Pharma Inc.	US
SPI Polyols Inc.	US
SugarPol (Torun) Sp. z.o.o. (72%)	Poland
The Billington Food Group Limited	UK
The Ryvita Company Limited	UK
Tone Brothers, Inc	US
Twinings North America Inc.	US
Ubombo Sugar Limited (31%)	Swaziland
Wander AG	Switzerland
Yeast Products Company (60%)	Republic of Ireland
Zambia Sugar plc (46%)	Zambia
Retailing activities	
Primark	Republic of Ireland
Primark Stores Limited	UK
Investment and other activities	
ABF European Holdings & Co SNC	Luxembourg
ABF Investments plc	UK
Talisman Guernsey Limited	Guernsey, Channel Islands

Group interest is 100% except where indicated. The group's interest in subsidiary undertakings are all equity investments.

British Sugar (Overseas) Limited operates subsidiary undertakings and joint ventures in Europe and Asia. Other than this company, each subsidiary undertaking operates mainly in its country of incorporation.

*Haugen companies were sold on 4 October 2006.

32. Group entities continued

Interest in joint ventures and associates

A list of the group's interest in joint ventures and associates is given below:

	Country of incorporation	Issued ordinary Total	share capital 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
Getec Guanabara Quimica Industrial SA	Brazil	BRR14,254,370	50
Harper-Love Adhesives Corporation	US	US$912,200	50
Levanduras Collico S.A.	Chile	CLP28,000	50
Murray Bridge Bacon Pty Ltd	Australia	A$11,040,210	20
New Food Coatings Pty Ltd	Australia	A$150,000	50
Qingdao Xinghua Cereal Oil & Foodstuff Co., Ltd	China	CNY22,400,000	33
Roal Oy	Finland	€3,196,000	50

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 subsidiary undertakings, 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 the subsidiary undertakings shall be annexed to the next annual return of Associated British Foods plc delivered to the Registrar of Companies.

33. 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 value 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 value in use and fair value less costs to sell. Value in use is determined with reference to projected future cash flows discounted at an appropriate rate. No impairment resulted from the assessment conducted in 2006; however, 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 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 which is 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 on assumptions determined with independent actuarial advice, resulted in an asset of £169m and a liability of £42m being recognised as at 16 September 2006. The size of the asset is sensitive to the market value of the assets held by the schemes and to the actuarial assumptions, which include price inflation, pension and salary increases, the discount rate used in assessing actuarial liabilities, mortality and other demographic assumptions and the level of contributions. Further details are included in note 13.

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.

33. 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 10.

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 11.

Growing cane valuation – growing cane is valued at the estimated sucrose content valued 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 11.

34. Explanation of transition to IFRS

As stated in the accounting policies on pages 52 to 57, these are the group's first consolidated financial statements prepared in accordance with IFRS.

The accounting policies have been applied in preparing the financial statements for the year ended 16 September 2006, the comparative information presented in these financial statements for the year ended 17 September 2005 and in the preparation of an opening IFRS balance sheet at 18 September 2004 (the group's date of transition to IFRS).

In preparing its opening IFRS balance sheet, the group has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (UK GAAP). An explanation of how the transition from UK GAAP to IFRS has affected the group's financial position, financial performance and cash flows is set out below.

The major changes for the group resulting from the introduction of IFRS relate to:

– The accounting for business combinations where intangible assets which did not qualify for separate recognition under UK GAAP are now recognised separately from goodwill.

– The cessation of amortisation of goodwill.

– The accounting for deferred tax on the basis of differences between the book value and tax base of assets and liabilities (temporary differences). This results in deferred tax being recognised in circumstances that did not give rise to deferred tax under UK GAAP. For example, deferred tax is now recognised on non-qualifying intangible assets even though no tax liability or asset is expected to crystallise in the foreseeable future.

– The accounting for derivative financial instruments from 18 September 2005. These are now reflected in the balance sheet at fair value with subsequent changes in fair value being accounted for immediately in the income statement unless certain conditions are satisfied.

– The calculation of profits and losses on the sale of subsidiaries which no longer take account of goodwill previously written off to reserves.

Income statement

The adoption of IFRS has little impact on the group's adjusted measures of reported performance which exclude amortisation of intangible assets, profits less losses on the sale of property, plant & equipment and businesses and provisions for the losses on termination of operations. The adjustments that do arise at this level relate principally to the following:

– The manner in which fair values are attributed to the separable net assets acquired in a business combination. Under IFRS 3, for finished goods acquired, a margin for selling effort has been deducted to determine the fair value. The fair valued inventories were sold during the year (adjustment (a)); and

– The requirement under IFRS to deduct the related tax from the group's share of profits of its associates and joint ventures which are included in operating profit.

34. Explanation of transition to IFRS continued

The group's unadjusted measures of performance are also affected by the fact that under IFRS:

– Goodwill is no longer amortised but intangible assets, which are now recognised in circumstances that would not have been the case under UK GAAP, are amortised (adjustment (b));

– Goodwill previously written off to reserves is not taken into account in calculating the profit or loss arising on the sale of businesses (adjustment (c)); and

– Deferred tax is normally recognised on all differences between the book values of assets and liabilities and their tax bases (temporary differences). Refer below for details (adjustment (d)).

Balance sheet

The group's net assets at 17 September 2005 are impacted by the following:

– Goodwill is no longer amortised but tested for impairment annually (adjustment (b));

– Intangible assets are now separately recognised from goodwill and are amortised over their estimated useful lives (adjustment (b));

– When calculating the profit or loss arising on the sale of businesses, goodwill previously written off to reserves is no longer taken into account (adjustment (c));

– With limited exceptions, deferred tax is recognised on all differences between the book values of assets and liabilities and their tax bases (temporary differences) rather than just certain timing differences as under UK GAAP. As a result, where intangible assets and tangible fixed assets are acquired as part of a business combination, deferred tax must be recognised on any associated temporary differences. The income statement is affected post-acquisition because the temporary differences recognised on acquisition subsequently change as a result of depreciation and amortisation. For goodwill, deferred tax is no longer recorded at the date of acquisition and subsequent tax amortisation and impairment charges will result in deferred tax on goodwill (adjustment (d));

– Proposed dividends are no longer reflected as liabilities until they have been approved by the shareholders (adjustment (e));

– An expense for all equity instruments granted is now recognised based on the fair value of the grant. Changes in accounting for share-based payments has only a minor impact as the group does not have any significant share-based incentive schemes (adjustment (f));

– Goodwill and intangible assets arising on acquisitions subsequent to 3 September 2004 (since IFRS 3 has been applied) are denominated in local currencies and retranslated at each balance sheet date. Under UK GAAP, most goodwill and intangible assets were treated as sterling assets (adjustment (g));

– A credit adjustment has been made to employee benefits assets and liabilities to take account of different valuation methodologies for pension scheme assets under IAS 19. Due to the group having previously adopted FRS 17 under UK GAAP, there are no significant differences arising upon transition to IAS 19 (adjustment (h));

– Under UK GAAP, all of the group's property leases were accounted for as operating leases. IAS 17 requires the element of a property lease that relates to land to be considered separately from the element that relates to buildings. The land element will generally continue to be accounted for as an operating lease but, in certain cases, the buildings element will now be accounted for as a finance lease.

34. Explanation of transition to IFRS continued

Adjustment has therefore been made to include the fair value of these finance leased buildings within fixed assets, with an obligation of equal amount being provided as a lease creditor. As these finance leases were acquired in September 2005, there is no impact on the group's net assets. The finance lease obligations have, however, reduced the group's net funds by £12m at 17 September 2005 (refer to note 20) (adjustment (i));

- An adjustment for engineering inventories has been recorded as they do not meet the definition of inventories under IAS 2 (adjustment (j));
- The group has elected to treat the UK GAAP value of all previously revalued properties as deemed cost and the revaluation reserve has been transferred to retained earnings (adjustment (k)); and
- As noted previously, the group has adopted IAS 39 from 18 September 2005. The group enters into derivative financial instruments to hedge its exposure to fluctuations in exchange rates and commodity prices. Under IAS 39, such derivative financial instruments are recorded at their fair value. The impact of the adoption of IAS 39 is to increase the group's net assets at 18 September 2005 by £7m.

Cash flow

Short-term deposits of £376m and overdrafts of £10m were classified as financing cash flows under UK GAAP and are reclassified as cash and cash equivalents under IFRS. There are no other material differences between the cash flow statement presented under IFRS and the cash flow statement presented under UK GAAP.

34. Explanation of transition to IFRS continued

Consolidated income statement for the year ended 17 September 2005

	Under UK GAAP £m	Reformat to IFRS £m	UK GAAP under IFRS presentation £m	Adjustment	(a) & (d) IFRS 3 Business combinations £m
Turnover of the group including its share of joint ventures	5,774				
Less share of turnover of joint ventures	(152)				
Group turnover	5,622		5,622	**Revenue**	
Operating costs	(5,145)		(5,145)	Operating costs	(8)
			477		(8)
		7	7	Share of profit from joint ventures and associates	
		20	20	Profits less losses on sale of property, plant & equipment	
Group operating profit	477	27	504	**Operating profit**	(8)
		484	484	Adjusted operating profit	(8)
		20	20	Profits less losses on sale of property, plant & equipment	
			–	Amortisation of intangibles	
Share of operating results of – joint ventures	4	(4)	–		
– associates	6	(6)	–		
Total operating profit	487				
Operating profit before amortisation of goodwill	565	(565)	–		
Amortisation of goodwill	(78)	78	–		
Profits less losses on sale of fixed assets	20	(20)	–		
Profits less losses on sale of businesses	(6)		(6)	Profits less losses on sale of businesses	
Provision for loss on termination of an operation	(47)		(47)	Provision for loss on termination of an operation	
			451	**Profit before interest**	(8)
Investment income	49	113	162	Financial income	
Profit on ordinary activities before interest	503				
Interest payable	(34)	(103)	(137)	Financial expenses	
Other financial income	10	(10)	–		
Profit on ordinary activities before taxation	479	(3)	476	**Profit before taxation**	(8)
Adjusted profit before taxation	590	(81)	509	Adjusted profit before taxation	(8)
Profits less losses on sale of fixed assets	20		20	Profits less losses on sale of property, plant & equipment	
Profits less losses on sale of businesses	(6)		(6)	Profits less losses on sale of businesses	
Provision for loss on termination of an operation	(47)		(47)	Provision for loss on termination of an operation	
Amortisation of goodwill	(78)	78	–		
			–	Amortisation of intangibles	
Tax on profit on ordinary activities	(139)	3	(136)	Taxation	3
Profit on ordinary activities after taxation	340	–	340	**Profit for the period**	(5)
Minority interests – equity	(7)	7	–		
Profit for the financial year	333	7	340		
Dividends	(142)		(142)	Dividends	
Transfer to reserves	191	7	198	**Retained earnings for the period**	(5)
Basic and diluted earnings per ordinary share	42.2p			Basic and diluted earnings per ordinary share	
Adjusted earnings per ordinary share	53.0p				

(b) & (d) IAS 36 Reverse goodwill amortisation £m	(b) & (d) IAS 36 Amortisation of intangibles £m	(c) IFRS 3 Reverse recycled goodwill £m	(d) IAS 12 Deferred tax £m	(e) IAS 10 Reverse dividends not yet approved £m	(f) IFRS 2 Share-based payment £m	Sum of IFRS adjustments £m	IFRS £m
						–	5,622
78	(25)				1	46	(5,099)
78	(25)	–	–	–	1	46	523
						–	7
						–	20
78	(25)	–	–	–	1	46	550
78	–	–	–	–	1	71	555
						–	20
	(25)					(25)	(25)
		5				5	(1)
						–	(47)
78	(25)	5	–	–	1	51	502
						–	162
						–	(137)
78	(25)	5	–	–	1	51	527
78	–	–	–	–	1	71	580
						–	20
		5				5	(1)
						–	(47)
	(25)					(25)	(25)
(11)	5		(2)			(5)	(141)
67	(20)	5	(2)		1	46	386
				95		95	(47)
67	(20)	5	(2)	95	1	141	339
						48.0p	

34. Explanation of transition to IFRS continued

Consolidated balance sheet at 17 September 2005

	Under UK GAAP £m	Reformat to IFRS £m	UK GAAP under IFRS presentation £m	Adjustment	(a) & (d) IFRS 3 Business combinations £m	(b) & (d) IAS 36 Reverse goodwill amortisation £m	(b) & (d) IAS 36 Amortisation of intangibles £m
Fixed assets				**Non-current assets**			
Intangible assets – goodwill	1,035		1,035	Intangible assets	14	78	(25)
Tangible assets	2,252	(9)	2,243	Property, plant & equipment			
Interests in net assets of							
– joint ventures	36		36	Investments in joint ventures			
– associates	15		15	Investments in associates			
		97	97	Employee benefits assets			
		42	42	Deferred tax assets	36		
	3,338	130	3,468	**Total non-current assets**	50	78	(25)
Current assets				**Current assets**			
		9	9	Assets classified as held for sale			
Stocks	558		558	Inventories			
Debtors	719	(41)	678	Trade and other receivables			
Investments	901	(632)	269	Other investments			
Cash at bank and in hand	297	632	929	Cash and cash equivalents			
	2,475	(32)	2,443	**Total current assets**	–	–	–
			5,911	**TOTAL ASSETS**	50	78	(25)
Creditors amounts falling due within one year				**Current liabilities**			
Short-term borrowings	(447)		(447)	Interest-bearing loans and overdrafts			
Other creditors	(958)	113	(845)	Trade and other payables			
		(113)	(113)	Income tax			
		(61)	(61)	Provisions			
	(1,405)	(61)	(1,466)	**Total current liabilities**	–	–	–
Net current assets	1,070						
Total assets less current liabilities	4,408						
Creditors amounts falling due after one year				**Non-current liabilities**			
Loans	(527)		(527)	Interest-bearing loans and overdrafts			
Other creditors	(4)		(4)	Income tax			
	(531)						
Provisions for liabilities and charges	(203)	174	(29)	Provisions			
		(142)	(142)	Deferred tax liabilities	(55)	(11)	5
Net assets excluding pension assets and liabilities	3,674						
Pension assets	68	(68)					
Pension liabilities	(17)	(1)	(18)	Employee benefits liabilities			
			(720)	**Total non-current liabilities**	(55)	(11)	5
			(2,186)	**TOTAL LIABILITIES**	(55)	(11)	5
Net assets	3,725	–	3,725	**NET ASSETS**	(5)	67	(20)
Capital and reserves				**Equity**			
Called up share capital	47		47	Issued capital			
Revaluation reserve	3		3	Revaluation reserve			
Other reserves	173		173	Other reserves			
		29	29	Translation reserve			
Profit and loss account	3,473	(29)	3,444	Retained earnings	(5)	67	(20)
Equity shareholders' funds	3,696	–	3,696		(5)	67	(20)
Minority interests in subsidiary undertakings – equity	29		29	Minority interest			
	3,725	–	3,725	**TOTAL EQUITY**	(5)	67	(20)

(c) IFRS 3 Reverse recycled goodwill £m	(d) IAS 12 Deferred tax £m	(e) IAS 10 Reverse dividends not yet approved £m	(f) IFRS 2 Share-based payments £m	(g) IAS 21 Goodwill and intangibles currency £m	(h) & (d) IAS 19 Pension adjustment £m	(i) IAS 17 Leases £m	(j) IAS 2 Engineering inventory adjustment £m	(k) IAS 16 Reverse revaluation reserve £m	Other £m	Sum of IFRS adjustments £m	IFRS £m
	37			13						117	1,152
						12				12	2,255
										–	36
										–	15
					(2)					(2)	95
										36	78
–	37	–	–	13	(2)	12	–	–	–	163	3,631
										–	9
							(2)			(2)	556
										–	678
										–	269
										–	929
–	–	–	–	–	–	–	(2)	–	–	(2)	2,441
–	37	–	–	13	(2)	12	(2)	–	–	161	6,072
										–	(447)
		95								95	(750)
										–	(113)
										–	(61)
–	–	95	–	–	–	–	–	–	–	95	(1,371)
						(12)				(12)	(539)
										–	(4)
										–	(29)
	(30)		(1)		1					(91)	(233)
					(1)					(1)	(19)
–	(30)	–	(1)	–	–	(12)	–	–	–	(104)	(824)
–	(30)	95	(1)	–	–	(12)	–	–	–	(9)	(2,195)
–	7	95	(1)	13	(2)	–	(2)	–	–	152	3,877
										–	47
								(3)		(3)	–
										–	173
				13					2	15	44
	7	95	(1)		(2)		(2)	3	(2)	140	3,584
–	7	95	(1)	13	(2)	–	(2)	–	–	152	3,848
										–	29
–	7	95	(1)	13	(2)	–	(2)	–	–	152	3,877

34. Explanation of transition to IFRS continued

Consolidated cash flow for the year ended 17 September 2005

	Under UK GAAP £m	Reformat to IFRS £m	UK GAAP under IFRS presentation £m	Adjustment
Cash flow from operating activities				**Cash flow from operating activities**
Operating profit	477	(1)	476	Profit before taxation
				Add back non-operating items
		(20)	(20)	Profits less losses on sale of property, plant & equipment
		6	6	Profits less losses on sale of businesses
		47	47	Provision for loss on termination of an operation
		(162)	(162)	Financial income
		137	137	Financial expenses
				Adjustments for
		(7)	(7)	Share of profit from joint ventures and associates
Amortisation of goodwill	78		78	Amortisation
Depreciation	161		161	Depreciation
		(8)	(8)	Pension cost less contributions
(Increase)/decrease in working capital				
– stocks	(33)		(33)	Increase in inventories
– debtors	(20)		(20)	Increase in receivables
– creditors	(9)		(9)	Decrease in payables
		1	1	Other movement in own shares held reserve
		(7)	647	Cash generated from operations
		(132)	(132)	Income taxes paid
Pension cost less contributions	(8)	8	–	
Other movement in own shares held reserve	1	(1)	–	
	647	(132)	515	**Net cash from operating activities**
				Cash flows from investing activities
Dividends from joint ventures	2		2	Dividends received from joint ventures
Dividends from associates	2		2	Dividends received from associates
		(403)	(403)	Purchase of property, plant & equipment
		39	39	Sale of property, plant & equipment
		(1,130)	(1,130)	Purchase of subsidiary undertakings
		8	8	Sale of subsidiary undertakings
		(18)	(18)	Sale of joint ventures and associates
Return on investments and servicing of finance				
Investment income	54		54	Interest received
Interest paid	(29)	29	–	
Dividends paid to minorities	(4)	4	–	
	21			
Taxation	(132)	132	–	
Capital expenditure and financial investment				
Purchase of tangible fixed assets	(403)	403	–	
Sale of tangible fixed assets	39	(39)	–	
Loan repayment from joint venture	51		51	Loan repayment from joint venture
	(313)			
Acquisitions and disposals				
Purchase of subsidiary undertakings	(1,130)	1,130	–	
Purchase of joint ventures and associates	(18)	18	–	
Sale of subsidiary undertakings	8	(8)	–	
	(1,140)			
Equity dividends paid	(135)	135	–	
Net cash outflow before use of liquid funds and financing	(1,048)			
		300	(1,395)	**Net cash from investing activities**
				Cash flows from financing activities
		(4)	(4)	Dividends paid to minorities
		(135)	(135)	Dividends paid to shareholders
		(29)	(29)	Interest paid
Management of liquid resources	649	(376)	273	Decrease in other current asset investments
Financing				
Borrowings due within one year				
– repayment of loans	(111)	475	364	Increase in short-term loans
– increase in loans	476	(476)	–	
Borrowings due after one year				
– repayment of loans	(205)	375	170	Increase in long-term loans
– increase in loans	375	(375)	–	
Increase in bank borrowings	9	(9)	–	Increase in bank borrowings
Inflow from reductions in own shares held	7		7	Inflow from reductions in own shares held
	1,200	(554)	646	**Net cash from financing activities**
Increase in cash	152	(386)	(234)	**Net decrease in cash and cash equivalents**

	(a) & (d) IFRS 3 Business combinations £m	(b) & (d) IAS 36 Reversal of goodwill amortisation £m	(b) & (d) IAS 36 Amortisation of intangibles £m	(c) IFRS 3 Reverse recycled goodwill £m	(f) IFRS 2 Share-based payment £m	Sum of IFRS adjustments £m	IFRS £m
	(8)	78	(25)	5	1	51	527
						–	(20)
				(5)		(5)	1
						–	47
						–	(162)
						–	137
						–	(7)
		(78)	25			(53)	25
						–	161
						–	(8)
	8					8	(25)
						–	(20)
						–	(9)
					(1)	(1)	–
	–	–	–	–	–	–	647
						–	(132)
	–	–	–	–	–	–	515
						–	2
						–	2
						–	(403)
						–	39
						–	(1,130)
						–	8
						–	(18)
						–	54
						–	51
	–	–	–	–	–	–	(1,395)
						–	(4)
						–	(135)
						–	(29)
						–	273
						–	364
						–	170
						–	7
	–	–	–	–	–	–	646
	–	–	–	–	–	–	(234)

34. Explanation of transition to IFRS continued

Consolidated balance sheet at 18 September 2004

	Under UK GAAP £m	Reformat to IFRS £m	UK GAAP under IFRS presentation £m		Adjustment (d) IAS 12 Deferred tax £m
Fixed assets				**Non-current assets**	
Intangible assets – goodwill	593		593	Intangible assets	
Tangible assets	1,459	(12)	1,447	Property, plant & equipment	
Interests in net assets of – joint ventures	12		12	Investments in joint ventures	
– associates	11		11	Investments in associates	
Other investments	1		1	Other investments	
		93	93	Employee benefits assets	
		17	17	Deferred tax assets	
	2,076	98	2,174	**Total non-current assets**	–
Current assets				**Current assets**	
		12	12	Assets classified as held for sale	
Stocks	496		496	Inventories	
Debtors	600	(8)	592	Trade and other receivables	
Investments	1,547	(1,008)	539	Other investments	
Cash at bank and in hand	136	1,008	1,144	Cash and cash equivalents	
	2,779	4	2,783	**Total current assets**	–
			4,957	**TOTAL ASSETS**	–
Creditors amounts falling due within one year				**Current liabilities**	
Short-term borrowings	(68)		(68)	Interest-bearing loans and overdrafts	
Other creditors	(829)	106	(723)	Trade and other payables	
		(106)	(106)	Income tax	
		(14)	(14)	Provisions	
	(897)	(14)	(911)	**Total current liabilities**	–
Net current assets	1,882				
Total assets less current liabilities	3,958				
Creditors amounts falling due after one year				**Non-current liabilities**	
Loans	(357)		(357)	Interest-bearing loans and overdrafts	
Other creditors	(8)		(8)	Income tax	
	(365)				
Provisions for liabilities and charges	(155)	130	(25)	Provisions	
		(151)	(151)	Deferred tax liabilities	9
	3,438				
Net assets excluding pension assets and liabilities					
Pension assets	58	(58)			
Pension liabilities		(9)	(9)	Employee benefits liabilities	
			(550)	**Total non-current liabilities**	9
			(1,461)	**TOTAL LIABILITIES**	9
Net assets	3,496	–	3,496	**NET ASSETS**	9
Capital and reserves				**Equity**	
Called up share capital	47		47	Issued capital	
Revaluation reserve	3		3	Revaluation reserve	
Other reserves	173		173	Other reserves	
			–	Translation reserve	
Profit and loss account	3,246		3,246	Retained earnings	9
Equity shareholders' funds	3,469	–	3,469		9
Minority interests in subsidiary undertakings – equity	27		27	**Minority interest**	
	3,496	–	3,496	**TOTAL EQUITY**	9

(e) IAS 10 Reverse dividends not yet approved £m	(f) IFRS 2 Share-based payment £m	(h) & (d) IAS 19 Pension adjustment £m	(j) IAS 2 Engineering inventory adjustment £m	(k) IAS 16 Reversal of revaluation reserve £m	Other £m	Sum of IFRS adjustments £m	IFRS £m
					(1)	(1)	592
						–	1,447
						–	12
						–	11
						–	1
		(2)				(2)	91
						–	17
–	–	(2)	–	–	(1)	(3)	2,171
						–	12
			(2)			(2)	494
						–	592
						–	539
						–	1,144
–	–	–	(2)	–	–	(2)	2,781
–	–	(2)	(2)	–	(1)	(5)	4,952
						–	(68)
88						88	(635)
						–	(106)
						–	(14)
88	–	–	–	–	–	88	(823)
						–	(357)
						–	(8)
						–	(25)
	(1)	1				9	(142)
		(1)				(1)	(10)
–	(1)	–	–	–	–	8	(542)
88	(1)	–	–	–	–	96	(1,365)
88	(1)	(2)	(2)	–	(1)	91	3,587
						–	47
				(3)		(3)	–
						–	173
						–	–
88	(1)	(2)	(2)	3	(1)	94	3,340
88	(1)	(2)	(2)	–	(1)	91	3,560
						–	27
88	(1)	(2)	(2)	–	(1)	91	3,587

34. Explanation of transition to IFRS continued

Adoption of IAS 39 – impact for the year ending 16 September 2006

As permitted by IFRS 1, the group has not adopted IAS 39 retrospectively and has therefore adopted this standard from 18 September 2005.

Had IAS 39 been applied to the balance sheet as at 17 September 2005, the group's net assets would have been £3,884m.

The table below details the various components of the impact on net assets on adoption of IAS 39:

	£m
Closing net assets on 17 September 2005 before adoption of IAS 39	3,877
Adjustments arising from adoption of IAS 39:	
– Forward exchange contracts	5
– Energy swaps	3
– Commodity futures	1
Deferred tax	(2)
Opening net assets on 18 September 2005 after adoption of IAS 39	3,884

Company balance sheet
at 16 September 2006

	Note	2006 £m	2005 Restated £m
Fixed assets			
Intangible assets – goodwill	1	53	57
Investments in subsidiary undertakings	2	434	151
		487	208
Current assets			
Debtors			
– due within one year	3	1,809	2,034
– due after one year	3	1,042	–
Investments	4	63	149
Cash at bank and in hand		3	3
		2,917	2,186
Creditors amounts falling due within one year			
Short-term borrowings	5	(351)	(364)
Other creditors	6	(1,178)	(1,324)
		(1,529)	(1,688)
Net current assets		1,388	498
Total assets less current liabilities		1,875	706
Creditors amounts falling due after one year			
Amounts owed to subsidiary undertakings	6	(1,516)	–
Loans	5	–	(365)
Net assets excluding pension liability		359	341
Pension liability		(3)	(4)
Net assets		356	337
Capital and reserves			
Called up share capital	7	47	47
Profit and loss reserve including pension reserve	8	309	290
Equity shareholders' funds		356	337

The financial statements on pages 111 to 118 were approved by the board of directors on 7 November 2006 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 16 September 2006

	2006 £m	2005 Restated £m
Profit for the financial year	162	180
Other recognised gains and losses relating to the year	–	(1)
Net decrease in own shares held	1	8
Dividends	(144)	(135)
Net addition to equity shareholders' funds	19	52
Opening equity shareholders' funds (as previously reported)	242	197
Prior year adjustment	95	88
Opening equity shareholders' funds (restated on adoption of FRS 20 and FRS 21)	337	285
Closing equity shareholders' funds	356	337

Accounting policies
for the year ended 16 September 2006

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 and current investments 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 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.

In these financial statements, the following new standards have been adopted for the first time:

FRS 20, *Share-based payments,* requires that an expense for share options granted be recognised in the financial statements based on their fair value at the date of the grant. This expense is recognised over the vesting period of the options. Adopting FRS 20 has resulted in a share-based payment charge of £1m to the 2005 opening balance sheet.

FRS 21, *Events after the balance sheet date,* requires that dividends declared after the balance sheet date should not be recognised as a liability at that balance sheet date as the liability does not represent a present obligation. The Company has applied the requirements of FRS 21 retrospectively, and the 2005 final dividend of £95m previously recognised has been reversed as it was not approved by the shareholders until after the balance sheet date. This has increased net assets as at 17 September 2005. The corresponding increase in net assets as at 18 September 2004 was £88m.

FRS 23, *The effects of changes in foreign exchange rates,* sets out additional guidance on the translation method for transactions in foreign currencies and on determining the functional and presentation currencies. FRS 23 also requires goodwill arising on the acquisition of a foreign operation and any related fair value adjustments to be treated as assets and liabilities of the foreign operation, thus expressed in the functional currency of the foreign operation and translated at the closing rate. In accordance with FRS 23, the Company has applied the requirement to express goodwill and fair value adjustments in the functional currency of foreign operations prospectively to all acquisitions occurring after 18 September 2004. The adoption of FRS 23 has had no effect on the Company's profit or net assets.

The Company has taken advantage of the exemption in FRS 25, *Financial Instruments: Disclosure and Presentation,* not to prepare a financial statements note relating to financial instruments as the information is available in the published financial statements of the group. Also, in accordance with FRS 25, the Company is not required to restate comparative information.

FRS 26, *Financial Instruments: Measurement,* sets out the requirements for measurement, recognition and derecognition for financial instruments. The adoption of FRS 26 has had no effect on the Company's profit or net assets. Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within the group, the Company considers these to be insurance arrangements and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

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 subsidiary undertakings 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. Goodwill arising on the acquisition of foreign operations and related fair value adjustments occurring after 18 September 2004 are to be treated as assets and liabilities of the foreign operation, thus expressed in the functional currency of the foreign operation and translated at the closing rate.

Investments in subsidiary undertakings
Investments in subsidiary undertakings are reported at cost less any provision for impairment.

Financial instruments
Financial assets and financial liabilities are measured initially at fair value, plus directly attributable transaction costs, and thereafter at amortised cost, except for current asset investments. The group has designated current asset investments as at fair value through the profit and loss as doing so results in more relevant information. These instruments are managed and their performance is evaluated on a fair value basis in accordance with the group's risk management and investment strategy.

Financial assets are derecognised when the contractual rights to the cash flows expire or the contractual rights to receive the cash flows are transferred. The contractual rights to receive cash flows are transferred when substantially all the risk and rewards of ownership of the financial asset are transferred. Financial liabilities are derecognised when the obligation specified in the contract is discharged, cancelled or expires.

Pensions and other post-employment benefits
The Company operates both a defined contribution and defined benefits scheme. Contributions for the defined contribution scheme are charged to the profit and loss account as they become payable in accordance with the rules of the scheme. The 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 the defined benefit scheme are accounted for as if they were contributions to a defined contribution scheme.

1. Intangible fixed assets – goodwill

	£m
Cost	
At 17 September 2005	71
At 16 September 2006	71
Amortisation	
At 17 September 2005	14
Provided during the year	4
At 16 September 2006	18
Net book value	
Net book value at 16 September 2006	53
Net book value at 17 September 2005	57

2. Investments in subsidiary undertakings

	£m
At 17 September 2005	151
Additions	283
At 16 September 2006	434

There were no provisions for impairment in either year.

3. Debtors

	2006 £m	2005 £m
Amounts falling due within one year		
Amounts owed by subsidiary undertakings	1,785	2,015
Other debtors	7	17
Prepayments and accrued income	2	2
Corporation tax recoverable	15	–
	1,809	2,034
Amounts falling due after one year		
Amounts owed by subsidiary undertakings	1,042	–
	1,042	–

The directors consider that the carrying amount of trade and other debtors approximates their fair value.

4. Current asset investments

	2006 £m	2005 £m
Cost		
Unlisted investments	63	149
	63	149

Current asset investments comprise interest-bearing instruments and deposits.

	2006 £m	2005 £m
Market and redemption value		
Unlisted investments	63	149
	63	149

5. Loans and short-term borrowings

	2006 £m	2005 £m
Amounts falling due within one year		
Bank loans and overdrafts – unsecured	351	364
	351	364
Amounts falling due after one year		
Bank loans and overdrafts – unsecured	–	365
	–	365
	351	729
Borrowings are repayable as follows:		
– less than one year	351	364
– between one and two years	–	–
– between two and five years	–	365
– after five years	–	–
	351	729

6. Other creditors

	2006 £m	2005 Restated £m
Amounts falling due within one year		
Corporation tax	–	11
Other taxation and social security	1	–
Accruals and deferred income	17	8
Amounts owed to subsidiary undertakings	1,160	1,305
	1,178	1,324
Amounts falling due after one year		
Amounts owed to subsidiary undertakings	1,516	–
	1,516	–

The directors consider that the carrying amount of trade and other creditors approximates their fair value.

7. Share capital

	Deferred shares of £1 each ’000	Ordinary shares of $5^{15}/_{22}$p each ’000	Nominal value £m
Authorised			
At 17 September 2005 and 16 September 2006	2,000	1,054,950	62
Issued and fully paid			
At 17 September 2005 and 16 September 2006	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.

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.

8. Reserves

	Share capital £m	Profit and loss reserve £m	Total £m
At 17 September 2005 (as previously reported)	47	195	242
Prior year adjustment – FRS 21	–	95	95
At 17 September 2005 (restated)	47	290	337
Net movement in own shares held	–	1	1
Profit for the year	–	162	162
Dividends	–	(144)	(144)
At 16 September 2006	47	309	356

Dividends

Details of dividends paid and proposed are provided in note 7 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 an interest-free loan from the Company, repayable from the proceeds of the exercise of options. At 16 September 2006 the trust held 1,452,705 (2005 – 1,341,455) ordinary shares of the Company. The market value of these shares at the year end was £12m (2005 – £11m). The trust has waived its right to dividends. Refer to note 25 in the consolidated financial statements for further information on the group and Company’s share-based payment plans.

9. Contingent liabilities

The Company has not adopted the amendments to FRS 26 in relation to financial guarantee contracts which will apply for periods commencing on or after 1 January 2006.

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. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a further payment under the guarantee.

The Company does not expect the amendments to have any impact on the financial statements for the period commencing 17 September 2006.

The Company has no outstanding guarantees provided in the ordinary course of business as at 16 September 2006 (2005 – £49m).

10. Other information

Emoluments of directors

The remuneration of the directors of the Company is shown in the directors' remuneration report for the group on pages 40 to 45.

Employees

The Company has 102 employees in 2006 (2005 – 94).

Employee benefit expense	2006 £m	2005 £m
Wages and salaries	9	9
Social security contributions	1	1
Charge for defined benefit schemes	5	2
Share-based payment	1	1
	16	13

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 will be 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 13 in the consolidated financial statements. There is no material difference in the valuation methodologies under IAS 19 and FRS 17.

Auditors' fees

Fees paid to the group auditors in respect of audit services provided to the Company amounted to £0.5m (2005 – £0.4m).

Progress report
Saturday nearest to 15 September

	2002 £m	2003 £m	2004 £m	2005 £m	2006 £m
Revenue	4,545	4,909	5,165	5,622	5,996
Adjusted operating profit	369	427	478	555	561
Exceptional items	–	–	–	–	(97)
Amortisation of intangibles/goodwill	(18)	(42)	(46)	(25)	(41)
Profits less losses on sale of property, plant & equipment	8	12	8	20	10
Losses on sale of businesses	–	20	7	(1)	(4)
Provision for loss on termination of an operation	–	–	–	(47)	(8)
Financial income	168	148	164	162	149
Profit before financial expenses	527	565	611	664	570
Financial expenses	(102)	(117)	(117)	(137)	(151)
Profit before taxation	425	448	494	527	419
Income tax expense	(97)	(125)	(146)	(141)	(111)
Profit after taxation	328	323	348	386	308
Minority interests	(3)	3	(6)	–	–
Profit for the period	325	326	342	386	308
Basic and diluted earnings per ordinary share (pence)	41.2	41.3	43.3	48.0	38.1
Adjusted earning per share (pence)	39.1	41.3	46.6	52.5	50.9
Dividends per share (pence)	13.25	14.6	16.4	18.0	18.75

The results pre-2005 have not been restated for IFRS.

NOTICE IS HEREBY GIVEN that the seventy-first annual general meeting of the Company will be held at Congress Centre, 28 Great Russell Street, London WC1B 3LS on Friday 8 December 2006 at 11.00 am to transact the following business:

Ordinary business

Resolution 1
To receive the accounts and the reports of the directors and the auditors thereon for the year ended 16 September 2006.

Resolution 2
To receive and approve the directors' remuneration report for the year ended 16 September 2006.

Resolution 3
That a dividend of 12.5p per ordinary share be paid on 12 January 2007 to holders of ordinary shares on the register of shareholders of the Company at the close of business on 1 December 2006.

Resolution 4
That the limit on the aggregate annual amount of directors' fees contained within the articles of association of the Company be increased to £500,000.

Resolution 5
To elect Javier Ferrán as a director.

Resolution 6
To elect Lord Jay of Ewelme GCMG as a director.

Resolution 7
To re-elect Jeffery Francis Harris as a director.

Resolution 8
To re-elect Willard Gordon Galen Weston as a director.

Resolution 9
To re-elect Rt. Hon. Lord MacGregor of Pulham Market, OBE as a director.

Resolution 10
To re-appoint KPMG Audit Plc as auditors of the Company to hold office from the conclusion of this meeting until the conclusion of the next general meeting at which accounts are laid before the shareholders, and to authorise the directors to determine their remuneration.

Special business
To propose and, if thought fit, to pass the following resolution as an ordinary resolution:

Resolution 11
That the directors be and they are hereby generally and unconditionally authorised in accordance with Section 80 of the Companies Act 1985 to exercise all the powers of the Company to allot relevant securities (as defined in Section 80(2) of that Act) up to a maximum of 263 million ordinary shares of $5\frac{15}{22}$p each provided that this authority shall expire on 7 December 2011, save that the Company shall be entitled to make offers or agreements before the expiry of such authority which would or might require relevant securities to be allotted after such expiry and the directors shall be entitled to allot relevant securities pursuant to any such offer or agreement as if this authority had not expired; and all unexercised authorities previously granted to the directors to allot relevant securities be and are hereby revoked.

To propose the following resolution as a special resolution:

Resolution 12

That the directors be and they are hereby empowered pursuant to Section 95 of the Companies Act 1985 to allot equity securities (as defined in Section 94(2) of that Act) for cash pursuant to the authority conferred by Resolution 11 above as if Section 89(1) of that Act did not apply to any such allotment provided that this power shall be limited to:

(i) the allotment of equity securities in connection with a rights issue, open offer or other offer of securities in favour of the holders of ordinary shares on the register of members at such record date(s) as the directors may determine where the equity securities respectively attributable to the interests of the ordinary shareholders are proportionate (as nearly as may be) to the respective numbers of ordinary shares held by them on any such record date(s), subject to such exclusions or other arrangements as the directors may deem necessary or expedient to deal with, fractional entitlements or legal or practical problems arising under the laws of any overseas territory or the requirements of any regulatory body or stock exchange or by virtue of shares being represented by depositary receipts or any other matter whatever; and

(ii) the allotment (otherwise than pursuant to sub-paragraph (i) above) to any person or persons of equity securities up to an aggregate of 39 million ordinary shares of $5\frac{15}{22}$p each;

and shall expire upon the date of the next annual general meeting of the Company after the passing of this resolution or 31 December 2007, whichever is sooner, save that the Company shall be entitled to make offers or agreements before the expiry of such power which would or might require equity securities to be allotted after such expiry and the directors shall be entitled to allot equity securities pursuant to any such offer or agreement as if the power conferred hereby had not expired.

By order of the board, Paul Lister, *Company Secretary,* 7 November 2006

Weston Centre, 10 Grosvenor Street, London W1K 4QY, Registered in England and Wales, Company No. 293262

1. Resolution number 3 (Dividend)
A final dividend for the year ended 16 September 2006 of 12.5p per ordinary share is recommended by the directors and is put to shareholders for their approval. If approved, the dividend will be paid on 12 January 2007 to holders of ordinary shares on the register of shareholders of the Company at the close of business on 1 December 2006 making a total dividend in respect of the year ended 16 September 2006 of 18.75p per ordinary share. In accordance with the Articles of Association of the Company, the shareholders cannot resolve to pay an amount greater than that recommended by the directors.

2. Resolution number 4 (Directors' fees)
The Articles of Association of the Company adopted in 1994 contained in Article 81.1 an annual limit on directors' fees of £200,000 or such larger amount as the Company may by ordinary resolution decide. In view of the passage of time and the number of non-executive directors now present on the board, it is proposed that this limit should be increased to £500,000. The limit does not relate to the remuneration paid to the executive directors as employees. The directors may pay additional sums to those directors who perform services which the directors consider go beyond the ordinary duties of a director as well as reimbursing travelling, hotel and other expenses properly incurred by directors.

3. Resolutions number 5 to 9 (Directors)
Biographical details of the directors to be elected or re-elected can be found on pages 28 and 29 of the annual report and accounts.

In accordance with the Articles of Association Javier Ferrán and Lord Jay of Ewelme, having each been appointed a director since the last annual general meeting, are required to retire at this meeting and, being eligible, offer themselves for election. The board concluded that they would each add to the board's understanding of international relations and markets. (Please also see Chairman's statement on page 5.) Jeff Harris retires by rotation in accordance with the Articles of Association, and being eligible, offers himself for re-election.

In accordance with the Articles of Association and the Combined Code Galen Weston and Lord MacGregor, who have each served longer than nine years, and Jeff Harris will retire at the Annual General Meeting and seek re-election.

In proposing the re-election of the non-executive directors, the Chairman has confirmed that, following formal performance evaluation, each individual continues to make an effective and valuable contribution to the board and demonstrates commitment to the role. Details of the performance evaluation process in relation to the directors can be found on page 33.

4. Resolutions number 11 and 12 (Renewal of directors' powers to allot shares)
The Companies Act 1985 prevents directors allotting unissued shares without the authority of shareholders in general meeting. Resolution number 11 will authorise the directors to allot substantially all of the present unissued ordinary share capital, which represents approximately 25% of the Company's authorised share capital, and approximately 33% of the Company's issued ordinary share capital at 7 November 2006, at any time within the next five years. The proposed renewal of the authority should not be taken as an indication that the directors have any current plans to make an issue of shares. The directors propose to renew this authority every year asking, on each occasion, for the authority to be granted for a further period of five years.

Where shares are allotted pursuant to a general authority as provided in resolution number 11 and shareholders are required to pay for them in cash, that allotment is subject to Section 89 of the Companies Act, which requires new shares to be offered first to existing shareholders in proportion to their existing holdings. There may, however, be circumstances where directors wish to allot shares for cash other than by way of rights issue, open offer or other offer of securities and this cannot be done unless shareholders have first waived their pre-emption rights. Resolution number 12 asks shareholders to do this by allowing the directors to allot for cash (i) by way of a rights issue, open offer or other offer of securities to all shareholders (subject to certain exclusions) and (ii) up to 5% of the Company's present issued ordinary share capital as at 7 November 2006 to persons other than existing shareholders. By setting the 5% limit, interests of existing shareholders are protected, as their interest in the Company cannot, without their consent, be reduced by more than 5% by the issue of new shares for cash to new shareholders.

5. Voting by proxy
A member entitled to attend and vote at the meeting may appoint a proxy (who need not be a member of the Company) to attend and, on a poll, to vote in his place. In order to be valid an appointment of proxy must be returned by one of the following methods:

- in hard copy form by post, by courier or by hand to the Company's registered office or the Company's Registrar; or

- by completing it online at www.sharevote.co.uk and following the on-screen instructions to submit it – you will need to identify yourself with your personal printed investor code included with the hard copies of the proxy forms; or

- in the case of shareholders who have already registered with Lloyds TSB Registrars' online portfolio service, Shareview, they can appoint their proxy electronically by logging on to their portfolio at www.sharevote.co.uk and clicking on 'Company Meetings'; or

- in the case of CREST members, by utilising the CREST electronic proxy appointment service in accordance with the procedures set out below,

and in each case must be received by the Company not less than 48 hours before the time of the meeting.

Please note that the Company takes all reasonable precautions to ensure that no viruses are present in any electronic communication it sends out but the Company cannot accept responsibility for loss or damage arising from the opening or use of any email or attachments from the Company and recommends that the shareholders subject all messages to virus checking procedures prior to use. Any electronic communication received by the Company, including the lodgement of an electronic proxy form, that is found to contain any virus will not be accepted.

CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so by utilising the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

In order for a proxy appointment made by means of CREST to be valid, the appropriate CREST message (a 'CREST Proxy Instruction') must be properly authenticated in accordance with CRESTCo's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message regardless of whether it constitutes the appointment of a proxy or an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID 7RA01) by the latest time(s) for receipt of proxy appointments specified in the notice of meeting. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means. For this purpose, the time of receipt will be taken to be the time (as determined by the time-stamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST.

The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

CREST members and, where applicable, their CREST sponsors or voting service providers should note that CRESTCo does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider, to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

6. Documents available for inspection

Copies of the directors' service contracts with the Company and the terms and conditions of the non-executive directors, except for Galen Weston who does not have a formal letter of appointment, and the register of directors' interests in the ordinary shares of the Company are available for inspection at the registered office of the Company during usual business hours (Saturdays, Sundays and public holidays excepted) and will be available at the place of the meeting from 15 minutes before the start of the meeting until its conclusion.

7. Shareholders entitled to attend and vote

Only persons entered on the register of members of the Company at 6.00 pm on Wednesday 6 December 2006 which is two days prior to the meeting or at that time on the date which is two days prior to any adjournment of it shall be entitled to attend and vote at the meeting or adjourned meeting. Changes to entries on the register after this time shall be disregarded in determining the rights of persons to attend or vote (and the number of votes they may cast) at the meeting or adjourned meeting.

Directory

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
Lloyds TSB Registrars
The Causeway, Worthing
West Sussex BN99 6DA

Auditors
KPMG Audit Plc
Chartered Accountants

Bankers
Barclays Bank plc
Lloyds TSB Bank plc
The Royal Bank of Scotland plc

Brokers
Hoare Govett
250 Bishopsgate
London EC2M 4AA

Panmure Gordon & Co
Moorgate Hall
155 Moorgate
London EC2M 6XB

Timetable
First interim dividend paid
3 July 2006

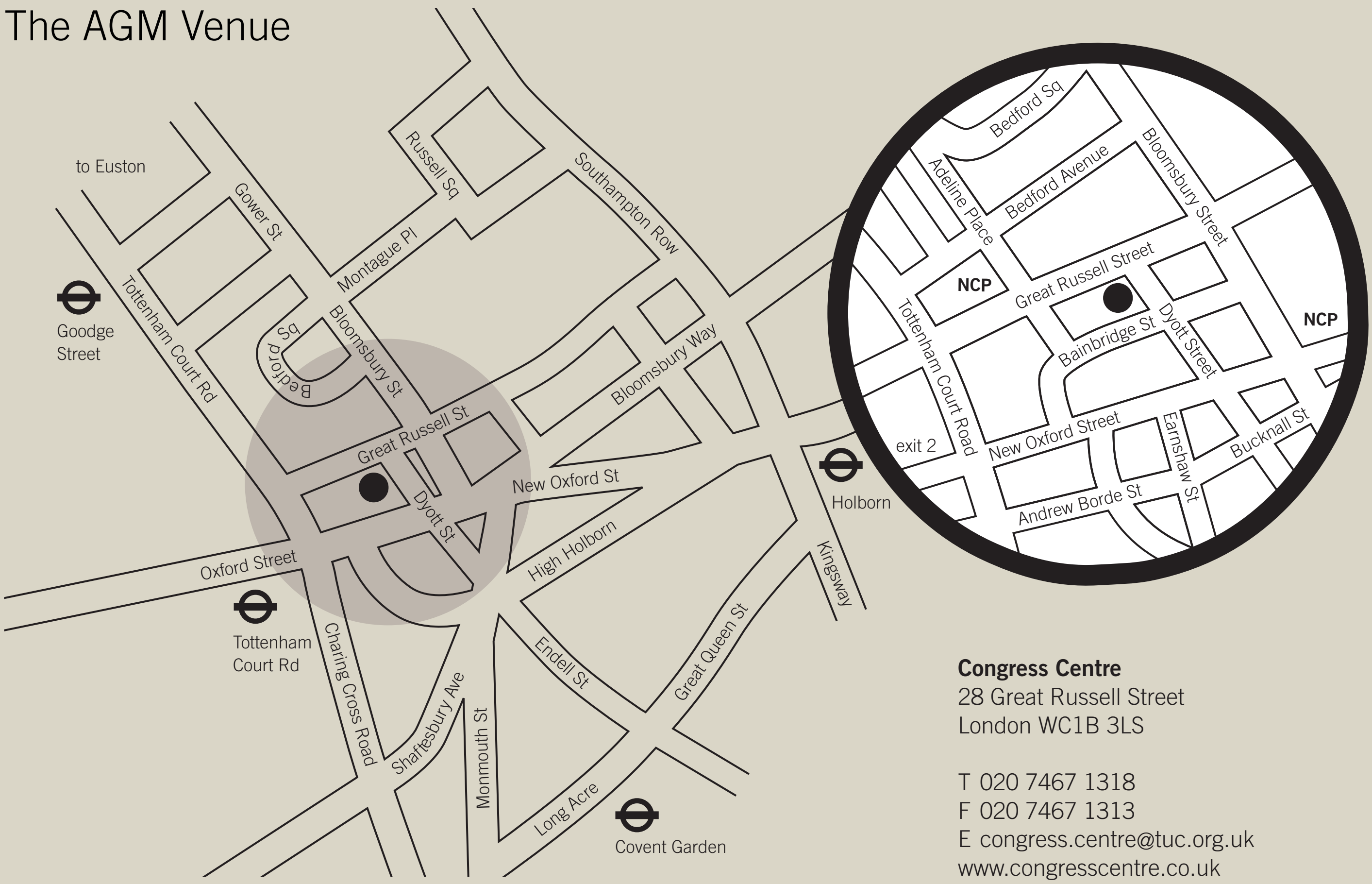
Final dividend to be paid
12 January 2007

Annual general meeting
8 December 2006

Interim results to be announced
24 April 2007

Website
www.abf.co.uk

The AGM Venue



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Annual Report & Accounts please visit
www.abf.co.uk