Associated British Foods plc

Annual Report and Accounts 2007

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Associated British Foods is a diversified international food, ingredients and retail group with global sales of £6.8bn, and 85,000 employees in 43 countries.

Our aim is to achieve strong, sustainable leadership positions in markets that offer potential for profitable growth. We look to achieve this through a combination of growth of existing businesses, acquisition of complementary new businesses and achievement of high levels of operating efficiency.

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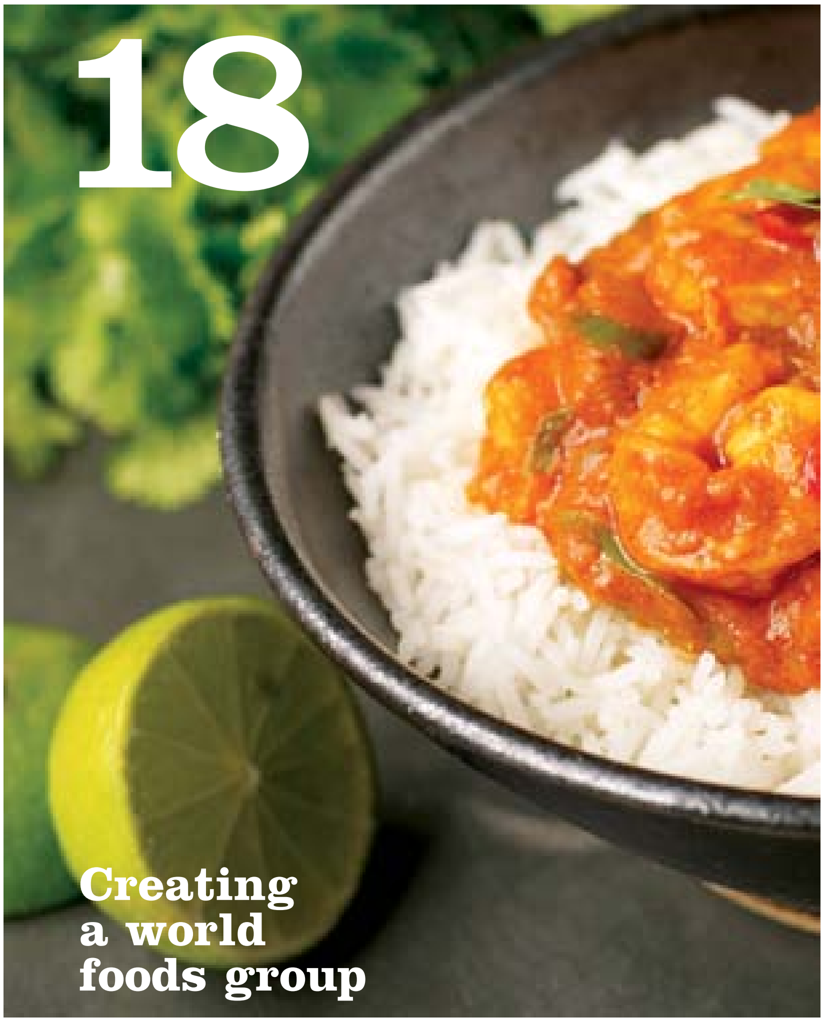
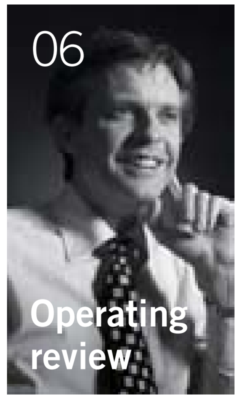
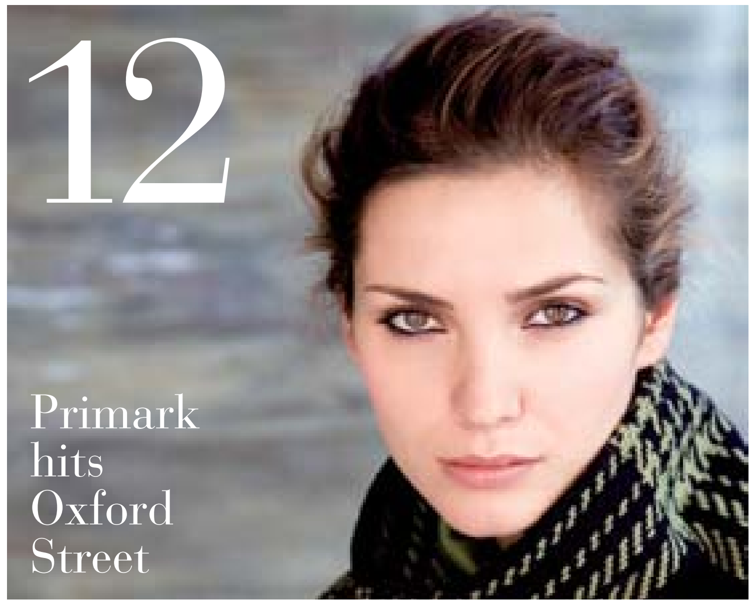






Financial highlights 2007

Group revenue up 13% to £6.8bn

Adjusted operating profit up 11% to £622m*

Adjusted profit before tax up 10% to £613m**

Adjusted earnings per share up 4% to 52.9p**

Dividends per share up 4% to 19.5p

Net investment in capital expenditure and acquisitions of £489m

Net debt of £311m

Operating profit up 28% to £556m, profit before tax up 21% to £508m and basic earnings per share up 23% to 46.7p

Operational highlights 2007

Acquisition of the Patak's brand

Opening of 32 Primark stores

Start of production at UK's first bioethanol plant

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

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

Group at a glance

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

Highlights around the world

UK & Europe

Two major acquisitions in Grocery this year: we acquired Patak's, a leading brand in Indian cuisine which has grown strongly in the UK and established a wide international presence, and a 20% stake in Jordans, the successful leading breakfast cereal and cereal bar business.

The UK's first bioethanol plant has started production at British Sugar's Wissington factory in Norfolk. A full-scale bioethanol plant, using wheat as a feedstock, is being built near Hull, as a joint venture between BP, DuPont and British Sugar.

Primark has expanded its floorspace to 4.8m sq ft and opened a further 32 stores, including a major, flagship outlet in Oxford Street in London.

Africa

Illovo's sugar cane business is undergoing major development. Irrigation and processing capacity in Zambia is being expanded and in Swaziland a major dam project will increase the amount of irrigated land for cane growing.

China

A new sugar beet joint venture, called Bo Tian, has been initiated with Hebei Tian Lu Sugar Group, based in the north east of China. It comprises four beet sugar factories and a significant increase in production is planned through capital investment and knowledge transfer.

Sugar & Agriculture

Revenue £1,838m
(2006 – £1,294m)

Adjusted operating profit £217m
(2006 – £130m)

% of total revenue 27%
(2006 – 22%)

Sugar, Europe

British Sugar's UK beet sugar factories produce over 1 million tonnes of sugar annually. Two beet sugar factories are operated in Poland producing 200,000 tonnes of sugar annually.

Sugar, China

We have majority interests in four cane sugar factories in Guangxi Province and four beet sugar operations in the north east of the country. Continuous investment has raised annual sugar production to 650,000 tonnes.

Sugar, Southern Africa

Illovo is Africa's largest sugar producer with agricultural and production facilities in six countries. Annual sugar output is 1.9 million tonnes produced from 5.5 million tonnes of sugar cane.

Agriculture

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

Retail

Revenue £1,602m
(2006 – £1,309m)

Adjusted operating profit £200m
(2006 – £185m)

% of total revenue 24%
(2006 – 22%)

Primark
Primark is a major value retail group employing over 22,500 people. It operates stores in the UK, Ireland and Spain.

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

Buying and merchandising teams in Reading (UK) and Dublin (Republic of Ireland) travel internationally to source and buy up to the minute fashion items that best reflect each season's key fashion trends.

Primark's range of departments includes womenswear, lingerie, childrenswear, menswear, footwear, accessories, hosiery and homeware.

Grocery

Revenue £2,605m
(2006 – £2,578m)

Adjusted operating profit £153m
(2006 – £182m)

% of total revenue 38%
(2006 – 44%)

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

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

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

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

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

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

Ingredients

Revenue £728m
(2006 – £683m)

Adjusted operating profit £75m
(2006 – £79m)

% of total revenue 11%
(2006 – 12%)

Yeast and bakery ingredients
AB Mauri operates globally in yeast and bakery ingredient production with 50 plants in 28 countries, supplying plant and artisanal bakers and the foodservice and wholesale channels. It is the technology leader in bread improvers, dough conditioners and bakery mixes.

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

The group has strong market positions in cereal specialities, emulsifiers, enzymes, esters, extruded ingredients, lactose, lipids, powders, flours, yeast extracts and whey/milk protein concentrates.

Chairman's statement

85,000 employees worldwide

operating across **43** countries

over **200** manufacturing locations

The continued development of the group's businesses and the associated investment will result in further progress in 2008.

The group has made good progress in the past year and these results reflect the benefit of recent major investment. They include a contribution from our 51% investment in Illovo Sugar for the first time, and reflect the rapid roll-out of new Primark stores largely driven by the conversion of the former Littlewoods stores. These results have been achieved in the face of a weak US dollar and extremely sharp cost increases in some key commodities.

Revenue was 13% ahead at £6.8bn. Adjusted operating profit increased by 11% and adjusted profit before tax by 10%. Adjusted earnings per share, which reflect much higher minority interests, rose by 4% to 52.9p.

Our sugar activities have been transformed and now extend across nine countries in three continents. Further investment has been authorised to upgrade and extend our facilities. In Europe we have improved processing efficiency, positioning the business to meet the challenges of the revised EU sugar regime. In southern Africa we are excited by the development potential of Illovo and new investment is being made to increase capacity and extend the range of its operations. In China additions have been made to our cane sugar capacity in the south and we are investing for the first time in the beet sugar industry in the north east. We are committed to developing our EU sales by harnessing the quota and tariff free trading available from 2009/10 to the Least Developed Countries. Illovo processes cane sugar in four of these countries.

Profit from our sugar business benefited from Illovo's contribution which exceeded our expectations. The acquisition was earnings enhancing in its first year. While profit pressure from sugar regime reform continued in Europe, an excellent result was achieved in China.

At the beginning of this year it became clear that the voluntary renunciation of sugar quota was going to fall substantially short of the target set by the European Commission to achieve market balance. Extended discussions within the industry and with the EU Commission demonstrated a welcome willingness to get the reform back on course and reduce the transitory turbulence associated with the initial reforms. Short-term measures, including an extended export programme and a temporary quota cut, were introduced to stabilise the market in 2007/8.

More importantly for the long term, in September the Agriculture Council agreed a series of adaptation proposals which offered incentives to growers and processors to opt for permanent renunciation of quota from the 2008/9 marketing year. We anticipate that a significant level of renunciation will now take place as a result of these changes, in addition to the 2.2m tonnes already surrendered.

There have been major developments by British Sugar in the emerging biofuel market. It has commissioned the UK's first bioethanol plant at Wissington, which uses sugar beet as feedstock. In June 2007 we announced a major new joint venture with BP and DuPont to build a world-scale plant in the UK and the design phase is on schedule. We will continue to monitor developments in biofuels to identify opportunities where use of the group's capabilities would offer satisfactory long-term returns.

Primark grew rapidly during the year with a 37% increase in retail selling space since last year end. The last Littlewoods store has been refitted and opened in Brighton in October. Significant new openings during the year were Oxford Street in London in April, and Liverpool in September, both of which have traded strongly.

Expansion at this year's rate was a major challenge for Primark's management. Many new staff were recruited and trained, a new central UK warehouse was brought into operation while the impact of trading in the new stores on some existing stores was absorbed. In this context, and with summer trading affected by unusually wet weather, like-for-like sales growth of 1% was encouraging. Overall sales grew by 37% and profit by 20%. The most recent UK market data shows Primark is now the second largest clothing retailer in the UK by volume and the largest in the important value sector. This demonstrates the strength of Primark in the UK high street. It is also very encouraging that performance at Penneys in Ireland has been excellent.

We are pursuing further opportunities to expand selling space in our established markets in the UK and Ireland, but this is likely to be at a less rapid rate than in the last two years. We expect to build on our encouraging start in Spain.

The Grocery businesses have also been strengthened, particularly by the acquisition of Patak's. The combination of this authentic Indian food brand with Blue Dragon will greatly strengthen our position in the growth orientated world foods market. In addition we have increased our presence in 'better for you' foods with the acquisition of a 20% stake in Jordans.

Good progress was made in many of our Grocery businesses. It was particularly satisfying to see the major improvement in the Australian bakery business driven by the good performance from our new bakery in Sydney. However, Allied Bakeries in the UK performed poorly, although there was significant improvement in the second half of the year following the relaunch of the Kingsmill brand.

Net capital expenditure on existing businesses and on acquisitions less disposals totalled £489m and represents further major investment in the group. This included expansionary capital of some £200m to extend capacity at our plants and on new Primark stores. It also included the acquisition of our interests in Patak's and Jordans. Despite this level of investment the group's continuing strong cash flow limited the increase in net borrowings to £13m, rising from £298m last year to £311m. The group remains very well placed to back the growth of our businesses by further investment based on its strong balance sheet and cash flow.

Board changes

In my half year statement I reported that Jeff Harris had retired from the Board on 18 April. Peter Smith was appointed to the Board on 28 February and has succeeded Jeff as chairman of the Audit committee.

Lord MacGregor has advised that he will retire from the Board at the end of the annual general meeting on 7 December. He was appointed a director in 1994 as one of two independent non-executive directors and later became senior independent director in 2003. Based on his wide experience of government and business, John has combined shrewd advice with the ability to challenge constructively. His contribution has been immense and will be greatly missed.

Mike Alexander has also indicated that he will not seek reappointment at the annual general meeting after nearly six years as a director. Mike's quick, clear thinking and wide operational experience have been of great value to the Board over a period of major development for the group.

Employees

85,000 people now work in the group and it is their efforts that have made these results possible. The tremendous range of their talent is a prime strength of the group. I would like to thank all our employees for their efforts in the past year, often in demanding conditions. In many of the diverse communities where we operate, our companies are a focus for local services. For example, in Africa healthcare issues are vital and Illovo has addressed this with first class programmes tailored to the country of operation. The group is committed to supporting these services where appropriate and to helping the development of all employees' skills.

Dividends

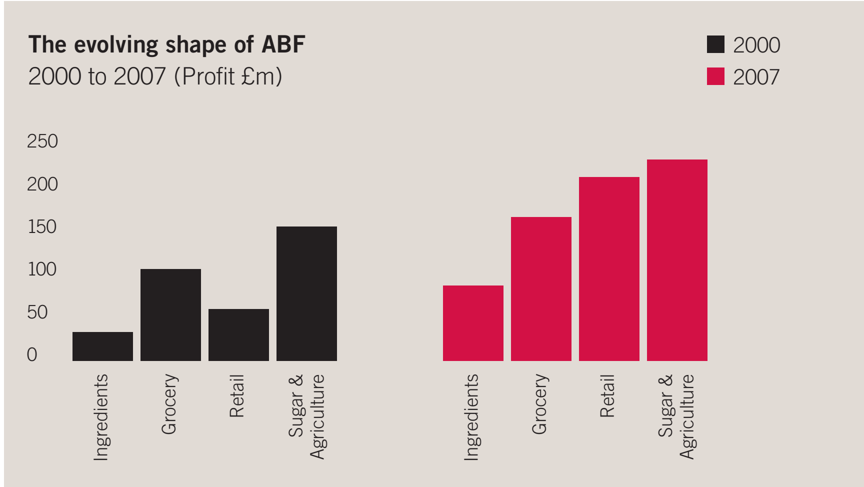
A final dividend of 13p is proposed to be paid on 11 January 2008 to shareholders on the register on 7 December 2007. Together with the interim dividend of 6.5p paid on 2 July 2007, this will make a total of 19.5p, an increase of 4%.

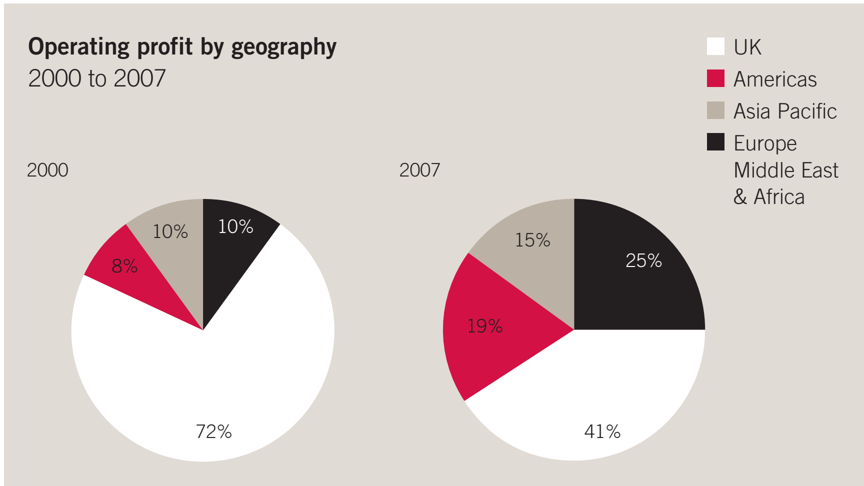
Outlook

The continued development of the group's businesses and the associated investment will result in further progress in 2008. Although reform of the EU sugar regime will have a further large negative effect on profit for the coming year, we expect the shape of the regime to be resolved finally after a long period of uncertainty. High commodity costs will continue to put pressure on margins but we are seeing some success in recovery through prices. As the group benefits from the realisation of recent major capital investment and rationalisation it is well positioned for longer term growth.

Martin Adamson
Chairman

Operating review





I am enormously encouraged that the considerable progress made over recent years places us well for growth in the future.

The last seven years have seen a considerable change in the shape and scale of the group. Revenue and operating profit have both grown by more than 50%. In 2000 the group was dominated by the profit contribution from our UK sugar operation. Today Sugar and Agriculture account for one third of the group and its composition has changed with a concentration on the growth markets of China and Africa. Primark has increased fourfold and is now nearly one third of the group's profit. Geographically the UK now accounts for only 41% of profit, there is a good balance in the scale of our businesses in the Americas, Asia Pacific, Europe and Africa and we have a significant and growing presence in emerging markets.

2007 was another year of substantial growth with revenue ahead by 13% to £6.8bn and adjusted operating profit 11% higher at £622m. These sizeable increases are largely a function of the Illovo acquisition and a 37% increase in Primark's retail selling space but also include good performances from a number of the Grocery businesses and Agriculture. The UK bakery business underperformed the previous year but following the relaunch of Kingsmill in February, it made progress in increasing bread volumes and improving operating efficiency. Ingredients suffered from the weakness of the US dollar in translating its results into sterling but made good progress in local currencies.

Each of our businesses has continued to evolve and there have been a number of landmarks this year which have contributed to a transformation of the group. The Chairman has already referred to the development of our sugar business and indeed the significance of these changes is reflected in our re-naming of the business segment from Primary Food to Sugar. The investment in Illovo gives us leadership in one of the world's fastest developing sugar markets, Africa, and we have embarked on major expansion projects to enable us to maximise our advantageous position for export opportunities.

We are also expanding our sugar business in the rapidly developing Chinese market. The investment in the beet sugar industry represents an opportunity to use our considerable technological expertise to make dramatic improvements in agricultural yields and process efficiencies.

Our entry into the important area of renewable fuels has been marked by the start of production at the UK's first bioethanol plant alongside our sugar factory at Wissington. Renewables already play an important part in the group's operations, representing nearly half of the fuel we consume running our factories. Our biofuels operation goes a step further offering to the market a viable and sustainable alternative to fossil derived transport fuels.

In Grocery, the Patak's brand represents a particularly good fit with our existing businesses specialising in ethnic foods.

This year was significant for Primark. Many records were broken during the year and enormous customer and media interest continues to mark every opening of each new store. Oxford Street in London captured the national imagination but similarly successful openings featured throughout the UK, Ireland and also in our new market of Spain where we have demonstrated that good ideas travel.

I am enormously encouraged that the considerable progress made over recent years places us well for growth in the future.

Sugar & Agriculture

Sugar

Revenue £1,151m
(2006 – £671m)

Adjusted operating profit £199m
(2006 – £115m)

This was a very significant year in the development of our international sugar business. Revenue and profit were strongly ahead of last year driven by the first year contribution from Illovo, which exceeded our expectations, and a substantial increase in profit from China. Our European sugar businesses also performed well but profit was affected by the temporary quota cut and the net cost of the restructuring levy.

We have taken a number of steps which have transformed this business. We acquired Illovo Sugar, the largest producer in Africa, we announced a major investment in the beet sugar industry in north China and we developed our biofuel business. The enlarged business is now the world's second largest sugar producer with some two thirds of volume originating from outside the regulated EU market and it has limited exposure to the cyclical world sugar price. We now have a strong presence in the growth markets of China and a number of southern African countries and we have plans for significant capacity expansion here. In addition, the Illovo acquisition provides the opportunity to develop quota and tariff free exports to the EU as a result of four of the six countries in which they operate having Least Developed Country status.

Based in the southern hemisphere, Illovo's operating season runs from April to March and so our financial results include the contribution from the second half of Illovo's 2006/7 season and the first half of their 2007/8 season. Cane production in the 2006/7 season was in line with the previous year but sugar production was substantially below expectations at 1.7m tonnes, primarily due to poor weather conditions in South Africa and Tanzania. Factory performance was satisfactory with record sugar production in Malawi and record output in a number of downstream products. Revenue and profit benefited from higher domestic sales, better regional and world prices and continued cost savings. The current season, 2007/8, is progressing well with own cane production broadly in line with last year and sugar production forecast to increase to 1.9m tonnes. Factory performance has been broadly in line with plan. Growth in profit for the 2007/8 season is anticipated.

The development potential of Illovo was demonstrated by the announcement of a major expansion of sugar and cane production in Zambia. We are investing £100m to increase, by 50%, the area of irrigated cane developed by Illovo and its growers, to increase factory capacity and to build the wider infrastructure necessary to support a much larger operation. Sugar production is planned to increase from 240,000 tonnes to 440,000 tonnes by the 2009/10 season. Projects for substantial further expansion are being developed.

The recent investments in capacity in our four cane sugar factories in south China enabled us to process a record crop this year. For a number of years growth in sugar consumption has exceeded growth in domestic production leading to a deficit in the Chinese market and firm sugar prices. The combination of crop and prices has driven a substantial increase in profit.

In August we announced an investment in the Chinese beet sugar industry. This is centred in the north east where the provinces have abundant, high quality arable land with ideal weather conditions to produce high sugar content in the beet. Government approval has recently been given for the creation of a joint venture, to be called Bo Tian, with the Hebei Tian Lu Sugar Group. ABF holds 51% of the joint venture. Bo Tian will initially operate four beet sugar factories in the northern provinces of China but negotiations are well advanced for a further five factories and more are being considered. A significant increase in sugar production is planned. There is a major opportunity to improve beet yields by the application of British Sugar's European beet sugar expertise through better agricultural practices and technology transfer. In addition refinery capacity will be increased through investment and efficiency improvements.

The UK business benefited from a very efficient campaign, the additional quota of 83,000 tonnes acquired and lower energy costs. However, as expected, these factors were offset by the further impact on profit of sugar regime reform arising from the temporary quota cut and the cost of the restructuring levy which exceeded reduced beet costs. Sugar prices were more stable. Although the Allscott factory was closed at the end of the campaign, in light of the European Commission proposals announced in May 2007 to make further changes to the EU sugar regime reform, British Sugar decided to reconsider its plans for its operations in the UK, and specifically activities on the York site. As a consequence, an application for restructuring will be made to the UK government. The future and extent of operations at the York site will be determined once this application for restructuring has been approved. The cost of closure of both factories was provided for in last year's accounts. In Poland profit was level with last year with the benefits of an excellent campaign, the additional quota of 11,000 tonnes acquired and factory rationalisation offsetting the impact of regime reform. The Glinojeck factory performed ahead of expectations following completion of its major expansion programme. Juice processing is now firmly established here. This process was pioneered in our UK factories, permitting out of season sugar refining, and is a major driver in improving asset utilisation. The sugar produced was 1.16m tonnes in the UK and 0.21m tonnes in Poland.

In recent months the European Commission has announced measures to redress the imbalance in supply and demand for sugar in the EU. For the current marketing year, 2007/8, it announced a temporary quota withdrawal of 2.1m tonnes. It has now allowed exports of up to 1.4m tonnes of quota sugar and has allocated a proportion of the remaining sugar in intervention for non-food uses. Profit

INVESTING IN SUGAR GROWTH

WE HAVE MADE SIGNIFICANT INVESTMENT IN OUR SUGAR BUSINESSES IN AFRICA AND CHINA IN LINE WITH OUR LONG-TERM PLANS FOR REALISING THEIR FULL POTENTIAL.

Illovo's operations in Zambia and Swaziland have both seen the start of major expansion projects. Irrigated land for cane production in Zambia is being substantially increased and its annual factory output is planned to reach 440,000 tonnes within two years. A major dam construction project is underway in Swaziland which will increase the area of irrigated land over the next seven years and increase cane production significantly.

Sugar production in China has increased significantly with the establishment of a new joint venture, Bo Tian, based in the north east and utilising the excellent climatic and soil conditions for growing sugar beet.

Africa – Illovo

Production expansion
Zambian operations are expanding with a 50% increase in cane-growing area. Sugar production is set to double.

Infrastructure investment
Long-term development of the Ubombo operation in Swaziland includes construction of a holding dam as part of the aid-funded Lower Usutha Smallholder Irrigation Project.

Employee welfare
Benefits to employees extend to educational assistance, including school provision, bursaries, grants and loan-funding.

China – Heilongjiang

Production improvements
A new sugar beet joint venture, Bo Tian, promises significant future business growth in the fertile north east region.

SUSTAINABLE BIOFUELS PRODUCTION

RENEWABLE BIOFUELS OFFER A VIABLE ALTERNATIVE TO BOTH PETROL AND DIESEL.

Made from sustainable biomass, biofuels have a demonstrable advantage over fossil fuels in tackling the effects of carbon emissions on the climate.

Biofuel production in the UK is planned around the cultivation of under-utilised agricultural land, boosting the rural economy whilst safeguarding existing food production.

Initial development
The UK's first bioethanol facility commenced production this year at the British Sugar site in Wissington, Norfolk using sugar beet as a feedstock.

Future production
A full-scale bioethanol plant, using wheat as a feedstock, is to be built near Hull, as a joint venture between BP, DuPont and British Sugar.

in our EU businesses is expected to be lower next year because of the substantial increase in the restructuring levy, from u126 per tonne to u173, and the temporary quota withdrawal of 193,000 tonnes mitigated in part by the reduction in beet costs.

The adaptation package agreed in September by the European Commission primarily offers new incentives directly to growers to renounce quota permanently from the 2008/9 marketing year onwards. Its aim is to encourage additional renunciation of at least 13.5% of the European quota in addition to the 2.2m tonnes already renounced, with relief from the restructuring levy in 2007/8 and the benefit of compensation for the processor. British Sugar plans to renounce quota in the UK and Poland from 2008/9 as a consequence of these measures. A quota reduction of 13.5% would be 193,000 tonnes.

The Wissington biofuel plant has been commissioned and is producing bioethanol for blending with petroleum in the UK. The plant uses sugar beet as feedstock and has the capacity to deliver 70m litres a year. Vivergo Fuels, the joint venture with BP and DuPont in which ABF has a 45% interest, has now been established and is working on the detailed design for a world-scale bioethanol plant which will use wheat as feedstock. It is expected to cost £200m and will be built at BP's chemical site at Saltend, Hull. Its capacity will be 420m litres of bioethanol per year and is planned to come on-stream in late 2009. ABF expects a return on its investment ahead of its cost of capital in the first full year of operation. The plant will initially produce bioethanol, but the partners will look at the feasibility of converting it to biobutanol once the technology is available. It is expected that formal agreements will be entered into by the joint venture with AB Agri and Frontier Agriculture. The supply of locally grown wheat would be arranged by Frontier which is the UK's leading grain marketer and supplier of agricultural inputs. The major co-product of bioethanol production, distillers' grain, would be sold to AB Agri. It will use its highly specialised sales and marketing business, which sources and develops co-products from the food, drink and energy industries, to market the distillers' grain as an alternative feed for livestock.

Agriculture

Revenue £687m
(2006 – £623m)

Adjusted operating profit £18m
(2006 – £15m)

AB Agri performed well and its strategy to focus on working with large-scale suppliers and livestock producers is delivering new opportunities for growth alongside those created by its technology-based feed ingredients business.

The UK delivered excellent results with full year benefits from restructuring, cost saving initiatives and firmer pricing. Frontier performed ahead of expectations and recent investment in systems, a low cost base and national trading have strengthened the business. Following our decision to focus on co-products, our ruminant feed operations have benefited from the increasing demand in the UK dairy sector. In pig and poultry, where our focus continues to be on compound feeds, our strategy of building strong supply chain relationships with the key players in the industry has further strengthened our business.

However, in China, margins were lower following substantial increases in the cost of raw materials, particularly for soy, and reduced pig and poultry numbers following the outbreak of disease. Raw material costs remain high but price increases are being negotiated to recover these costs. A new feed mill was built in Harbin during the year bringing the total number of mills in China to six at the year end.

Retail

Primark

Revenue £1,602m
(2006 – £1,168m)

Adjusted operating profit £200m
(2006 – £166m)

Littlewoods

Revenue £nil
(2006 – £141m)

Adjusted operating profit £nil
(2006 – £19m)

Once again Primark's results were very strongly ahead of last year, revenue was up 37% and profit up 20%. The revenue increase was driven by the opening of substantially more retail selling space. Like-for-like sales growth was 1% and our estimate of like-for-like sales growth, in stores unaffected by new openings, is 7%. This was achieved despite the impact, common to other clothing retailers, of poor weather over the summer months. Operating profit margin was affected by a higher depreciation charge, arising from the recent investment in new stores, and by a higher level of discounting of the summer season stock to make way for the autumn range.

Retail selling space increased by 1.3m sq ft during the year to 4.8m sq ft at the year end. 32 new stores were opened, five smaller stores were closed, bringing the total to 170 stores at the year end.

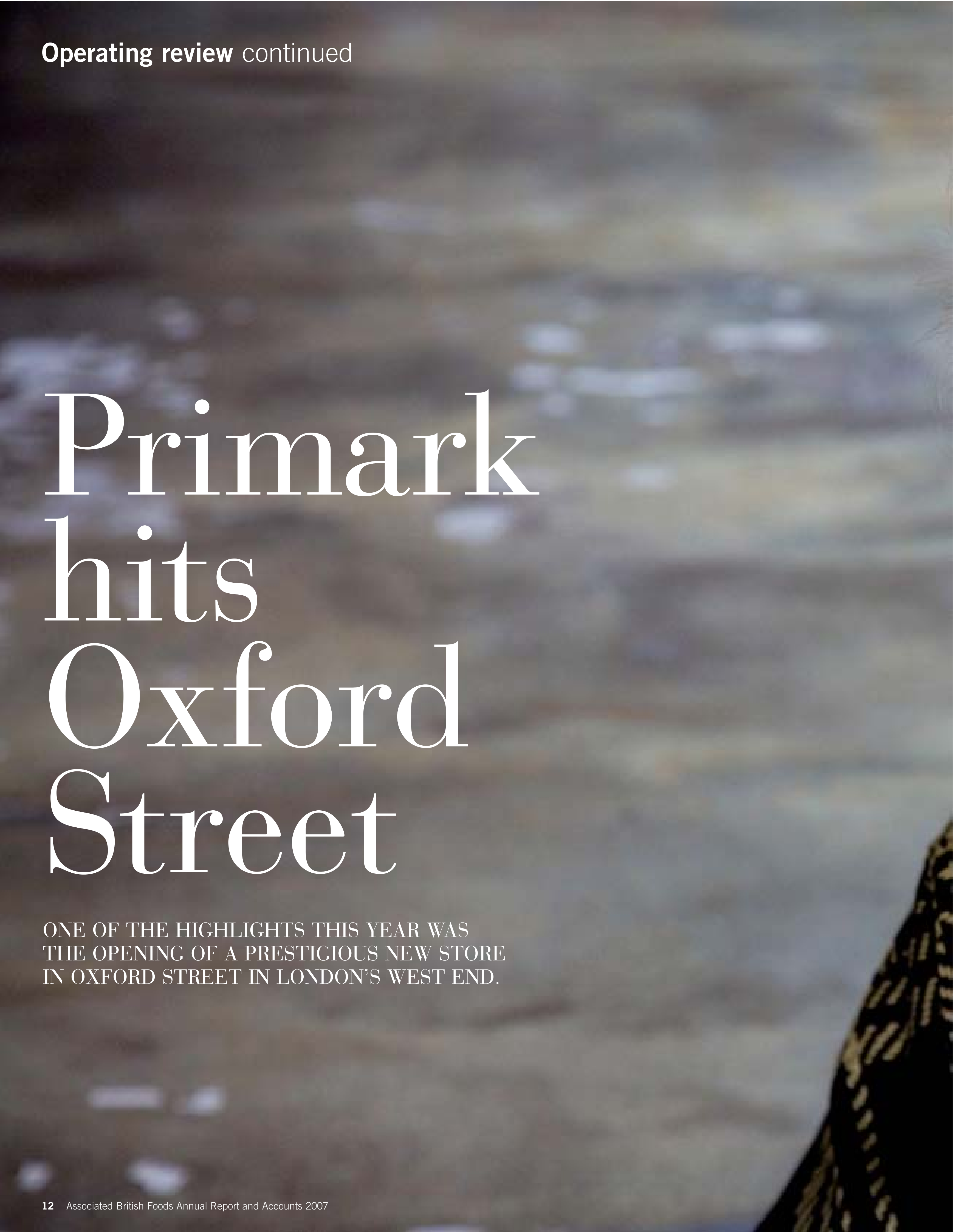
New store openings:
UK Aberdeen, Bedford, Birmingham – Merryhill, Blackpool, Burton-on-Trent, Camberley, Cheltenham, Chesterfield, Coventry, Doncaster, Dundee, Dunfermline, Eastbourne, Glasgow – Parkhead, Greenock, Hanley, Inverness, Irvine, Lincoln, Liverpool – Church Street, London – Oxford Street, Londonderry, Oldham, Plymouth, Poole, Redditch, Sheffield – Meadowhall, Swindon, Wolverhampton.
Ireland Ballina, Dublin – Swords.
Spain Murcia.

Stores closed (all resites):
Aberdeen, Burton-on-Trent, Doncaster, Dundee, Swindon.

Highlights during the year included the opening of London's Oxford Street store in April. This was extremely successful, selling one million items in its first ten days of trading, and attracting considerable media coverage. The 85,000 sq ft Liverpool store was opened in September and was greeted with a similar level of enthusiasm both by customers and the media. Primark has demonstrated success in trading from very large premises and now has 25 stores trading from over 50,000 sq ft of which eight trade from over 70,000 sq ft. Over the last two years the average store size has risen by more than 50% from 19,000 sq ft to 29,000 sq ft.

Since the year end we have opened a new store in Brighton which brings to a conclusion the conversion of the 41 former Littlewoods stores. This highly successful development programme has driven significant growth in the number of stores and selling space in the UK. Primark is now established as a major clothing retailer on the UK high street. TNS ranks Primark as the UK's second largest clothing retailer by volume and Verdict Research now places Primark as the leading retailer in value clothing.

The stores in Oxford Street and Liverpool showcase the new fit-out in our larger stores. The high standard aims to meet customers' expectations of prestigious high street locations. A range of finishes, colours and textures has been used to create zones within the spacious store interiors which reinforce and differentiate the departments. An electronic 'call forward' system is being introduced to speed customer transaction times and minimise queuing.



Primark hits Oxford Street

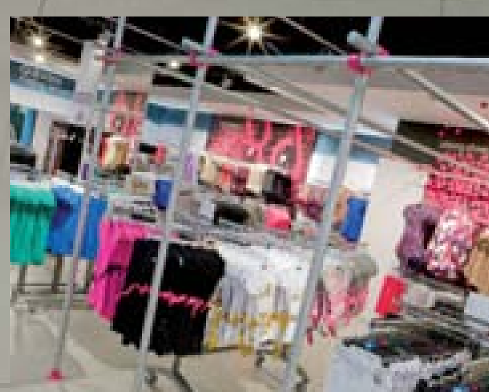
ONE OF THE HIGHLIGHTS THIS YEAR WAS THE OPENING OF A PRESTIGIOUS NEW STORE IN OXFORD STREET IN LONDON'S WEST END.

The excitement created by the opening of this major outlet was epitomised by the unprecedented number of customers visiting the store and the outstanding sales performance seen across all the brands within the Primark range. This enthusiasm was mirrored in Liverpool when its new store opened its doors and demonstrates the strong allegiance felt by customers across the UK.

STORE ZONING

BRIGHT, MODERN AND SPACIOUS INTERIORS, LIKE THOSE OF OUR NEW STORES IN OXFORD STREET AND LIVERPOOL, HAVE BEEN DESIGNED TO CREATE SEPARATE SHOPPING ZONES WITHIN THE STORES.

At Oxford Street, womenswear, including Atmosphere, Secret Possessions and Primark Essentials occupies the entire ground floor. Menswear, childrenswear and homeware occupy their own distinctively merchandised areas on the first floor, including our Cedarwood State, Rebel, Early Days and Primark Home brands.



Spanish stores
Following the opening of our first Spanish store in Madrid last year, a second was opened this year in Murcia. Our expansion into Spain has been a success and the next cities to experience the Primark phenomenon will be Jerez and Oviedo, with others to follow.

Surprises in-store
This year we have surprised and delighted our customers with a range of organic cotton Tees and tops and a new range of luxurious cashmere knitwear. All at Primark's so affordable prices, of course.

Operating review continued

Whilst the main focus for development has been the UK, trading in Ireland continued to be very strong last year. The Irish estate expanded with the opening of two new stores and extensions to existing stores, particularly at the successful location at Blanchardstown, west of Dublin. Trading in our two stores in Spain exceeded expectation. Like-for-like growth in Madrid, just over a year from opening, is very strong and the sales density exceeds the average for the UK and Ireland.

Plans are currently in place to open nine stores in the next financial year including Ealing and Basingstoke in the UK and Cork in Ireland. Five stores are expected to open in Spain: Jerez, two in Madrid, Bilbao and Oviedo.

- 9% of all clothing purchases in the UK takes place at Primark (TNS).
- Voted 'Best Value High Street Fashion' by GMTV and ITV viewers.

Grocery

Revenue £2,605m
(2006 – £2,578m)

Adjusted operating profit £153m
(2006 – £182m)

Revenue for the year was in line with last year but profit declined from £182m to £153m. Adverse currency translation, particularly as a result of US dollar weakness, affected both revenue and profit. At constant currencies, revenue increased by 4% and profit was impacted by £7m. Operating profit was further reduced by losses incurred at Allied Bakeries, margin pressure at Silver Spoon and a charge of £8m for factory rationalisation at ACH in the US and Blue Dragon.

Our international hot beverage brands, Twinings and Ovaltine, continued to deliver strong growth with the benefit of marketing investment in their strategic markets. Twinings growth was driven by green tea and the strong growth of Everyday tea in the UK. We made good progress in developing our market shares around the world, but most notably in the UK, which is at an all time high, in Italy where we enjoy over one third of speciality tea sales, and in France. The introduction of new packaging in the US had a significant impact, raising the Twinings share to record levels. In August we signed an agreement with an existing Japanese distributor to establish a joint venture in Japan to provide a platform for developing our presence in one of the five biggest tea markets in the world. We sold our Scandinavian food distributor in October 2006, and the profit on this disposal is included in the income statement below operating profit.

The Ovaltine brand again performed well. Disappointing sales in Switzerland during the poor ski season were more than offset by good growth achieved in Asia and a successful targeting of developing markets, notably Brazil, Nigeria and Vietnam, all of which had strong double digit growth. Ready-to-drink had a particularly strong year and the new product development programme continued apace. Early success has been achieved in raising prices in key markets to recover recent rises in world commodity prices, particularly in dairy and barley. Restructuring of our factory at Neuenegg in Switzerland, to reduce costs and improve operating flexibility, is progressing according to plan with most of the major work now completed.

At Silver Spoon, significant business gains were made in the wholesale sector, despite continued margin pressure on sugar. Billington's and Allinson were completely re-launched and several new products have been introduced resulting in significant new listings in major retailers. Working closely with Illovo, the business has more than doubled its Fairtrade sugar volume both under the Billington's brand and in own label. An innovative brown sweetener was introduced under the Silver Spoon branding which has achieved encouraging listings.

After a difficult first half, the crispbread market returned to growth in the second half of the year stimulated by a continued trend towards more premium variants, new product launches from Ryvita and vigorous marketing support. Ryvita extended crispbread into sweet snacking with the launch of Muesli Crunch and provided a convenient format with the introduction of Sesame and Multigrain Snackpacks. Healthy snacking has continued to grow but these markets have become increasingly competitive. However, Ryvita Minis strengthened its position within the Healthy Bagged Snacks segment and we extended our offering within cereal bars with the launch of Ryvita Luxury Goodness bars which combine great taste with strong health credentials.

In September 2007 we acquired 20% of the highly successful UK breakfast cereal and cereal bar business, Jordans. The brand has a strong and differentiated consumer position based on its use of natural and Conservation Grade® ingredients. It is well positioned to benefit from consumers' growing desire for natural ingredients and healthy eating. This investment is an exciting development for our UK branded grocery business which already has extensive interests and expertise in cereal-based branded foods both in the UK and internationally. It will be a strong partner to ensure the further development of the Jordans business.

Westmill Foods is the leading supplier of ethnic foods to the ethnic wholesale channel in the UK. Profit was sharply ahead following the successful integration of the brands acquired last year and the completion of a new integrated warehouse at Enfield. New packing lines for the Rajah spice brand were installed and this brand, together with Lucky Boat noodles and Green Dragon, recorded double digit sales growth. Scarcity of non-GM, long grain rice from the US affected sales of the Tolly Boy brand but this was offset in part by strong growth in sales of our basmati brands.

The pan-oriental retail brand, Blue Dragon, performed well this year and delivered good growth. During the year we announced the relocation of manufacturing from two factories in Wales to a new factory now being built in Poland. The factory is due to open in spring 2008.

In September we completed the acquisition of Patak's, a leading brand in Indian cuisine widely recognised for its authenticity. It was established in England in 1957 and has grown strongly in the UK but has also established a wide international presence. It manufactures, markets and distributes Indian cooking sauces, curry pastes, chutneys and other meal accompaniments from the Indian sub-continent. In the UK it supplies both retail and foodservice. Its main factory is in Leigh, Lancashire.

The combination of Patak's with our existing businesses will create a leading position in the UK for the supply of world foods to both the retail and wholesale channels. These markets have grown strongly and this growth is expected to continue. Our grocery business outside the UK will provide the capability to drive the international growth of Patak's. The integration of Blue Dragon and Patak's will begin in the next few months.

Allied Bakeries underperformed this year with a particularly poor first half when lower volumes and non-recovery of higher wheat costs affected profitability. Following this, the Kingsmill brand was relaunched in February with improved products and new packaging. Recipes were improved to exclude artificial preservatives and some loaves are now larger and have a softer texture. The launch was supported by strong marketing and television advertising. The combination of price increases to recover the increased wheat costs from 2006,

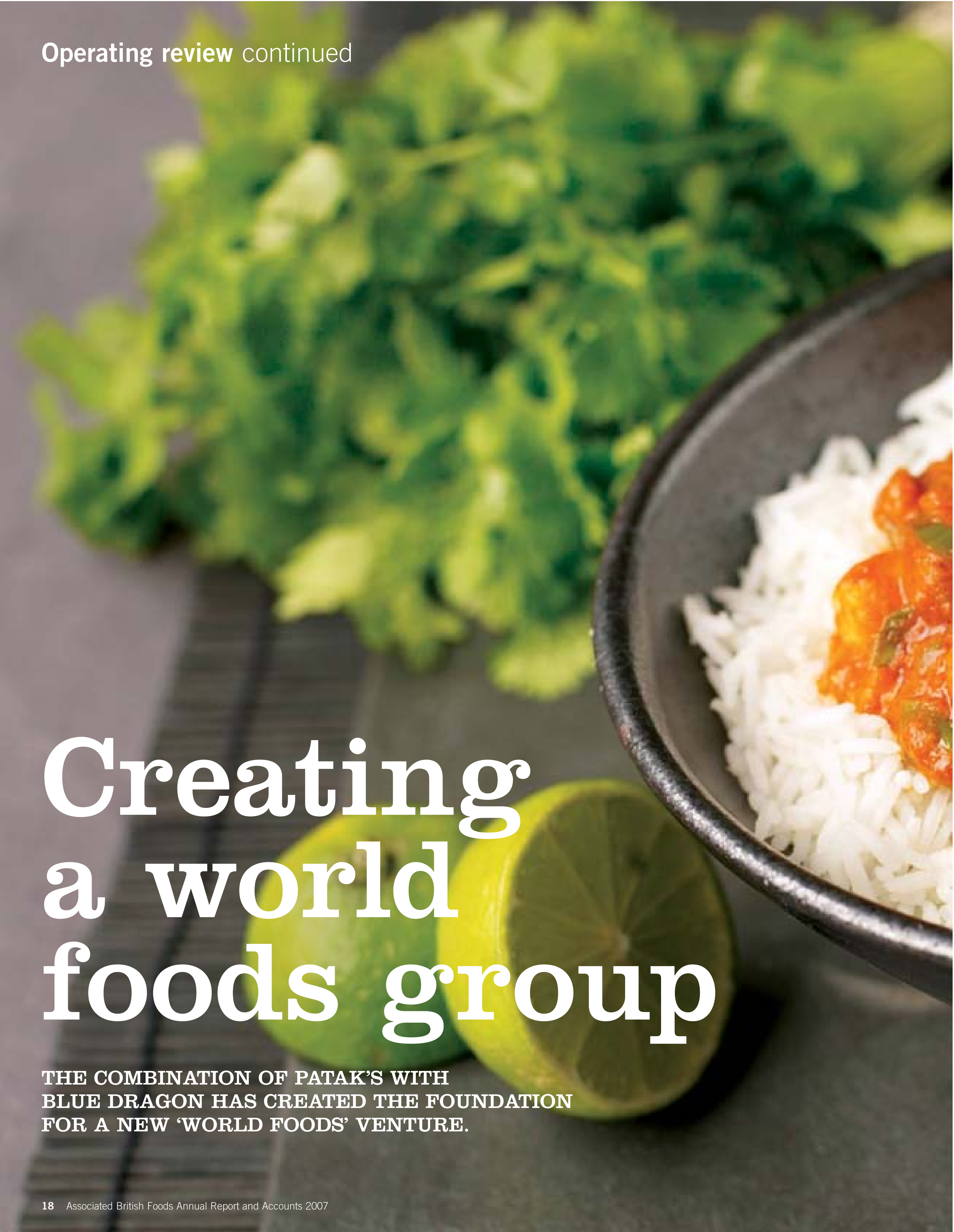
Focused on flavour in the US

OUR SPICES AND SEASONINGS NOW BETTER REFLECT CUSTOMER TASTE AND LIFESTYLE.

In addition to new products such as grinders and an organic range, our herbs & spices brands have been strengthened through a comprehensive in-store merchandising campaign.

Revitalisation
The new Spice Islands grinder packs have benefited from strong promotion on-shelf to customers.

New range
The link with Weber Grill, a US brand synonymous with barbeque cooking, has helped the launch of a new line of seasonings and marinades.



Creating a world foods group

THE COMBINATION OF PATAK'S WITH BLUE DRAGON HAS CREATED THE FOUNDATION FOR A NEW 'WORLD FOODS' VENTURE.

The integration of Patak's with Blue Dragon provides scale and complementary products for this new enterprise. Its remit is to source, manufacture, license and distribute authentic 'world food' brands in the UK and key international territories, including the US, Australia, New Zealand, Canada, France and the Netherlands.

Patak's
The Patak's brand is the UK market leader, having successfully brought 'the true taste of India into the kitchen' through a real passion for authentic taste and high quality.

Blue Dragon
Blue Dragon encompasses over 200 branded products, including special packs for the foodservice industry and export markets. All are imported straight from the Far East or produced in the UK using traditional Oriental recipes.

higher volumes and significant enhancements in operating efficiency resulted in an improving performance in the second half. Unprecedented increases in the cost of bread-quality flour over the summer of 2007 have resulted in the need for further bread price increases which are being negotiated with the major retailers.

Our Australian grocery business saw sales and underlying profit substantially ahead of last year. Milling and baking performed well with a strong improvement in the performance of the New South Wales bakery. The substantial increase in the cost of wheat during the year was recovered by a price increase in February. Strong growth was enjoyed in '9 Grain' bread and Bazaar Breads of the World, reflecting consumer preference for healthy breads and variety. Baking operations have now expanded into China with the opening of a plant in Wuhan to supply KFC with bread rolls. The bakery also sells Tip Top branded products into the Wuhan retail market to meet the increasing demand of the Chinese consumer for western style products. The performance of the meat and dairy businesses continued to improve. Our two major brands, Don's and Watsonia, benefited from relaunches, and the successful introduction of new shaved meat products improved their market share.

ACH performed satisfactorily in both the US and Mexico. Mazola marginally lost share in a US vegetable oil market which declined by 3% in the year. The cost of vegetable oils increased sharply in the second half which led to some margin pressure. Very strong demand for these oils, including demand for the production of biofuels, is continuing to drive these commodity prices still higher. Further price increases are planned to recover these higher input costs in 2007/8. Consumer concerns over the use of trans fatty acids remained a strong influence on the performance of our foodservice business. A number of restaurant businesses have changed the oils used in food preparation with the result that our profit declined. Our business is now having success with the sale of oil formulations with no trans fatty acids. Oil processing at Jacksonville has ceased and we have withdrawn from the supply of certain low margin commodity products. Profit in Mexico increased with further progress from Capullo and its other grocery brands.

ACH successfully launched extensions to its gourmet spice business with both the introduction of a new packaging format, grinders, under the Spice Islands brand and the launch of a new line of gourmet grilling spices under the Weber Grill brand. Weber Grill is licensed from the manufacturer of Weber grills and is synonymous with barbeques and outdoor grilling. Both launches have exceeded initial expectations.

Ingredients

Revenue £728m
(2006 – £683m)

Adjusted operating profit £75m
(2006 – £79m)

Our Ingredients businesses are almost entirely located outside the UK and are therefore susceptible to the impact of movements in exchange rates on the translation of their results. Reported revenue and profit were respectively 7% ahead and 5% lower than last year. However, at constant exchange rates, revenue increased by 12% and profit was level with last year. In addition, the strength of the Real had a substantial adverse effect on our Brazilian operations through competition from cheaper imports.

AB Mauri generated good sales growth in yeast, particularly in South America and south and west Asia. Construction of the yeast finishing plant in Mexico was completed during the year which, coupled with a bakery ingredients plant due for commissioning in January 2008, will significantly increase our presence in this large market. We have also completed the expansion of our yeast plant at Hebei in China and are reviewing opportunities for further expansion in the region to take advantage of continued market growth. Capital investment continued with an automation project to improve the efficiency of the UK yeast plant in Hull.

During the year we bought out our joint venture partner in the Philippines which enabled us to rationalise production in the region and announce the closure of the old Philippines plant.

A key challenge across the yeast businesses is the effective treatment of waste water. To enable a more co-ordinated approach to technical projects across the regions we have reorganised our central technical resources under the new AB Mauri Global Technology Group. One of its first initiatives was to identify the most appropriate technologies for waste water management.

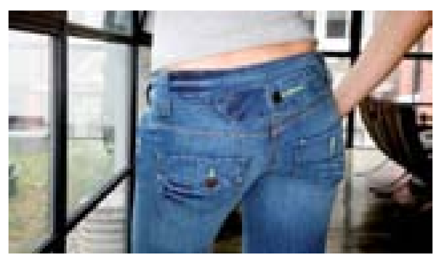
Subsequent to the year end we acquired certain of the European assets of the yeast business of Gilde Bakery Ingredients. The acquired business comprises a wet and dry yeast plant based in Casteggio, Italy; a 50% shareholding in the Uniferm yeast and bakery ingredients plants in Germany; a number of West European sales and distribution companies; and a 10% stake in Somadir, Morocco's leading yeast manufacturer. Ownership of some of the businesses is dependent on clearances by the relevant competition authorities.

The acquisition also included part of the dry yeast business together with ownership of the Fermipan brand in a large number of markets throughout the world. This will significantly improve our ability to offer excellent sales reach and customer service in Europe, Africa, Middle East and south and west Asia.

In bakery ingredients we continued to share technology across the group and have started to see the benefit in our global accounts. Our South American business continued to expand and was able to recover raw material cost increases with pricing.

We completed the sale of our commodity food polyols business in the US in February and by the year end we had closed the old manufacturing plant in Delaware and sold the site. The loss on disposal of this business, including the write-off of goodwill and the costs of the plant closure, is charged in these accounts. The business supplying antacids, excipients including polyols, and drug delivery systems to pharmaceutical companies has been retained.

Growth in textile enzymes
The boom in textile production in the Asia Pacific region has facilitated growth in our textile enzymes business. Strong sales of Primark's stone-washed jeans have contributed to this success.



In ABF Ingredients, strong sales growth across all sectors has helped to drive profit development with progress particularly in the US. We expanded both within growing and established markets. Growth in enzymes was supported by investment in capacity expansion at its Finnish plant. Capacity expansion has also been achieved in proteins and yeast extracts. Such is the sales momentum in these businesses that further expansion projects are planned in enzymes, proteins and yeast extracts in the coming year, supported by investment in both selling and research capabilities.

George Weston
Chief Executive

Fleischmann
This trusted brand has been the focal point of the comprehensive marketing programme embracing bakery schools, technicians, product developers and marketing people in each country of the targeted regions.

BUILDING LOCAL RELATIONSHIPS

IN HISPANOAMERICAN COUNTRIES, THE BAKERY MARKET IS DOMINATED BY LOCAL CRAFT BAKERS.

We have developed specifically-targeted programmes so our distributors can fully support bakeries at a local level. These initiatives include technical assistance and training, as well as marketing programmes jointly developed with key bakeries to improve the value delivered to their customers.

In this way we help our customers build their businesses for the future.

Financial review

The group invested a net £489m in capital expenditure and acquisitions during the year.

Group performance
Group revenue increased by 13% to £6,800m. Operating profit, adjusted to exclude exceptional items, the amortisation of non-operating intangibles and profits on the sale of property, plant & equipment, increased by 11% to £622m. The strength of sterling continued to have an adverse effect on the translation of our overseas results. At constant currency, revenue increased by 16% and profit by 13%.

The improvement in adjusted operating profit before exceptional items was delivered despite the adverse impact of sugar regime reform of some £30m and a £13m adverse currency translation effect primarily as a result of the weak US dollar. These were offset by a better than forecast first time contribution from Illovo, 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 £8m which compares with £10m last year. A net loss of £39m, including goodwill written off of £27m, arose on business disposals during the year, primarily our Scandinavian food distributor and the commodity food polyols business in the US.

Finance expense less finance income of £35m compares with a charge of £14m last year. This year-on-year increase of £21m results primarily from the cost of acquisition of Illovo at the end of last year and a substantial capital investment programme. Other financial income of £26m includes £25m of net pensions financing income, being the expected return on assets in the group's pension schemes less the charge on pension scheme liabilities, and a £1m net foreign exchange gain on financing activities.

Profit before tax increased from £419m to £508m. Last year's result included an exceptional charge of £97m for the costs of closing two British Sugar factories. Adjusted to exclude exceptional items, amortisation of non-operating intangibles and profits and losses on the sale of businesses and fixed assets, profit before tax increased 10% from £559m to £613m.

Taxation
The tax charge of £108m included an underlying charge of £153m, at an effective tax rate of 25.0% on the adjusted profit before tax described above. The effective tax rate has reduced from last year's 26.8% as a result of an increase in the profits subject to lower tax rates and the prospective effect of the reduction of tax rates in the UK and elsewhere on deferred tax carrying values.

The overall tax charge for the year benefited from a £30m (2006 – £13m) credit for tax relief on the amortisation of non-operating intangible assets and goodwill arising from 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 increased by £68m to £369m and the weighted average number of shares in issue remained at 790 million. Earnings per ordinary share increased by 23% from 38.1p to 46.7p.

A more consistent measure of performance is provided by the adjusted earnings per share which excludes exceptional items, profits on the sale of businesses and fixed assets and the amortisation of non-operating intangibles net of any tax benefit. Adjusted earnings per share increased by 4% from 50.9p to 52.9p.

The interim dividend was increased by 4% to 6.5p and a final dividend has been proposed at 13.0p 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 £103m and will be charged next year. The dividend is covered, on an adjusted basis, 2.7 times.

Balance sheet

Non-current assets increased by £327m to £4,719m including £2,642m of property, plant & equipment. The increase was driven by acquisitions which added £168m and capital expenditure of £420m.

To determine the market value of the assets backing the Primark business we have obtained an independent valuation of its freehold and long leasehold properties. The net book value at the year end was £579m and the valuation on a vacant possession basis is £1,002m. This valuation increases to £1,262m with the benefit of the Primark covenant.These assets continue to be included in the accounts at their depreciated historic cost.

Working capital, including tax accruals, decreased by £35m.

Net borrowings were £311m at the year end compared with £298m last year.

A currency loss of £28m arose on the translation into sterling of the group's non-sterling net assets. This resulted from the continued strengthening of sterling against the US dollar year on year.

The group's net assets increased by £282m to £4,464m.

Despite the high level of investment made this year in acquisitions and capital expenditure, the return on capital employed for the group was consistent with last year at 18.8%. Return on capital employed is defined as operating profit before exceptional items and the amortisation of non-operating intangibles expressed as a percentage of average capital employed for the year.

Cash flow

Net cash flow from operating activities was £696m compared to £419m last year. This increase reflects a positive working capital movement year on year of £184m.

The group invested a net £489m in capital expenditure and acquisitions during the year. Capital expenditure amounted to £420m of which £175m was spent on the acquisition of new stores and the refitting of existing Primark stores. The balance was used to upgrade, expand or build new manufacturing facilities including commissioning of the new biofuels plant at British Sugar's Wissington factory, construction of a new factory in Poland for Blue Dragon and rationalisation of the Ovaltine factory in Switzerland and the ACH oils plant at Jacksonville in the US.

£150m was spent on the acquisition of Patak's, a 20% interest in Jordans and a number of smaller businesses to complement our Grocery and Agriculture operations. £58m was realised on the disposal of the Scandinavian distribution business and SPI Foods in the US resulting in a net cash outflow on acquisitions and disposals of £92m.

Financing

This year's acquisitions were financed in part by the surplus cash funds that have historically been managed by professional investment managers. All such funds have now been liquidated. Cash and cash equivalents totalled £411m at the year end and were managed during the year by a central treasury department operating under strictly controlled guidelines, which also arranges term bank finance for acquisitions and to meet short-term working capital requirements, particularly for the sugar beet and wheat harvests.

At the beginning of the year the company refinanced its external borrowings and negotiated a multicurrency $1.2bn syndicated loan facility with its existing banking group, with a term of five years including two one-year extension options. £412m was borrowed under this facility at the year end, drawn down in euros, £248m, and US dollars, £164m.

Pensions

Pensions are accounted for in accordance with IAS 19 – *Employee benefits*. The total pension expense for the year was £71m compared with £67m last year.

On an IAS 19 basis, the net surplus (employee benefit assets less liabilities) in the group's defined benefit pension schemes increased from £127m last year to £276m this year benefiting from more favourable market conditions.

Following the merger of the British Sugar and Associated British Foods pension schemes in April 2006, the company agreed with the pension trustees to make two payments of £14.5m to eliminate the funding deficit, at that date, in the British Sugar section of the newly-merged scheme. The first payment was made in October 2006 and the second in October 2007. A full actuarial valuation of the combined scheme is planned to take place with the normal triennial cycle in April 2008. Total contributions to defined benefit plans in the year amounted to £61m (2006 – £48m).

For defined contribution schemes the charge for the year is equal to the contributions made, which amounted to £24m (2006 – £21m).

Financial reporting standards and accounting policies

There have been no changes to International Accounting Standards this year that have a material impact on the group accounts.

We have refined our policy of excluding intangible amortisation from the calculation of adjusted profit and earnings. The amortisation charge in respect of intangible assets that arise on a business combination, non-operating intangibles, will continue to be excluded from the adjusted profit and earnings measures. Amortisation arising on intangibles that are purchased in the ordinary course of business, operating intangibles, such as licences and information technology expenditure, is charged to adjusted operating profit. No amortisation of operating intangibles has historically been excluded from the adjusted measures hence there has been no need for restatement.

Post balance sheet events

The acquisition of certain of the European assets of Gilde Bakery Ingredients, and the disposal of our German yeast business, was agreed on 2 October 2007. The acquisition of the operations in Spain, Portugal and Germany is dependent on clearances by the relevant competition authorities. Gilde will continue to operate these businesses until competition clearance has been received.

John Bason
Finance Director

Corporate citizenship

Bags are now paper, not plastic, in Primark stores
Primark has taken a leading position in the move to reduce the environmental impact of packaging. Our stores now use paper bags manufactured from recycled paper and printed with modern environmentally friendly inks.

Health & social care programmes at Illovo, Africa
Access to healthcare is provided to all employees and their dependants, either through a network of group-run facilities or by the provision of insurance schemes.

We consider the principles of corporate citizenship to be an essential part of our business. They form part of our long-term strategy and their application across the group is under constant review.

The purpose and values of the business
Associated British Foods plc is an international food, ingredients and retail group with annual sales of £6.8bn and 85,000 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 expertise to achieve strong, sustainable leadership positions in markets that offer potential for profitable growth. We are also constantly searching for 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

Primark's focus on ethical trading standards
Primark is a member of the Ethical Trading Initiative (ETI) as part of its structured and transparent approach to ensuring its suppliers comply with a Code of Conduct. The implementation of an extensive audit programme, undertaken by independent specialists, has been strengthened by the addition of our own Ethical Trading Managers based in the main producing regions.

Fairtrade sugar from Billington's
Billington's Fairtrade sugars are sourced from Malawi and Zambia in Africa. The Fairtrade premium paid helps fund development projects such as providing safe drinking water, medicines, electricity to farms and the building of community health clinics.

FAIRTRADE

times. The group's organisational structure is highly decentralised and as such our businesses develop procedures appropriate to and compliant with local laws, culture and operating conditions but within the overall context of minimum overriding principles.

Overriding principles
Following the introduction of new provisions concerning the duties of directors under the Companies Act 2006, directors must act in the way they consider, in good faith, would be most likely to promote the long-term success of the Company for the benefit of its members as a whole. In so doing, the directors should have regard to a number of factors listed in that Act. Those factors include having regard to the Company's employees, the need to foster the Company's business relationships with suppliers and others, the impact of the Company's operations on the community and the environment and the desirability of the Company maintaining a reputation for high standards of business conduct.

With this in mind, we have reaffirmed our commitment to a number of 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.

Corporate citizenship continued

Almost half the power used by ABF comes from renewable resources
In Zambia, the 'cane-trash' in the fields is not burnt but is collected, baled, ground and mixed at the factory with bagasse, the fibrous residue remaining after the extraction of sucrose from sugar cane. This combined material is then used as a bio-renewable energy source in sugar factory boilers to generate electricity. This meets the power requirements of the sugar factory and the crop irrigation systems.

ACH supports breast cancer charity
Under ACH's 'Bake for the Cure' programme, consumers register the purchase of selected products or submit favourite recipes using ACH brands such as Fleischmann's Yeast, and the business will donate a minimum of $250,000 to the breast cancer charity Susan G Komen for the Cure.

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

We recognise the impact that our businesses have on the environment and, as a minimum, we comply with current applicable legislation of the countries in which we operate.

AB Agri WildCare scheme

In conjunction with Waitrose, Dairy Crest and The Wildlife Trusts, AB Agri is acting as the independent consultant and farm assessor for the WildCare scheme.

This sustainable supply chain scheme delivers Waitrose Select Farm Milk from British farms chosen for their high standard of milk quality and their commitment to encouraging wildlife.

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 provide.

Shareholders

We are committed to increasing shareholder value, and we 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.

Suppliers

We carry out our business honestly, ethically and with respect for the rights and interests of our suppliers. We settle our bills promptly, being a signatory to the Better Payment Practice Code and we 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 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.

Board of directors

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01 Martin G Adamson
Non-executive director (age 68)
Appointed a director on 11 October 1999 and Chairman on 5 December 2002. He was a senior partner of KPMG and a member of that firm's board until 1996. He is a member of the Institute of Chartered Accountants of Scotland.

02 George G Weston
Executive director (age 43)
George Weston is Chief Executive. He is a graduate of New College Oxford and has an MBA from Harvard Business School. In his former roles as Managing Director of Westmill Foods, Allied Bakeries and George Weston Foods Ltd (Australia) he has been a member of the ABF board since 1999. He took up his current appointment in April 2005. He is also a non-executive director of Wittington Investments Limited and a trustee of the Garfield Weston Foundation.

03 John G Bason
Executive director (age 50)
Appointed Finance Director in May 1999, he was previously the finance director of Bunzl plc and is a member of the Institute of Chartered Accountants in England and Wales.

04 WG Galen Weston OC
Non-executive director (age 67)
A director since 1964, he is chairman and president of George Weston Limited, Canada. He is also chairman of Selfridges & Co. Limited, a non-executive director of Wittington Investments Limited and a trustee of the Garfield Weston Foundation.

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05 Peter Smith
Independent non-executive director (age 61)
Appointed a director on 28 February 2007, he is chairman of Savills plc and a non-executive director of NM Rothschild & Sons Limited, Templeton Emerging Markets Investment Trust plc, and The Equitable Life Assurance Society. He is a member of the board of the CBI. Formerly, he was senior partner at PricewaterhouseCoopers (PwC) and served for two years as chairman of Coopers & Lybrand International and as a member of the global leadership team of PwC and chairman of RAC plc.

06 Timothy Clarke
Independent non-executive director (age 50)
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.

07 Michael R Alexander
Independent non-executive director (age 59)
Appointed a director on 16 January 2002, he is a non-executive director of Costain plc. He spent his earlier career with BP plc and subsequently as chief operating officer of Centrica plc. He is a former chief executive of British Energy Group plc and a former non-executive director of The Energy Savings Trust.

08 Rt. Hon. Lord MacGregor of Pulham Market, OBE
Senior independent non-executive director (age 70)
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. Formerly a non-executive director of five UK plcs, he is currently a member of the supervisory board of DAF Trucks N.V., chairman of the UK Food and Agriculture Advisory board of Rabobank International and a Life Peer since 2001.

09 Lord Jay of Ewelme GCMG
Independent non-executive director (age 61)
Appointed a director on 1 November 2006, he was British Ambassador to France from 1996 to 2001 and Permanent Under Secretary at the Foreign & Commonwealth Office from 2002 to 2006. His early career included time at the World Bank in Washington and the British High Commission in New Delhi. He is a non-executive director of Valeo, the French-based automobile parts company and Credit Agricole, the French-based international banking group, and a Life Peer since 2006.

10 Javier Ferrán
Independent non-executive director (age 51)
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 Group plc.

Directors' report

for the year ended 15 September 2007

The directors submit to the members their seventy-second annual report together with the audited financial statements of the Company for the 52 weeks ended 15 September 2007.

Business review

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

- Chairman's statement on pages 4 and 5.
- Group at a Glance on pages 2 and 3.
- Operating review on pages 6 to 20, which includes a review of the external environment, key strategic aims and performance measures.
- Principal risks and uncertainties are described on pages 36 to 39.
- Details of the principal operating subsidiaries are set out on page 91.
- Financial review on pages 22 to 23.
- Corporate citizenship on pages 24 to 27 which includes the Company's policy on treatment of its employees.

Principal activities

The activities of the group principally concern the processing and manufacture of food worldwide and textile retailing in the UK and continental Europe. Comments on the development of the business during the period under review and on the future outlook are contained within the Chairman's statement on pages 4 and 5, and the Operating review on pages 6 to 20.

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 91.

The audited financial statements of the group and Company appear on pages 48 to 99.

Results and dividends

The consolidated income statement is on page 48. Profit for the financial year attributable to equity shareholders amounted to £369m.

The directors recommend a final dividend of 13.0p per ordinary share, to be paid, if approved, on 11 January 2008 which, together with the interim dividend of 6.5p per share paid in July, amounts to 19.5p for the year. Dividends are detailed on page 63.

Research and development

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

The Company has 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 and AB Mauri in Australia and AB Enzymes in Germany. These centres support the technical resources of the trading divisions in the search for new technology and in monitoring and maintaining high standards of quality and food safety.

Charitable and political donations

Contributions to charitable organisations by the group during the year totalled £1.6m (2006 – £0.4m). No political donations were made during the year but Food Investments Pty in Australia made contributions to the Liberal Party of Australia of £12,273 in 2006.

Financial instruments

Details of the group's use of financial instruments, together with information on our risk objectives and policies and our exposure to price risks, credit risks, liquidity risks and interest rate risks, can be found on pages 38 and 39.

Payments to suppliers

The Company 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 have not quantified the excess, other than in relation to Primark's stores.

Substantial shareholding and controlling interest

Details of a controlling interest in the shares of the Company are given in note 30 on page 91.

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 8 December 2006, 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 7 December 2011. No such shares have been issued. The directors propose to renew this authority at the annual general meeting to be held on 7 December 2007 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 7 December 2007 and the directors will seek to renew this authority for the following year.

Appointment of directors

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

Articles of Association

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

Power of the directors

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

Significant agreements

The group has a number of borrowing facilities provided by various banking groups. These facility agreements generally include change of control provisions which, in the event of a change in ownership of the Company could result in renegotiation or withdrawal of these facilities.

The most significant such agreement is the $1.2bn syndicated loan facility which was signed on 12 October 2006 and under which, £412m was drawn down at the year end.

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

Further information

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

- Details of the structure of the Company's share capital and the rights attached to the Company's shares set out on page 82.
- Details of the employee share scheme set out on pages 87 and 88.

Disclosure of information to auditors

The directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information. For these purposes, relevant audit information means information needed by the Company's auditors in connection with the preparation of their report on page 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 6 November 2007 appear on pages 28 and 29, other than Jeff Harris who resigned as a non-executive director on 18 April 2007.

Peter Smith was appointed as a non-executive director on 28 February 2007, and in accordance with the Articles, will be standing for election at the annual general meeting. Also in accordance with the Articles and the Combined Code on Corporate Governance, which was updated by the Financial Reporting Council in June 2006 ('the Combined Code'), Galen Weston and Lord MacGregor, who have served for more than nine years, and Mike Alexander and Tim Clarke retire from the board. These directors are all eligible for re-election. Galen Weston and Tim Clarke offer themselves for re-election. However, as indicated in the Chairman's statement on page 4, Lord MacGregor and Mike Alexander will not be seeking re-election at the annual general meeting.

Four directors of operating subsidiaries, one of whom resigned on 13 October 2006, benefited from qualifying third party indemnity provisions provided by the Company's wholly owned subsidiary, ABF Investments plc during the financial year and at the date of this report.

Non-beneficial interests

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

Galen Weston and George Weston are trustees of a trust, in which they have no beneficial interests, which at 15 September 2007 held 683,073 ordinary shares of 50p (2006 – 683,073) in Wittington Investments Limited.

Subsequent changes

The interests shown above remained the same at 6 November 2007.

By order of the board
Paul Lister
Company Secretary
6 November 2007

Corporate governance

The board remains committed to maintaining high standards of corporate governance throughout the group, which it believes are vital to its business integrity and successful long-term performance. The Listing Rules of the Financial Services Authority require UK listed companies to report on the manner in which they apply the Combined Code. The board recognises that the Combined Code represents best practice and this report, together with the Remuneration report, sets out how the Company applies the principles of this Combined Code which deal with directors, directors' remuneration, relations with, and accountability to, shareholders, and the audit of the Company.

Statement of compliance

The board considers that the Company has complied fully with the provisions set out in Section 1 of the Combined Code throughout the year, except as follows:

The Combined Code provides that the Chairman of the Company, Martin Adamson, should not be chair of the Remuneration committee. The board of Associated British Foods plc does not accept this recommendation as it considers that Martin Adamson, due to his experience, is best suited to chair this committee. 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 Company's ultimate holding company, 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

Role and responsibilities

All members of the board take collective responsibility for the business and the management of the Company. The board met formally eight 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 includes 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.

Composition

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

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.

Following the retirement of Lord MacGregor and Mike Alexander at the annual general meeting on 7 December 2007, the board will comprise the Chairman, Chief Executive, Finance Director and five non-executive directors.

Chairman and Chief Executive

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

Senior independent director

Lord MacGregor, who has served on the board for 13 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. As from his retirement from the board at the forthcoming annual general meeting, Tim Clarke will act as the senior independent director.

Re-election

Under the Articles, all directors seek election at their first annual general meeting and one third of the directors must retire by rotation each year, subject to the requirement that each director seeks re-election every three years. Furthermore, in accordance with the Combined Code, each non-executive director who has served for more than nine years is required to stand for annual re-election. Accordingly, in addition to Peter Smith seeking election, Galen Weston and Lord MacGregor, who have served for more than nine years, together with Mike Alexander and Tim Clarke will be required to seek re-election at the forthcoming annual general meeting. Although eligible for re-election, as indicated in the Chairman's statement on page 5, Lord MacGregor and Mike Alexander will not seek re-election at that meeting.

Induction and continuing professional development

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. Site visits were arranged during the year for the newly appointed independent non-executive directors to meet the senior management teams at major business units. Ongoing training is provided as necessary.

Information flow

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

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

Independent professional advice

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

Company Secretary

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

Attendance at meetings

The attendance by individual directors at board and committee meetings during the year ended 15 September 2007 was as follows:

Directors	Nomination committee		Audit committee		Remuneration committee		Full board meeting	
	Possible	Actual	Possible	Actual	Possible	Actual	Possible	Actual
Martin Adamson	3	3	–	–	5	5	8	8
George Weston	–	–	–	–	–	–	8	8
John Bason	–	–	–	–	–	–	8	7
Lord MacGregor	3	3	3	3	5	5	8	8
Mike Alexander	1	1	3	3	5	5	8	8
Jeff Harris[1]	–	–	2	2	3	3	5	5
Tim Clarke	3	3	3	3	–	–	8	8
Lord Jay[2]	2	1	2	1	–	–	8	7
Javier Ferrán[3]	2	2	–	–	4	3	8	6
Peter Smith[4]	–	–	2	2	3	3	4	3
Galen Weston	–	–	–	–	–	–	8	5

[1] Jeff Harris resigned as an independent non-executive director on 18 April 2007.
[2] Lord Jay was appointed as an independent non-executive director on 1 November 2006.
[3] Javier Ferrán was appointed as an independent non-executive director on 1 November 2006.
[4] Peter Smith was appointed as an independent non-executive director on 28 February 2007.

Board committees

Membership of the three key committees was refreshed in January 2007. Current membership of each committee is detailed below.

Nomination committee

Current members: Martin Adamson, Lord MacGregor, Tim Clarke, Javier Ferrán, Lord Jay.

Chairman: Martin Adamson.

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

Audit committee

Current members: Mike Alexander, Lord MacGregor, Tim Clarke, Lord Jay, Peter Smith.

Chairman: Peter Smith.

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

Remuneration committee

Current members: Martin Adamson, Mike Alexander, Lord MacGregor, Javier Ferrán, Peter Smith.

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 on request and from www.abf.co.uk

Board evaluation

In the final financial quarter the senior independent director led the annual process which enabled the board to evaluate the effectiveness of its performance. This involved an individual discussion with Lord MacGregor 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 2007 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.

The senior independent director is available to shareholders in the event that they have any concerns which contact through the normal channels of Chairman, Chief Executive or Finance Director has failed to resolve or for which such contact is inappropriate.

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, through him, the chairmen of the key committees and other directors. The practice has been for a short film to be shown at the meeting explaining a particular area of the group's business.

Accountability and audit

The board is required by the Combined Code to present a balanced and understandable assessment of the Company's position and prospects. In relation to this requirement, reference is made to the statement of directors' responsibilities for preparing the financial statements set out on page 46 of this annual report and accounts.

The independent auditors' report on page 47 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 99 of this annual report and accounts.

Report of the Nomination committee

Composition of the Nomination committee

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

Martin Adamson	(Chairman)
Lord MacGregor	
Mike Alexander	(until January 2007)
Tim Clarke	
Javier Ferrán	(from January 2007)
Lord Jay	(from January 2007)

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 these circumstances the committee is chaired by a non-executive director elected by the remaining members. The committee met three times during the year.

Duties

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

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

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

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

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

Activities

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

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

The Nomination committee recommended the appointment of Peter Smith to the board and he became a non-executive director on 28 February 2007.

Corporate website

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

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

Report of the Audit committee

Summary of the role of the Audit committee

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

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

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

Composition of the Audit committee

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

Peter Smith	(from February 2007; appointed Chairman in April 2007)
Jeff Harris	(until April 2007; resigned as Chairman in April 2007)
Lord MacGregor	
Mike Alexander	
Tim Clarke	
Lord Jay	(from January 2007)

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

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

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

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

- the principles of, and developments in, financial reporting including the applicable accounting standards and statements of recommended practice;

- key aspects of the Company's operations including corporate policies and the group's internal control environment;

- matters which may influence the presentation of accounts and key figures;

- the principles of, and developments in, company law, sector-specific laws and other relevant corporate legislation;

- the role of internal and external auditing and risk management; and

- the regulatory framework for the group's businesses.

Meetings

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

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

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

During the year, the Audit committee formally reviewed draft interim and annual reports and associated interim and preliminary year end results announcements. These reviews considered:

- the accounting principles, policies and practices adopted in the group's financial statements and proposed changes to them;

- significant accounting issues and areas of judgement and complexity;

- litigation and contingent liabilities affecting the group;

- potential tax contingencies and the group's compliance with statutory tax obligations; and

- the annual financial statements for the group's pension funds.

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

- the external auditors' management letters and audit highlights memoranda;

- internal audit reports on key audit areas and significant control environment deficiencies;

- reports on the systems of internal financial controls and risk management; and

- reports on frauds perpetrated against the group.

The Audit committee is responsible for the development, implementation and monitoring of 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 Audit committee reviewed:

- changes in external audit executives in the audit plan for the current year;

- a report from the external auditors describing their arrangements to identify, report and manage any conflicts of interest; and

- the extent of non-audit services provided by the external auditors.

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

- the external auditors' fulfilment of the agreed audit plan and variations from it; and

- reports highlighting the major issues that arose during the course of the audit.

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

- the terms, areas of responsibility, associated duties and scope of the audit as set out in the external auditors' engagement letter for the forthcoming year;

- the external auditors' overall work plan for the forthcoming year;

- the external auditors' fee proposal;

- the major issues that arose during the course of the audit and their resolution;

- key accounting and audit judgements;

- the levels of errors identified during the audit; and

- recommendations made by the external auditors in their management letters and the adequacy of management's response.

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

Internal audit function

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

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

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

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

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

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

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

Internal control

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

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

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

Standards

There are guidelines on the minimum 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.

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

Internal audit

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

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

Risk Management Review

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

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

1. Food safety

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

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

2. Supply chain labour standards

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

- Primark requires all the factories that manufacture its clothes to sign up to its 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.

  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 business is committed to monitoring and progressively improving the working conditions of the people that make its products.

  Primark currently has an extensive and independent audit programme active in all its sourcing countries. Unannounced audits comprise a large percentage of the total, in an attempt to ensure that audits reflect the actual situation within the factory and not the one the owner would like Primark to see. During 2007 Primark will have visited all of its major overseas suppliers.

  Where issues are identified, suppliers are asked to commit to corrective actions and timescales for their implementation. These suppliers continue to have Primark's full commercial support throughout the agreed remediation period, and the suppliers are supported by Primark's own ethical trade experts where additional guidance is required. Primark has recruited managers based in China and India/Bangladesh to help to progress the findings of the auditors more thoroughly.

  Follow-up audits are conducted within a three-month period of the initial audit and progress is recorded. Where progress is not forthcoming the senior buying directors are included in the process. Should co-operation not be forthcoming, Primark will consider its future trading relationship with this supplier.

- Twinings is a member of the Ethical Tea Partnership which requires its suppliers and subcontractors to meet the International Labour Organisation core labour standards, respecting an observance of human rights and fundamental freedoms without discrimination as to race, sex, language or religion.

- Illovo operates a comprehensive set of policies and standards to cover all aspects of its operation, including supply chain labour standards. Performance is measured on a regular basis by means of self-assessments and audits by independent consultants.

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

3. Competition rules

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

4. Environment

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

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

The Company gives particular attention to recently acquired businesses, to ensure they operate in accordance with the standards expected of the group's businesses.

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

The Company's manufacturing operations in the UK participate in the UK Government's Climate Change Agreement Scheme. The sugar sites in the UK and Poland participate in the EU Emissions Trading Scheme. These schemes allow the sites to reduce energy consumption and therefore reduce emissions of carbon dioxide cost-effectively.

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

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

Other significant environmental risks include handling and disposal of waste and the treatment of waste water.

The principal legal risk is regulatory action against the Company for non-compliance with licence conditions and statutory requirements.

All the group's businesses have named accountable senior executives and responsible managers and the management of the physical and legal risks, for which they employ specialists, is included in their annual objectives.

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

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

5. Health and safety

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

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

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

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

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

The Company publishes detailed information of its health and safety performance in a separate report on its website: www.abf.co.uk/csr/hse.asp

6. Financial and commodity risks

Treasury operations are conducted within a framework of board-approved policies and guidelines to manage the group's financial and commodity risks. Financial risks essentially arise through exposure to foreign currencies, interest rates, counterparty credit and borrowing facilities. Commodity risks arise from the procurement of raw materials and the exposure to changes in market prices.

Foreign currency risk

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

Translation exposure

The group does not hedge the translation impact of exchange rate movements on the income statement. A partial hedge of the balance sheet translation exposure is provided by borrowing in the currencies of some of the group's overseas assets, as well as the designation of certain intercompany borrowings as a further partial hedge.

Transaction exposure

The group's main transaction exposures are:

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

Elsewhere, a number of businesses purchase raw materials in foreign currencies but, in all material respects, they operate in their local currency and, as a result, transaction exposure to exchange rate movements is modest.

The group uses derivative financial instruments to hedge its exposure to fluctuations in foreign exchange on its trade receivables and trade payables that are exposed to movement in foreign currencies.

The group does not seek fair value hedge accounting for transaction hedges but marks them to market with the resulting changes in fair value taken through the income statement.

The group hedges forecast foreign currency exposures in respect of a significant proportion of its future sales and purchases on a rolling 12 month basis. The group classifies its forward foreign exchange contracts, used to hedge forecast transactions, as cash flow hedges and states them at their fair value.

Significant foreign currency transactions are generally covered through forward foreign currency sale or purchase contracts, the majority of which have maturities of less than one year.

Interest rate risk
Interest rate risk comprises the interest price risk that results from borrowing at fixed rates and the interest cash flow risk that results from borrowing at floating rates. The group's policy is generally to maintain floating rate debt for the majority of its bank finance although interest rate swaps are entered into in more volatile markets.

Commodity price risk
The group purchases commodities including wheat, oils, cocoa, tea and energy in the ordinary course of its business. Exposure to changes in the market price of such commodities is managed through the use of hedging instruments including futures and options contracts. The use of such contracts is tightly controlled within set limits.

Credit risk
Our businesses are exposed to counterparty credit risk when dealing with customers, and from certain financing activities. Credit evaluations are performed on all customers requiring significant credit and outstanding debts are continuously monitored by each business. Aggregate exposures are monitored at group level and, where appropriate, limits are set for higher risk counterparties. Concentrations of credit risk are limited as a result of the group's large and diverse customer base.

Banking relationships are generally limited to those banks that are members of the core relationship group. These banks are selected for their credit status, global reach and their ability to meet the businesses' day-to-day banking requirements. The credit ratings of these institutions are monitored on a continuous basis.

Liquidity risk
The group has committed bank facilities available to meet its long-term capital and funding obligations and to meet any unforeseen obligations and opportunities.

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

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

8. 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.

Remuneration report

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', 'Directors' share options' and 'Directors' beneficial interests'.

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

Committee composition
The Remuneration committee currently consists of six non-executive directors. The members of the committee during the year have been:

Martin Adamson	(Chairman)
Lord MacGregor	
Mike Alexander	
Jeff Harris	(until April 2007)
Tim Clarke	(until January 2007)
Javier Ferrán	(from January 2007)
Peter Smith	(from February 2007)

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

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

George Weston (Chief Executive)
Des Pullen (Group Human Resources Director)

The HR Director and Towers Perrin provided support and liaison throughout the year.

3. Directors' remuneration policy
The 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; and
- align executive rewards with shareholder value.

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

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

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

Annual performance bonus
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. Adjusted operating profit and working capital financial targets are set by the Remuneration committee at the beginning of each financial year. In 2006/7 the scheme provided an incentive opportunity for executive directors in the range 0% to 100% of base salary, with an expected value of around 53% for 'on target' performance. This annual bonus scheme will continue unchanged for 2007/8.

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

The first allocations to executive directors and other key executives were made in December 2003 and shares to meet these obligations were acquired in the market. The maximum face value of the allocation for executive directors was 150% of base salary, with no expectation of further allocations being made during that three year performance period. Awards were subject to testing, in September 2006, against a pre-determined operating profit target range modified by return on capital employed, and 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. Shares under this award vested in December 2006 and are included in the table on page 41.

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

The first allocations under the new arrangements were made in November 2006. These grants, to a maximum face value of 125% of base salary, relate to the three year performance period September 2006 to September 2009. Performance under this plan will be measured against a range of 5% to 11% compound annual growth in adjusted earnings per share. Adjusted earnings per share was chosen as the measure for long-term incentives as it is transparent and easily understood both by participants and shareholders.

As the first of the new three year long-term incentive plans will not mature until December 2009, arrangements have been put in place for the two interim years which will be settled in cash in December 2007 and December 2008. The Remuneration committee has set interim adjusted earnings per share targets for 2006/7 and 2007/8 which are milestones towards the adjusted earnings per share target set for 2009.

The 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	Conditional allocations of shares as at 16.09.06	Shares allocated during the year	Shares vested during the year	Shares lapsed during the year	Conditional allocations of shares as at 15.09.07	Market price at vesting date	Value vested
George Weston	17.12.03	565p	16.09.06	17.12.06	70,354	–	(45,800)	(24,554)	–	837p	£383,346
	21.11.06	890.1p	12.09.09	21.11.09	–	94,793	–	–	94,793	n/a	n/a
John Bason	17.12.03	565p	16.09.06	17.12.06	110,177	–	(71,725)	(38,452)	–	837p	£600,338
	21.11.06	890.1p	12.09.09	21.11.09	–	68,812	–	–	68,812	n/a	n/a

In line with the policy outlined above, it has been agreed that the second allocation of conditional shares under the new arrangements to a maximum face value of 125% of base salary will be made on or after 21 November 2007. The committee has reviewed the performance criteria and has determined that this allocation will again be measured against compound annual growth in adjusted earnings per share, in the range of 5% to 11% at the end of the performance period in September 2010.

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 15 September 2007				
	Salary or fees £'000	Bonus £'000	Benefits £'000	2007 Total £'000	2006 Total £'000
Non-executive directors					
Martin Adamson	239	–	–	239	229
Galen Weston	–	–	–	–	–
Lord MacGregor	53	–	–	53	51
Mike Alexander	46	–	–	46	44
Jeff Harris	33	–	–	33	51
Tim Clarke	46	–	–	46	44
Lord Jay	40	–	–	40	–
Javier Ferrán	40	–	–	40	–
Peter Smith	29	–	–	29	–
Executive directors					
George Weston	715	970	11	1,696	734
John Bason	493	681	21	1,195	747
	1,734	1,651	32	3,417	1,900

5. Directors' pensions

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

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

Directors' pension disclosure for year ended 15 September 2007

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 ended 15 September 2007.

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 15.09.07 £'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 15.09.07 £'000 (F)	Value of accrued pension at 16.09.06 £'000 (G)	Total change in value during period £'000 (H)
George Weston	64	59	214	17	387	1,465	1,091	357
John Bason	22	18	114	17	191	1,299	1,097	185

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

5. Both directors opted out of the ABF scheme on 5 April 2006 and since then have earned benefits in the Employer Financed Retirement Benefit Scheme (EFRBS). The figures shown represent the aggregate of benefits in the ABF scheme and the EFRBS.

6. Voluntary contributions paid by directors and resulting benefits are not shown.

7. Pension benefits include a 50% spouse's pension. Pensions are guaranteed to increase in payment in line with RPI, limited each year to 5%. Additional discretionary increases to pensions in payment have been granted in the past.

6. Directors' share options

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

- The Associated British Foods plc 1994 Share Option Scheme (the 1994 Scheme) requires options granted to be held for five years before they become exercisable, at which point they are not subject to any performance criteria; and

- The Associated British Foods 2000 Executive Share Option Scheme (the 2000 Scheme), under which options granted become exercisable by participants after an initial three year performance period, to the extent that performance criteria have been satisfied. Performance criteria are based on robust levels of business performance over the period.

Although share options may continue to be granted on a selective basis, it has been agreed that share option awards will not form part of the normal ongoing remuneration package for executives.

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

	Options as at 16.09.06	Lapsed in year	Exercised during year	Options as at 15.09.07	Exercise price	Earliest normal exercise date	Expiry date	Exercise date	Price on exercise
George Weston	15,000*	–	–	15,000	561.5p	28.04.2003	27.04.2008	–	–
	22,500**	–	–	22,500	484.0p	17.01.2004	16.01.2011	–	–
John Bason	50,000**	–	–	50,000	484.0p	17.01.2004	16.01.2011	–	–
	50,000*	–	–	50,000	497.0p	07.12.2006	06.12.2011	–	–
	50,000*	–	–	50,000	564.0p	09.12.2007	08.12.2012	–	–

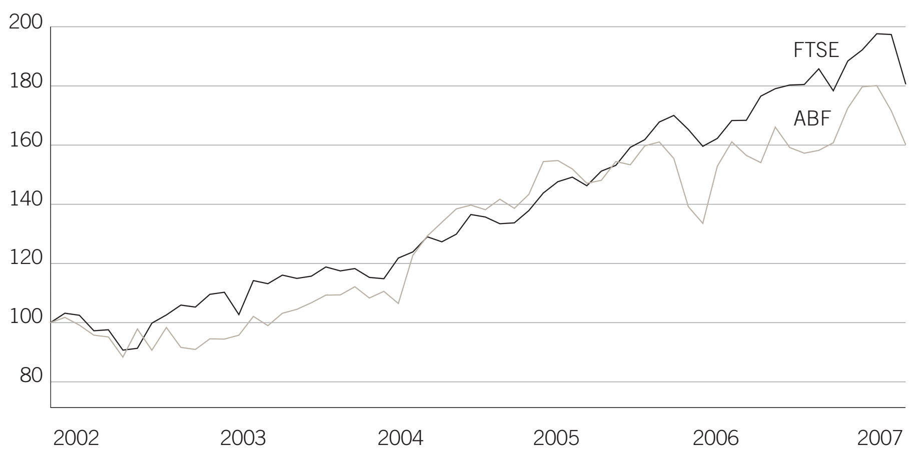
*Granted under the 1994 Scheme
**Granted under the 2000 Scheme

At 15 September 2007 the market value of the Company's ordinary shares was 793p. During the previous 12 months the price ranged from 780p to 956p.

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 Company's Articles of Association require that all directors retire from office at every third annual general meeting. Details of the contracts of service of directors who served during the year ended 15 September 2007 are set out below:

	Date of appointment	Effective date of relevant 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
Mike Alexander	16.01.02	16.01.02	6 months	6 months
Lord MacGregor	09.12.94	16.11.99	6 months	6 months
Tim Clarke	03.11.04	03.11.04	6 months	6 months
Jeff Harris*	21.05.03	21.05.03	6 months	6 months
Lord Jay	01.11.06	01.11.06	6 months	6 months
Javier Ferrán	01.11.06	01.11.06	6 months	6 months
Peter Smith	28.02.07	28.02.07	6 months	6 months

*Jeff Harris resigned as a non-executive director on 18 April 2007.

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

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

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

9. Directors' beneficial interests

The directors of the Company as at 15 September 2007 had the following beneficial interests in the shares and debentures of the Company, its holding company and fellow subsidiary undertakings.

As at	15 September 2007	16 September 2006
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	3,173,783	3,146,761
John Bason		
Associated British Foods plc, ordinary shares of $5\frac{15}{22}$p	16,577	9,735
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		
Associated British Foods plc, ordinary shares of $5\frac{15}{22}$p	2,045	2,045
Mike Alexander		
Associated British Foods plc, ordinary shares of $5\frac{15}{22}$p	1,205	1,205
Tim Clarke		
Associated British Foods plc, ordinary shares of $5\frac{15}{22}$p	4,000	3,000
Lord Jay	–	–
Javier Ferrán	–	–
Peter Smith	–	–

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

The interests shown above remained the same as at 6 November 2007.

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.

It has been agreed that adjustments will be made to the fees in December 2007 following a period of two years in which the fees have remained unchanged.

11. Executive directors serving as non-executive directors

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

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

12. Compliance statement

In compliance with the UK Directors' Remuneration Report Regulations 2002, the auditable part of the Remuneration report comprises directors' remuneration on page 41, directors' pensions on page 42, long-term incentives on page 40, directors' share options on page 43 and directors' beneficial interests on page 44.

Paul Lister
Company Secretary
6 November 2007

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 15 September 2007 which comprise the consolidated income statement, the consolidated and parent company balance sheets, the consolidated cash flow statement, the consolidated statement of changes in equity, the parent company reconciliation of movements in equity shareholders' funds, and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Remuneration report that is described as having been audited.

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

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU, and for preparing the parent company financial statements and the directors' remuneration report in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the statement of directors' responsibilities on page 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 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 Remuneration report to be audited. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and Company's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion:

- the consolidated financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the group's affairs as at 15 September 2007 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 15 September 2007;

- the parent company financial statements and the part of the Remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985; and

- the information given in the Directors' report is consistent with the financial statements.

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

6 November 2007

Consolidated income statement

for the year ended 15 September 2007

Continuing operations	Note	2007 £m	2006 £m
Revenue	1	6,800	5,996
Operating costs before exceptional items	2	(6,262)	(5,486)
Exceptional items			
– impairment of property, plant & equipment	2, 9	–	(64)
– restructuring costs	2	–	(33)
		538	413
Share of profit after tax from joint ventures and associates	11	10	10
Profits less losses on sale of property, plant & equipment		8	10
Operating profit		556	433
Adjusted operating profit	1	622	561
Profits less losses on sale of property, plant & equipment		8	10
Amortisation of non-operating intangibles	8	(74)	(41)
Exceptional items		–	(97)
Profits less losses on sale of businesses	23	(39)	(4)
Provision for loss on termination of an operation		–	(8)
Profit before interest		517	421
Finance income	4	20	32
Finance expense	4	(55)	(46)
Other financial income	4	26	12
Profit before taxation		508	419
Adjusted profit before taxation		613	559
Profits less losses on sale of property, plant & equipment		8	10
Amortisation of non-operating intangibles		(74)	(41)
Exceptional items		–	(97)
Profits less losses on sale of businesses		(39)	(4)
Provision for loss on termination of an operation		–	(8)
Taxation – UK (excluding tax on exceptional items)		(46)	(89)
– UK (on exceptional items)		–	29
– Overseas		(62)	(51)
	5	(108)	(111)
Profit for the period		400	308
Attributable to			
Equity shareholders		369	301
Minority interests		31	7
Profit for the period	22	400	308
Basic and diluted earnings per ordinary share (pence)	7	46.70	38.10
Dividends per share paid and proposed for the year (pence)	6	19.50	18.75

Consolidated balance sheet

at 15 September 2007

	Note	2007 £m	2006 £m
Non-current assets			
Intangible assets	8	1,570	1,542
Property, plant & equipment	9	2,642	2,479
Biological assets	10	48	46
Investments in joint ventures	11	46	54
Investments in associates	11	33	15
Employee benefits assets	12	308	169
Deferred tax assets	13	70	82
Other receivables	14	2	5
Total non-current assets		4,719	4,392
Current assets			
Assets classified as held for sale	15	48	53
Inventories	16	765	681
Biological assets	10	53	51
Trade and other receivables	14	967	896
Other financial assets	17	17	70
Cash and cash equivalents	18	411	349
Total current assets		2,261	2,100
TOTAL ASSETS		6,980	6,492
Current liabilities			
Liabilities classified as held for sale	15	(7)	(11)
Interest-bearing loans and overdrafts	19	(125)	(531)
Trade and other payables	20	(1,167)	(972)
Other financial liabilities	17	(26)	(25)
Income tax		(82)	(85)
Provisions	21	(36)	(49)
Total current liabilities		(1,443)	(1,673)
Non-current liabilities			
Interest-bearing loans	19	(598)	(176)
Provisions	21	(14)	(21)
Deferred tax liabilities	13	(430)	(398)
Employee benefits liabilities	12	(31)	(42)
Total non-current liabilities		(1,073)	(637)
TOTAL LIABILITIES		(2,516)	(2,310)
NET ASSETS		4,464	4,182
Equity			
Issued capital	22	47	47
Other reserves	22	173	173
Translation reserve	22	(49)	(29)
Hedging reserve	22	(1)	(6)
Retained earnings	22	4,074	3,773
		4,244	3,958
Minority interests	22	220	224
TOTAL EQUITY		4,464	4,182

The financial statements on pages 48 to 93 were approved by the board of directors on 6 November 2007 and were signed on its behalf by:
Martin Adamson, *Chairman* and John Bason, *Director.*

Consolidated cash flow statement

for the year ended 15 September 2007

	Note	2007 £m	2006 £m
Cash flow from operating activities			
Profit before taxation		508	419
Profits less losses on sale of property, plant & equipment		(8)	(10)
Profits less losses on sale of businesses		39	4
Provision for loss on termination of an operation		–	8
Exceptional items		–	97
Financial income		(20)	(32)
Financial expense		55	46
Other financial income		(26)	(12)
Share of profit from joint ventures and associates		(10)	(10)
Amortisation		79	41
Depreciation		214	177
Change in the fair value of biological assets		(59)	–
Share-based payment expense		6	–
Pension cost less contributions		(14)	(1)
Increase in inventories		(38)	(29)
Increase in receivables		(58)	(178)
Increase in payables		151	78
Decrease in provisions		(17)	(62)
Cash generated from operations		802	536
Income taxes paid		(106)	(117)
Net cash from operating activities		696	419
Cash flows from investing activities			
Dividends received from joint ventures		1	1
Dividends received from associates		2	3
Purchase of property, plant & equipment		(420)	(432)
Purchase of intangibles		(7)	(13)
Sale of property, plant & equipment		30	181
Purchase of subsidiaries	23	(132)	(496)
Sale of subsidiaries	23	58	–
Purchase of joint ventures and associates		(18)	–
Interest received		20	36
Net cash from investing activities		(466)	(720)
Cash flows from financing activities			
Dividends paid to minorities		(26)	(6)
Dividends paid to shareholders		(150)	(144)
Interest paid		(58)	(47)
Decrease in other current investments		52	216
Financing:			
Decrease in short-term loans		(307)	(46)
Increase/(decrease) in long-term loans		417	(365)
(Increase)/decrease in own shares held		(9)	1
Net cash from financing activities		(81)	(391)
Net increase/(decrease) in cash and cash equivalents		149	(692)
Cash and cash equivalents at the beginning of the period		198	894
Effect of movements in foreign exchange		2	(4)
Cash and cash equivalents at the end of the period	18	349	198

Consolidated statement of recognised income and expense

for the year ended 15 September 2007

	2007 £m	2006 £m
Actuarial gains on defined benefit schemes	110	43
Deferred tax associated with defined benefit schemes	(25)	(12)
Effect of movements in foreign exchange	(32)	(88)
Net gain on hedge of net investment in foreign subsidiaries	4	14
Movement in cash flow hedging position	7	(17)
Deferred tax associated with movement in cash flow hedging position	(2)	4
Net gain/(loss) recognised directly in equity	62	(56)
Profit for the period	400	308
Total recognised income and expense for the period	462	252
Adjustments relating to adoption of IAS 32 and IAS 39 on 18 September 2005 (equity shareholders)	–	7
	462	259
Attributable to:		
Equity shareholders	439	246
Minority interests	23	6
	462	252

Significant accounting policies

for the year ended 15 September 2007

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 15 September 2007 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 6 November 2007.

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

The Company has elected to prepare its parent company financial statements under UK Generally Accepted Accounting Principles. These are presented on pages 94 to 99.

Basis of preparation

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

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

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

The financial statements of the Company and its subsidiary undertakings are prepared for the 52 weeks ended 15 September 2007, except that, to avoid delay in the preparation of the consolidated financial statements, the results of certain subsidiaries are included up to 31 August 2007. The results of Illovo are included for the period to 30 September 2007 in line with Illovo's local reporting date. Adjustments are made as appropriate for significant transactions or events occurring between 31 August and 30 September.

Basis of consolidation

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

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

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

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

Business combinations

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

Revenue

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

Borrowing costs

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

Exceptional items

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

The accounting policies set out below have been applied to all periods presented except for the following:

The provisions of IAS 32 and IAS 39 were adopted from 18 September 2005, resulting in an opening implementation adjustment in the comparative period.

In light of British Sugar's acquisition of additional sugar quota this year, the policy of excluding intangible amortisation from the calculation of adjusted profit and earnings has been refined. The amortisation charge in respect of intangible assets that arise on a business combination ('non-operating intangibles') will continue to be excluded from adjusted profit and earnings measures. Amortisation arising on intangibles that are purchased in the ordinary course of business ('operating intangibles') is charged to operating profit. No amortisation of operating intangibles has historically been excluded from adjusted profit and earnings, hence there has been no need for restatement of comparative periods.

Details of new accounting standards which came into force in the year are set out at the end of this note. None of them required restatement of comparative periods, nor had any significant impact on the group's consolidated results or financial position.

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

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

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

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

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

Share-based payments: employee benefits
The Share Incentive Plan allows executives to receive allocations of shares to be distributed subject to attainment of certain financial performance criteria and typically after a three year performance period. The fair value of the shares to be awarded is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the executives become unconditionally entitled to the shares. The fair value of the shares allocated is measured taking into account the terms and conditions 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 substantively enacted at the balance sheet date, together with any adjustment to tax payable in respect of previous years.

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

Financial assets and financial liabilities, except for other current investments and derivative financial instruments, are measured initially at fair value, plus directly attributable transaction costs, and thereafter at amortised cost. Other current investments (classified under other financial assets) are designated as at fair value through profit and loss because they are managed and their performance is evaluated on a fair value basis in accordance with the group's risk management and investment strategy.

Cash and cash equivalents

Cash and cash equivalents comprise 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 purposes of the cash flow statement.

Derivative financial instruments

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

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

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

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

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

When the forecast transaction results in the recognition of a non-financial asset or liability, the associated cumulative gains and losses, previously recognised in equity, are included in the cost of the asset or liability. Otherwise, gains and losses previously recognised in equity are removed and recognised in the income statement at the same time as the hedged transaction. Gains or losses on hedging instruments that are related to an underlying exposure that no longer exists are taken directly to the income statement.

Hedges of the group's net investment in foreign operations take the form of either borrowings in the currency of the investment's net assets or derivatives that hedge the translation exposure of the net investment. The effective portion of fair value movements on hedging instruments are taken to the translation reserve within equity until the net investments are sold or otherwise disposed of. The ineffective part of the gain or loss is recognised immediately within interest in the income statement.

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

Embedded derivatives

Derivatives that are embedded in other financial instruments or other non-financial host contracts are treated as separate derivatives when their risk and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value.

Intangible assets other than goodwill

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

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

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

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

Customer relationships	up to 5 years
Grower 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.

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

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 on transition to IFRS.

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 as an expense in the income statement as incurred.

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

Impairment

The carrying amounts of the group's non-financial 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 and intangibles without a finite life, the recoverable amount is estimated at each balance sheet date.

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

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

Calculation of recoverable amount

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

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

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

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

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

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 recognised as assets of the group at the inception of the lease at the lower of fair value and the present value of the minimum lease payments. Depreciation on leased assets is charged to the income statement on the same basis as owned assets. Leasing payments are treated as consisting of capital and interest elements and the interest is charged to the income statement as a financing charge. 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.

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

Cane roots – the escalated average cost, using appropriate inflation-related indices, of each year of planting adjusted for the remaining expected life. Expected useful lives are currently 10 years in South Africa, 7 years in Zambia and 8 years in each of the other countries of operation.
Growing cane – the estimated sucrose content valued at the estimated sucrose price for the following season, less the estimated costs for harvesting and transport.

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

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

New accounting policies
The following standards or interpretations, issued by the International Financial Reporting Interpretations Committee (IFRIC), are effective for the first time in the current financial year and have been adopted by the group with no significant impact on its consolidated results or financial position:

IFRIC 8 – *Scope of IFRS 2 – Accounting for share-based payments* (effective for annual periods beginning on or after 1 May 2006).

Amendment to IAS 19 – *Employee benefits* (effective for annual reports beginning on or after 1 January 2006).

Amendment to IAS 21 – *Net investment in a foreign operation* (effective for annual reports beginning on or after 1 January 2006).

Amendments to IAS 39 and IFRS 4 – *Financial guarantee contracts* (effective for annual reports beginning on or after 1 January 2006).

The following standards and interpretations, issued by the IASB or the IFRIC, have not yet been endorsed by the EU (except for IFRIC 10), and have not yet been adopted by the group:

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

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

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

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

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

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

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

The IFRIC makes it generally more difficult to recognise defined benefit pension surpluses (and the related deferred tax liabilities) on the balance sheet. The group is currently assessing the impact of this interpretation on its financial statements.

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

1. Segmental analysis

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

Business segments

The group is comprised of the following business segments:

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

To reflect the changed nature of the former Primary Food segment, it has been renamed Sugar.

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

	Revenue		Adjusted operating profit	
	2007 £m	2006 £m	2007 £m	2006 £m
Business segments				
Grocery	2,605	2,578	153	182
Sugar	1,151	671	199	115
Agriculture	687	623	18	15
Ingredients	728	683	75	79
Retail	1,602	1,309	200	185
Central	–	–	(26)	(22)
	6,773	5,864	619	554
Businesses disposed:				
Grocery	7	78	–	3
Agriculture	–	8	–	1
Ingredients	20	46	3	3
	27	132	3	7
	6,800	5,996	622	561
Geographical segments				
United Kingdom	3,216	2,995	255	280
Europe, Middle East & Africa	1,251	668	158	70
The Americas	1,142	1,164	113	121
Asia Pacific	1,164	1,037	93	83
	6,773	5,864	619	554
Businesses disposed:				
United Kingdom	–	8	–	1
Europe, Middle East & Africa	7	78	–	3
The Americas	20	46	3	3
	27	132	3	7
	6,800	5,996	622	561

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

Business segments

	Grocery £m	Sugar £m	Agriculture £m	Ingredients £m	Retail £m	Central £m	Eliminations £m	Total £m
Revenue from continuing businesses	2,616	1,250	689	775	1,602	–	(159)	6,773
Businesses disposed	7	–	–	20	–	–	–	27
Internal revenue	(11)	(99)	(2)	(47)	–	–	159	–
Revenue from external customers	2,612	1,151	687	748	1,602	–	–	6,800
Adjusted operating profit from continuing businesses	153	199	18	75	200	(26)	–	619
Businesses disposed	–	–	–	3	–	–	–	3
Adjusted operating profit	153	199	18	78	200	(26)	–	622
Amortisation of non-operating intangibles	(14)	(32)	–	(28)	–	–	–	(74)
Profits less losses on sale of property, plant & equipment	–	–	–	–	8	–	–	8
Profits less losses on sale of businesses	7	–	1	(40)	(7)	–	–	(39)
Profit before finance costs, other finance income and taxation	146	167	19	10	201	(26)	–	517
Finance costs						(35)	–	(35)
Other finance income						26	–	26
Taxation						(108)	–	(108)
Profit for the period	146	167	19	10	201	(143)	–	400
Segment assets (excluding investments in associates and joint ventures)	1,949	1,609	172	924	1,436	21	–	6,111
Investments in associates and joint ventures	25	10	31	13	–	–	–	79
Segment assets	1,974	1,619	203	937	1,436	21	–	6,190
Cash and cash equivalents						411	–	411
Employee benefits assets						308	–	308
Deferred tax assets						70	–	70
Other current investments						1	–	1
Segment liabilities	(391)	(427)	(56)	(119)	(217)	(35)	–	(1,245)
Interest-bearing loans and overdrafts						(723)	–	(723)
Income tax						(82)	–	(82)
Deferred tax liabilities						(434)	–	(434)
Employee benefits liabilities						(32)	–	(32)
Net assets	1,583	1,192	147	818	1,219	(495)	–	4,464
Capital additions	85	113	6	44	139	–	–	387
Depreciation	75	52	7	24	56	–	–	214
Amortisation	14	37	–	28	–	–	–	79

Geographical segments

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

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

Business segments

	Grocery £m	Sugar £m	Agriculture £m	Ingredients £m	Retail £m	Central £m	Eliminations £m	Total £m
Revenue from continuing businesses	2,597	766	623	729	1,309	–	(160)	5,864
Businesses disposed	78	–	8	46	–	–	–	132
Internal revenue	(19)	(95)	–	(46)	–	–	160	–
Revenue from external customers	2,656	671	631	729	1,309	–	–	5,996
Adjusted operating profit from continuing businesses	182	115	15	79	185	(22)	–	554
Businesses disposed	3	–	1	3	–	–	–	7
Adjusted operating profit	185	115	16	82	185	(22)	–	561
Exceptional items	–	(97)	–	–	–	–	–	(97)
Amortisation of non-operating 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 finance costs, other finance income and taxation	180	20	15	47	179	(20)	–	421
Finance costs						(14)	–	(14)
Other finance income						12	–	12
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 current 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 additions	84	55	6	48	289	–	–	482
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 additions	343	52	30	57	–	482
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 9), and a provision of £10m for costs associated with the termination of Littlewoods.

2. Operating costs and gross profit

	Note	Total 2007 £m	Before exceptional items 2006 £m	Exceptional items[1] 2006 £m	Total 2006 £m
Operating costs					
Cost of sales (including amortisation of intangibles)		5,058	4,338	97	4,435
Distribution costs		807	770	–	770
Administration expenses		397	378	–	378
		6,262	5,486	97	5,583
Operating costs are stated after charging/(crediting):					
Employee benefits expense	3	1,002			865
Amortisation of non-operating intangibles	8	74			41
Amortisation of operating intangibles	8	5			–
Depreciation of owned property, plant & equipment	9	214			177
Operating lease payments under property leases		63			57
Operating lease payments for hire of plant & equipment		6			6
Other operating income		(19)			(33)
Research and development expenditure		16			12
Impairment of trade receivables	14	–			(1)
Foreign exchange gains on operating activities		(9)			(3)
Foreign exchange losses on operating activities		10			5

[1]Refer to accounting policy on page 52.

In the prior year, management considered the impact of the EU sugar regime on the group's European sugar operations and as a result, the carrying value and useful lives of the affected factories were assessed for impairment. This resulted in a £64m impairment of property, plant & equipment, together with associated restructuring charges of £33m.

Auditors' remuneration	2007 £m	2006 £m
Fees payable to the Company's auditors and its associates in respect of the audit		
Group audit of the Company's financial statements	0.5	0.4
Audit of the Company's subsidiaries pursuant to legislation	3.1	3.1
Total audit remuneration	3.6	3.5
Fees payable to the Company's auditors and its associates in respect of non-audit related services		
Other services pursuant to legislation	0.3	0.4
Tax services	1.2	1.9
Information technology services	0.5	0.1
Recruitment and remuneration services	–	0.1
Due diligence	1.0	0.2
All other services	0.3	0.7
Total non-audit related remuneration	3.3	3.4
Fees payable to the Company's auditors and its associates in respect of the group's pension schemes		
Audit of the pension schemes	0.1	0.1
	0.1	0.1

3. Employees

	Note	2007	2006
Average number of employees			
United Kingdom		29,102	24,277
Europe, Middle East & Africa		37,084	4,917
The Americas		4,328	4,544
Asia Pacific		14,122	12,965
		84,636	46,703
	Note	**£m**	**£m**
Employee benefits expense			
Wages and salaries		862	740
Social security contributions		63	58
Contributions to defined contribution schemes	12	24	21
Charge for defined benefit schemes	12	47	46
Equity-settled share-based payment schemes	24	6	–
		1,002	865

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

4. Interest and other finance income and expense

	2007 £m	2006 £m
(i) Finance income		
Interest receivable on bank deposits and investments	20	31
Gain on remeasurement of investments at fair value through profit and loss	–	1
Total finance income	20	32
(ii) Finance expense		
Interest payable on bank loans and overdrafts	(37)	(29)
Interest payable on all other borrowings	(17)	(16)
Interest payable on finance leases	(1)	(1)
Total finance expense	(55)	(46)
(iii) Other financial income		
Expected return on employee benefit scheme assets	138	116
Interest charge on employee benefit scheme liabilities	(113)	(103)
Net financial income in respect of employee benefit schemes	25	13
Net foreign exchange gains/(losses) on financing activities	1	(1)
Total other financial income	26	12

5. Income tax expense

	2007 £m	2006 £m
Current tax expense		
UK – corporation tax at 30% (2006 – 30%)	37	37
Overseas – corporation tax	71	46
Over-provided in prior years	(7)	–
	101	83
Deferred tax expense		
UK deferred tax	14	21
Overseas deferred tax	(12)	8
Under/(over) provided in prior years	5	(1)
Total income tax expense in income statement	108	111
Reconciliation of effective tax rate		
Profit before taxation	508	419
Less share of profit from joint ventures and associates	(10)	(10)
Profit before taxation excluding share of profit from joint ventures and associates	498	409
Nominal tax charge at UK corporation tax rate of 30% (2006 – 30%)	149	123
Lower tax rates on overseas earnings	(46)	(23)
Expenses not deductible for tax purposes	7	12
Adjustments in respect of prior periods	(2)	(1)
	108	111

Deferred taxation balances are analysed in note 13.

6. Dividends

	2007 pence	2006 pence	2007 £m	2006 £m
Per share				
2005 final	–	12.00	–	95
2006 interim	–	6.25	–	49
2006 final	12.50	–	99	–
2007 interim	6.50	–	51	–
	19.00	18.25	150	144

The 2007 interim dividend was declared on 24 April 2007 and paid on 2 July 2007. The 2007 final dividend of 13.00p, total value of £103m, will be paid on 11 January 2008 to shareholders on the register on 7 December 2007.

Dividends relating to the period were 19.50p per share totalling £154m (2006 – 18.75p per share totalling £148m).

7. Earnings per share

The calculation of basic earnings per share at 15 September 2007 was based on the net profit attributable to equity shareholders of £369m (2006 – £301m), and a weighted average number of shares outstanding during the year of 790 million (2006 – 790 million). The calculation of the weighted average number of shares excludes the shares held by the Employee Share Option Scheme on which the dividends are being waived.

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

The diluted earnings per share calculation takes into account the dilutive effect of share options. The diluted, weighted average number of shares is 790 million (2006 – 790 million). There is no difference between basic and diluted earnings.

	2007 £m	2006 £m
Adjusted profit for the period	418	402
Profits less losses on sale of property, plant & equipment	8	10
Profits less losses on sale of businesses	(39)	(4)
Provision for loss on termination of an operation	–	(8)
Exceptional items	–	(97)
Tax effect on above	15	26
Amortisation of non-operating intangibles	(74)	(41)
Tax credit on non-operating intangibles amortisation and goodwill	30	13
Minority share of amortisation of non-operating intangibles net of tax	11	–
Profit for the period attributable to equity shareholders	369	301

	2007 pence	2006 pence
Adjusted earnings per share	52.9	50.9
Earnings per share on:		
Sale of property, plant & equipment	1.0	1.3
Sale of businesses	(4.9)	(0.5)
Provision for loss on termination of operation	–	(1.0)
Exceptional items	–	(12.3)
Tax effect on above	1.9	3.3
Amortisation of non-operating intangibles	(9.4)	(5.2)
Tax credit on non-operating intangibles amortisation and goodwill	3.8	1.6
Minority share of amortisation of non-operating intangibles net of tax	1.4	–
Earnings per ordinary share	46.7	38.1

8. Intangible assets

		Non-operating					Operating	
	Goodwill £m	Technology £m	Brands £m	Customer relationships £m	Grower agreements £m	Other £m	Other £m	Total £m
Cost								
At 17 September 2005	844	178	126	29	–	–	–	1,177
Acquired through business combinations	191	26	36	29	161	10	4	457
Other acquisitions – externally purchased	–	–	–	–	–	–	10	10
Effect of movements in foreign exchange	(22)	(5)	(5)	(2)	–	–	(3)	(37)
At 16 September 2006	1,013	199	157	56	161	10	11	1,607
Acquired through business combinations	67	–	69	6	–	(2)	–	140
Other acquisitions – externally purchased	–	–	–	–	–	–	55	55
Businesses disposed	(27)	–	(6)	–	–	–	–	(33)
Other disposals	–	–	–	–	–	–	(4)	(4)
Transferred to assets classified as held for sale	(18)	(15)	(1)	–	–	–	–	(34)
Effect of movements in foreign exchange	(12)	(1)	(2)	(1)	(7)	(1)	1	(23)
At 15 September 2007	1,023	183	217	61	154	7	63	1,708
Amortisation and impairment								
At 17 September 2005	–	11	9	5	–	–	–	25
Amortisation for the year	–	19	15	7	–	–	–	41
Effects of movements in foreign exchange	–	(1)	–	–	–	–	–	(1)
At 16 September 2006	–	29	24	12	–	–	–	65
Amortisation for the year	–	20	19	12	16	7	5	79
Businesses disposed	–	–	(3)	–	–	–	–	(3)
Transferred to assets classified as held for sale	–	(3)	–	–	–	–	–	(3)
At 15 September 2007	–	46	40	24	16	7	5	138
Net book value								
At 17 September 2005	844	167	117	24	–	–	–	1,152
At 16 September 2006	1,013	170	133	44	161	10	11	1,542
At 15 September 2007	1,023	137	177	37	138	–	58	1,570

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

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

8. Intangible assets continued

Impairment

Goodwill

As at 15 September 2007, the consolidated balance sheet included goodwill of £1,023m. 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	2007 £m	2006 £m
ACH	Grocery	200	208
AB Mauri	Ingredients	222	232
Twinings/Ovaltine	Grocery	119	122
Capullo	Grocery	58	58
Illovo	Sugar	143	148
Patak's	Grocery	58	–
Other*	Various	223	245
		1,023	1,013

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

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

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

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

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

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

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

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

9. Property, plant & equipment

	Land and buildings £m	Plant and machinery £m	Fixtures and fittings £m	Assets under construction £m	Total £m
Cost					
At 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 assets classified as held for sale	(27)	(2)	–	–	(29)
Transfer 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
Acquired through business combinations	12	16	–	–	28
Other acquisitions	37	117	135	98	387
Businesses disposed	(5)	(28)	(3)	–	(36)
Other disposals	(8)	(62)	(34)	–	(104)
Transfer to assets classified as held for sale	(11)	(7)	–	–	(18)
Transfers from assets under construction	16	78	3	(97)	–
Effect of movements in foreign exchange	3	3	1	–	7
At 15 September 2007	1,328	1,927	771	78	4,104
Depreciation and impairment					
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 assets classified as held for sale	(6)	(1)	–	–	(7)
Effect of movements in foreign exchange	(2)	(14)	–	–	(16)
At 16 September 2006	213	975	173	–	1,361
Depreciation for the year	29	128	57	–	214
Businesses disposed	(1)	(16)	(3)	–	(20)
Other disposals	(8)	(49)	(34)	–	(91)
Transfer to assets classified as held for sale	(3)	(3)	–	–	(6)
Effect of movements in foreign exchange	1	3	–	–	4
At 15 September 2007	231	1,038	193	–	1,462
Net book value					
At 17 September 2005	1,197	753	241	64	2,255
At 16 September 2006	1,071	835	496	77	2,479
At 15 September 2007	1,097	889	578	78	2,642

	2007 £m	2006 £m
Net book value of finance lease assets	14	12
Land and buildings at net book value comprise:		
– Freehold	874	871
– Long leasehold	153	151
– Short leasehold	70	49
	1,097	1,071
Capital expenditure commitments – contracted but not provided for	151	158

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

9. 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. In the prior year, management considered the impact of the reform of the EU sugar regime on the group's operations and as a result, the carrying value and useful lives of the affected factories were assessed for impairment.

The carrying value of each of the affected factories was assessed separately for impairment on the basis of value in use. The cash flow projections used for this purpose were based on budget information resulting in an impairment charge of £64m in the prior year income statement. The impairment was included as a depreciation charge within operating costs within the Sugar segment.

10. Biological assets

	Current Growing cane £m	Non-current Cane roots £m	Total £m
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
Harvested cane transferred to inventory	(48)	–	(48)
Increase due to purchases	–	2	2
Reduction due to sales to third parties	–	(1)	(1)
Changes in fair value	54	5	59
Effect of movements in foreign exchange	(4)	(4)	(8)
At 15 September 2007	53	48	101

Cane roots

Area under cane as at the end of the period (hectares)	2007	2006
South Africa	9,624	10,668
Malawi	18,903	18,381
Zambia	11,050	11,030
Swaziland	7,950	7,946
Tanzania	8,224	8,003
Mozambique	5,263	3,671
	61,014	59,699

Growing cane

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

	South Africa	Malawi	Zambia	Swaziland	Tanzania	Mozambique
Expected area to harvest (hectares)	6,310	18,325	10,897	7,574	7,776	5,147
Estimated yield (tonnes cane/hectare)	72.0	106.9	115.0	101.2	81.1	91.1
Average maturity of cane	57.0%	66.6%	66.6%	66.6%	50.0%	66.6%

The following assumptions were 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	56.1%	66.7%	66.7%	66.7%	50.0%	66.7%

11. Investments in joint ventures and associates

	Joint ventures			Associates		
	Shares £m	Goodwill £m	Total £m	Shares £m	Goodwill £m	Total £m
At 17 September 2005	30	6	36	15	–	15
Additions	5	8	13	2	–	2
Profit for the period	5	–	5	5	–	5
Dividends received	(1)	–	(1)	(3)	–	(3)
Transfer from associates	3	–	3	(3)	–	(3)
Transfer to subsidiary	(2)	–	(2)	–	–	–
Effect of movements in foreign exchange	–	–	–	(1)	–	(1)
At 16 September 2006	40	14	54	15	–	15
Additions	4	–	4	8	8	16
Profit for the period	6	–	6	4	–	4
Dividends received	(1)	–	(1)	(2)	–	(2)
Disposals	(7)	(8)	(15)	–	–	–
Transfer to subsidiary	(1)	–	(1)	–	–	–
Effect of movements in foreign exchange	–	(1)	(1)	–	–	–
At 15 September 2007	41	5	46	25	8	33

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

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

	Joint ventures		Associates	
	2007 £m	2006 £m	2007 £m	2006 £m
Non-current assets	18	21	17	7
Current assets	124	95	88	44
Current liabilities	(101)	(76)	(77)	(35)
Non-current liabilities	–	–	(3)	(1)
Goodwill	5	14	8	–
Net assets	46	54	33	15
Revenue	365	314	14	22
Expenses	(357)	(308)	(9)	(15)
Taxation	(2)	(1)	(1)	(2)
Profit for the period	6	5	4	5

12. Employee entitlements

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

UK schemes

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

Actuarial gains and losses arising over the financial year are recognised immediately in the statement of recognised income and expense, and are reflected in the balance sheet at 15 September 2007. 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.

Overseas schemes

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

Assumptions

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

	2007 %	2006 %	2005 %
Discount rate	5.80	5.10	5.00
Inflation	3.30	3.00	2.80
Rate of increase in salaries	4.80	4.50	4.50
Rate of increase for pensions in payment	3.10	2.80	2.50
Rate of increase for pensions in deferment (where provided)	3.30	3.00	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 2007	19.3	22.1
Member aged 65 in 2027	20.3	23.0

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

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

12. Employee entitlements continued

Balance sheet

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

UK schemes	2007 %	2007 £m	2006 %	2006 £m	2005 %	2005 £m
Expected long-term rates of return:						
Equities	7.30	826	7.30	806	6.50	774
Government bonds	4.30	684	4.30	481	4.30	693
Non-government bonds	5.80	622	5.10	728	5.00	449
Property	5.80	106	5.80	86	5.80	68
Other	5.80	18	4.80	90	4.50	57
Total market value of assets		2,256		2,191		2,041
Present value of scheme liabilities		(1,972)		(2,040)		(1,947)
Aggregate net surplus of the plans		284		151		94
Irrecoverable surplus (a)		–		–		–
Net pension asset		284		151		94
Unfunded liability included in the present value of scheme liabilities above		(6)		(5)		(6)

The sensitivities regarding the principal assumptions used to measure scheme liabilities at 15 September 2007 are:

	Change in assumption	Impact on scheme liabilities
Discount rate	Decrease/increase by 0.5%	Increase/decrease by 9.3%
Inflation	Increase/decrease by 0.5%	Increase/decrease by 8.1%
Rate of increase in salaries	Increase/decrease by 0.5%	Increase/decrease by 1.4%
Rate of mortality	Reduce by one year	Increase by 2.7%

Overseas schemes	2007 %	2007 £m	2006 %	2006 £m	2005 %	2005 £m
Expected long-term rates of return:						
Equities	8.44	109	8.65	122	6.95	79
Government bonds	6.41	51	5.70	27	4.85	17
Non-government bonds	3.65	33	4.00	25	7.00	24
Property	6.04	6	6.00	5	6.00	5
Other	9.37	19	3.85	23	6.15	16
Total market value of assets		218		202		141
Present value of scheme liabilities		(192)		(190)		(159)
Aggregate net surplus/(deficit) of the plans		26		12		(18)
Irrecoverable surplus (a)		(34)		(36)		–
Net pension liability		(8)		(24)		(18)
Unfunded liability included in the present value of scheme liabilities above		(25)		(19)		(8)

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

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

The UK schemes' net pension asset of £284m less the overseas schemes' net pension liability of £8m totals £276m. This equates to the employee benefits asset of £308m and liability of £31m shown on the face of the consolidated balance sheet, together with a £1m employee benefits liability included within liabilities classified as held for sale.

12. Employee entitlements continued

Income statement

The charge to the income statement comprises:

	2007 £m	2006 £m
Charged to operating profit:		
Defined benefit plans		
Current service cost	(44)	(47)
Past service cost	(4)	–
Gain on curtailment	1	1
Defined contribution plans	(24)	(21)
Total operating cost	(71)	(67)
Reported in other finance income:		
Expected return on assets	138	116
Interest charge on liabilities	(113)	(103)
Net financial income from employee benefit schemes	25	13
Net impact on the income statement (before tax)	(46)	(54)

The actual return on scheme assets was £118m (2006 – £191m).

Cash flow

Group cash flow in respect of employee benefits schemes comprises contributions paid to funded plans and benefits paid in respect of unfunded plans. In 2007, the benefits paid in respect of unfunded plans was nil (2006 – nil). Company contributions to funded defined benefit plans are subject to periodic review. In 2007, contributions to funded defined benefit plans amounted to £61m (2006 – £48m). Contributions to defined contribution plans amounted to £24m (2006 – £21m).

Total contributions to funded plans and benefit payments by the group in respect of unfunded plans are currently expected to be about £58m in 2008 (2007 – £67m).

Statement of recognised income and expense

Amounts recognised in the statement of recognised income and expense:

	2007 £m	2006 £m
Actual return less expected return on pension scheme assets	(20)	75
Experience gains and losses arising on the scheme liabilities	(32)	4
Changes in assumptions underlying the present value of the scheme liabilities	160	(30)
	108	49
Change in unrecognised surplus	2	(6)
Net actuarial gain recognised in the statement of recognised income and expense (before tax)	110	43

Cumulative actuarial gains from 19 September 2004 reported in the statement of recognised income and expense are £146m (2006 – £36m).

12. Employee entitlements continued

Reconciliation of change in assets and liabilities

	2007 Assets £m	2006 Assets £m	2007 Liabilities £m	2006 Liabilities £m
Asset/(liability) at beginning of year	2,393	2,182	(2,230)	(2,106)
Current service cost	–	–	(44)	(47)
Employee contributions	9	11	(9)	(11)
Acquisitions	–	60	–	(37)
Disposals	(1)	–	2	–
Employer contributions	61	48	–	–
Benefit payments	(104)	(94)	104	94
Past service cost	–	–	(4)	–
Gain on curtailments	–	–	1	1
Financial income	138	116	–	–
Financial expenses	–	–	(113)	(103)
Actuarial gain/(loss)	(20)	75	128	(26)
Effect of movements in foreign exchange	(2)	(5)	1	5
Asset/(liability) at end of year	2,474	2,393	(2,164)	(2,230)

History of experience gains and losses	2007	2006	2005	2004
Difference between the expected and actual return on scheme assets				
– amount (£m)	(20)	75	155	(5)
– percentage of scheme assets	0.8%	3.1%	7.1%	0.3%
Experience gains and losses on scheme liabilities				
– amount (£m)	(32)	4	77	22
– percentage of scheme liabilities	1.5%	0.2%	3.7%	1.2%
Total amount included in statement of recognised income and expense				
– amount (£m)	108	49	(7)	43
– percentage of scheme liabilities	5.0%	2.2%	0.3%	2.3%

13. Deferred tax assets and liabilities

	Property plant and equipment £m	Intangible assets £m	Employee benefits £m	Foreign exchange/ commodity financial assets and liabilities £m	Other temporary differences £m	Tax value of carry-forward losses recognised £m	Total £m
At 17 September 2005	129	24	27	–	8	(33)	155
On implementation of IAS 32 and IAS 39 on 18 September 2005	–	–	–	2	–	–	2
At 18 September 2005 (as restated)	129	24	27	2	8	(33)	157
Amount charged to the income statement	(1)	4	6	–	17	2	28
Amount charged to the statement of recognised income and expense	–	–	12	(4)	–	–	8
Acquisitions	55	71	–	–	–	(3)	123
At 16 September 2006	**183**	**99**	**45**	**(2)**	**25**	**(34)**	**316**
Amount charged to the income statement	(12)	(9)	10	–	29	(3)	15
Amount charged to the statement of recognised income and expense	–	–	31	2	–	–	33
Acquisitions	(1)	21	–	–	–	–	20
Disposals	–	(2)	–	–	–	–	(2)
Effect of change in tax rate:							
– income statement	(8)	(6)	(1)	–	–	7	(8)
– equity	–	–	(5)	–	–	–	(5)
Transfer to assets classified as held for sale	–	(4)	–	–	–	–	(4)
Effect of movements in foreign exchange	(2)	(1)	–	–	(2)	–	(5)
At 15 September 2007	**160**	**98**	**80**	**–**	**52**	**(30)**	**360**

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

	2007 £m	2006 £m
Deferred tax assets	(70)	(82)
Deferred tax liabilities	430	398
	360	316

The consolidated balance sheet discloses deferred tax assets of £70m and deferred tax liabilities of £430m. In addition, £4m of deferred tax liabilities are included in liabilities classified as held for sale.

The recoverability of deferred tax assets is supported by the expected level of future profits in the countries concerned. Other deferred tax assets totalling £3m (2006 – £2m) have not been recognised on the basis that their future economic benefit is uncertain.

In addition, there are temporary differences of £1,024m (2006 – £834m) 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.

£4m of deferred tax liabilities are included within liabilities classified as held for sale (see note 15).

14. Trade and other receivables

	Note	2007 £m	2006 £m
Non-current – other receivables			
Loans and receivables		2	5
		2	5
Current – trade and other receivables			
Trade receivables		616	565
Amounts owed by joint ventures and associates		2	27
Prepayments and accrued income		241	201
Other receivables		108	103
		967	896
		969	901
Impairment of trade receivables recognised in the income statement during the period	2	–	(1)

£2m of trade and other receivables is included within assets held for sale (see note 15).

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

Trade and other receivables, excluding prepayments and accrued income, are denominated in the following currencies:

	2007 £m	2006 £m
Sterling	269	247
US dollar	94	103
Euro	61	73
Other	304	277
	728	700

Trade and other receivables have the following maturities:

	2007 £m	2006 £m
In the first year	726	695
Between one and five years	2	5
	728	700

15. Assets and liabilities classified as held for sale

As a result of the negotiations around the post year-end acquisition of certain European assets of Gilde Bakery Ingredients (see note 29), our existing German yeast business was classified as a disposal group held for sale at the year end. The operations are included in the Ingredients and Europe, Middle East & Africa segments. The disposal of the business would not constitute a discontinued operation. As at 15 September 2007, the disposal group comprised intangible assets of £31m, property, plant & equipment of £9m, other assets of £2m and liabilities of £7m. The proceeds of disposal are expected to exceed the book value of the related net assets and accordingly no impairment losses have been recognised on the classification of this operation as held for sale.

Various other assets, principally comprising property, plant & equipment, are also classified as held for sale at the year end, covering the Grocery, Sugar, Ingredients and Agriculture segments.

In the prior year, the primary disposal group was the Scandinavian distribution business, Haugen-Gruppen, disposal of which was completed on 4 October 2006. The disposal group comprised assets of £38m and liabilities of £11m. The remaining £15m of assets classified as held for sale were various items of property, plant & equipment within the Grocery, Agriculture and Ingredients segments.

	2007 £m	2006 £m
Assets classified as held for sale		
Intangible assets	31	–
Property, plant & equipment	14	22
Inventories	1	11
Trade and other receivables	2	13
Cash and cash equivalents	–	7
	48	53
Liabilities classified as held for sale		
Trade and other payables	2	9
Income tax	–	1
Deferred tax	4	–
Employee benefits liability	1	1
	7	11

16. Inventories

	2007 £m	2006 £m
Raw materials and consumables	207	217
Work in progress	10	9
Finished goods and goods held for resale	548	455
	765	681
Write down of inventories	30	17

£1m of inventories are included within assets classified as held for sale (see note 15).

17. Other financial assets and liabilities

	Current assets 2007 £m	Current liabilities 2007 £m	Current assets 2006 £m	Current liabilities 2006 £m
Derivative assets/(liabilities)				
Derivatives designated as cash flow hedges				
– Currency forwards, futures and swaps	1	(5)	1	(5)
– Currency options	–	(1)	–	–
– Cross-currency interest rate swap	–	(10)	3	–
– Commodity futures	6	(3)	4	(10)
– Derivatives held for trading				
– Currency derivatives	8	(7)	9	(10)
– Commodity derivatives	1	–	–	–
	16	(26)	17	(25)
Non-derivative assets/(liabilities)				
Other current investments	1	–	53	–
	1	–	53	–
Total other financial assets and liabilities	17	(26)	70	(25)

Derivative assets are denominated in the following currencies:

	2007 £m	2006 £m
Sterling	4	5
US dollar	9	12
Euro	2	–
Other	1	–
	16	17

Derivative liabilities are denominated in the following currencies:

	2007 £m	2006 £m
Sterling	(3)	(9)
US dollar	(12)	(7)
Euro	(1)	(9)
Other	(10)	–
	(26)	(25)

Other current investments are denominated in the following currencies:

	2007 £m	2006 £m
Sterling	–	48
US dollar	–	4
Euro	1	–
Other	–	1
	1	53

17. Other financial assets and liabilities continued

Sensitivity analysis

The table below presents the impact that changes in market rates would have on the fair value of the group's financial instruments were the changes to occur at the balance sheet date and persist for a one year period. The sensitivity analysis illustrates the impact of a 100 basis point movement in yields, a 10% movement of sterling against other currencies and a 10% movement in commodity prices. 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.

		Fair value sensitivity favourable/(unfavourable) to:		
	Fair value 2007 £m	a 100 basis point increase in interest rates £m	a 10% strengthening of sterling[1] £m	a 10% increase in commodity prices £m
Trade and other receivables	730	–	(42)	–
Derivative				
– Assets	16	–	(4)	3
– Liabilities	(26)	–	(21)	(1)
Other current investments	1	–	–	–
Cash and cash equivalents	411	–	(24)	–
Bank overdrafts	(62)	–	5	–
Unsecured bank loans	(473)	–	43	–
Secured bank loans	(24)	–	1	–
10¾% secured redeemable debenture stock 2013	(169)	7	–	–
Finance lease liabilities	(12)	1	–	–
Trade and other payables	(1,169)	–	49	–

[1] Except in the case of derivative assets and liabilities where a 10% strengthening of the relevant subsidiary's functional currency is assumed.

Based on the composition of net debt at 15 September 2007, a 100 basis point increase in interest rates would result in an additional £2m (2006 – £2m) in net interest expense being incurred per year.

The financial instruments above include trade and other receivables of £2m and trade and other payables of £2m that are classified as held for sale at year end.

18. Cash and cash equivalents

	2007 £m	2006 £m
Cash		
Cash at bank and in hand	336	256
Cash equivalents	75	93
Cash and cash equivalents	411	349
Reconciliation to the cash flow statement		
Cash and cash equivalents included in assets classified as held for sale	–	7
Bank overdrafts (see note 19)	(62)	(158)
Cash and cash equivalents in the cash flow statement	349	198

Cash and cash equivalents are denominated in the following currencies:

	2007 £m	2006 £m
Sterling	146	169
US dollar	87	47
Euro	55	32
Other	123	101
	411	349

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

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

19. Interest-bearing loans and overdrafts

	Effective interest rate % for the period	2007 £m	2006 £m
Current interest-bearing loans and overdrafts			
Secured bank loans			
– GBP floating rate loan	6.75	1	–
– USD fixed rate loan	–	–	2
– USD floating rate loan	6.56	1	–
– Other floating rate loan	–	–	7
– Other fixed rate loan	6.83	2	5
Unsecured bank loans and overdrafts			
– Bank overdrafts	7.36	62	158
– USD floating rate loan	7.15	2	351
– USD fixed rate loan	15.05	9	3
– EUR fixed rate loan	10.32	1	2
– Other fixed rate loan	–	–	3
– Other floating rate loan	11.05	46	–
Finance lease liabilities (fixed rate)	6.05	1	–
		125	531
Non-current interest-bearing loans			
10¾% secured redeemable debenture stock 2013 (GBP)	10.75	150	150
Secured bank loans			
– GBP floating rate loan	6.75	7	–
– USD floating rate loan	6.56	10	2
– USD fixed rate loan	–	–	8
– EUR fixed rate loan	3.00	1	–
– Other fixed rate loan	13.01	2	–
Unsecured bank loans			
– USD floating rate loan	5.49	165	3
– EUR floating rate loan	4.35	248	–
– EUR fixed rate loan	11.00	2	1
Finance lease liabilities (fixed rate)	5.10	13	12
		598	176
		723	707

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

Bank overdrafts generally accrue interest at floating rates.

As at 15 September 2007, the group had a multi-currency US$1.2bn syndicated loan facility of which US$376m was unused.

The directors consider that the carrying amount of the loans approximates their fair value, except for the £150m secured redeemable debenture stock and the £14m finance lease liabilities, the fair value of which amounted to £169m (2006 – £180m) and £12m (2006 – £12m) respectively. Fair value is calculated based on discounted expected future principal and interest cash flows.

Interest-bearing loans and overdrafts are denominated in the following currencies:

	2007 £m	2006 £m
Sterling	182	168
US dollar	194	391
Euro	254	5
Other	93	143
	723	707

The group's US$330m (£164m) and EUR359m (£248m) amounts drawn on the syndicated loan facility are designated as a hedge of the group's investment in its subsidiary businesses in the United States and the Eurozone respectively.

19. Interest-bearing loans and overdrafts continued

Interest-bearing loans and overdrafts mature or re-price in the following periods:

	2007 £m	2006 £m
In the first year	535	531
In the second to the fifth year inclusive	25	14
After the fifth year	163	162
	723	707

See note 26 for details on finance leases.

20. Trade and other payables

	2007 £m	2006 £m
Trade payables	503	445
Accruals and deferred income	620	500
Other payables	44	27
	1,167	972

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

£2m of trade and other payables are included within liabilities classified as held for sale (see note 15).

Trade and other payables are denominated in the following currencies:

	2007 £m	2006 £m
Sterling	628	490
US dollar	156	134
Euro	70	72
Other	313	276
	1,167	972

21. Provisions

	Restructuring £m	Other £m	Total £m
At 16 September 2006	46	24	70
Created during the year	22	13	35
Utilised during the year	(39)	(6)	(45)
Released during the year	(5)	(5)	(10)
At 15 September 2007	24	26	50
Current	19	17	36
Non-current	5	9	14
	24	26	50

Restructuring

Restructuring provisions relate to the cash costs, including redundancy, associated with the group's announced reorganisation plans, of which the majority will be utilised in 2007/8.

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.

22. Total equity

Reconciliation of movement in capital and reserves

	Attributable to equity shareholders							
	Share capital £m	Other reserves £m	Translation reserve £m	Hedging reserve £m	Retained earnings £m	Total £m	Minority interests £m	Total equity £m
At 18 September 2005	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)
Movement in own shares held	–	–	–	–	1	1	–	1
Net gain on hedge of net investment in foreign subsidiaries	–	–	14	–	–	14	–	14
Effect of movements in foreign exchange	–	–	(87)	–	–	(87)	(1)	(88)
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**
Actuarial gains on net pension assets	–	–	–	–	110	110	–	110
Deferred tax associated with net pension assets	–	–	–	–	(25)	(25)	–	(25)
Movement in own shares held	–	–	–	–	(3)	(3)	–	(3)
Net gain on hedge of net investment in foreign subsidiaries	–	–	4	–	–	4	–	4
Effect of movements in foreign exchange	–	–	(24)	–	–	(24)	(8)	(32)
Profit for the year	–	–	–	–	369	369	31	400
Dividends paid to shareholders	–	–	–	–	(150)	(150)	–	(150)
Dividends paid to minorities	–	–	–	–	–	–	(26)	(26)
Acquisitions, minority buy-outs and disposals	–	–	–	–	–	–	(1)	(1)
Movement of cash flow hedging position	–	–	–	7	–	7	–	7
Deferred tax associated with movement of cash flow hedging position	–	–	–	(2)	–	(2)	–	(2)
At 15 September 2007	**47**	**173**	**(49)**	**(1)**	**4,074**	**4,244**	**220**	**4,464**

Share capital

	Deferred shares of £1 each '000	Ordinary shares of $5^{15}/_{22}$p each '000	Nominal value £m
Authorised			
At 16 September 2006 and 15 September 2007	2,000	1,054,950	62
Issued and fully paid			
At 16 September 2006 and 15 September 2007	2,000	791,674	47

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

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

Other reserves

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

Translation reserve

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

22. Total equity continued

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.

The table below shows the movement in the cash flow hedging reserve during the period.

	£m
At 17 September 2005	–
On implementation of IAS 32 and IAS 39 on 18 September 2005	7
At 18 September 2005 (as restated)	7
Effective portion of gains or losses on hedging instruments used in cash flow hedges	(16)
Gains or losses on hedging instruments transferred to the income statement within sales/operating expenses	(1)
Deferred tax associated with movement in cash flow hedging reserve	4
At 16 September 2006	(6)
Effective portion of gains or losses on hedging instruments used in cash flow hedges	(20)
Gains or losses on hedging instruments transferred to the income statement within sales/operating expenses	19
Gains or losses on hedging instruments transferred to inventory	8
Deferred tax associated with movement in cash flow hedging reserve	(2)
At 15 September 2007	(1)

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.

23. Acquisitions and disposals

During the year, the group purchased Patak's, completed a number of small acquisitions and disposed of its interests in a number of small businesses. Costs associated with acquisitions and disposals are included within cash consideration and deferred consideration.

Acquisitions

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

2007	Note	Pre-acquisition carrying amounts £m	Recognised values on acquisition £m
Net assets			
Intangible assets		1	73
Property, plant & equipment		30	28
Inventories		11	11
Trade and other receivables		13	13
Cash and cash equivalents		7	7
Trade and other payables		(24)	(24)
Overdrafts		(6)	(6)
Interest-bearing loans and borrowings		(11)	(11)
Taxation		1	(20)
Net identifiable assets and liabilities		22	71
Goodwill on acquisitions	8		67
Minority interests acquired			1
Total consideration			139
Satisfied by			
Cash consideration			132
Cash consideration in respect of prior year acquisitions			1
Deferred consideration			5
Interest in joint venture			1
Net cash			
Cash consideration			133
Cash acquired			(1)
			132

23. Acquisitions and disposals continued

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

Acquisition of Worldwing Investments Limited

The acquisition of 100% of the shares of Worldwing Investments Limited (Worldwing), the holding company for the Patak's group of companies, was completed on 5 September 2007, satisfied in cash and deferred consideration, including transaction costs. The acquired group contributed no net profit to the consolidated net profit for the year. The contribution to consolidated revenue and net profit had the acquisition occurred at the beginning of the year has not been disclosed, as it would be impractical to determine these amounts. This is because (i) as a privately-held group Worldwing prepared its consolidated financial statements under United Kingdom accounting standards, which are substantively different to Adopted IFRS; (ii) Worldwing had a different year end to the group (30 September); and (iii) the last available consolidated financial statements are for the year ended 30 September 2006, all of which is insufficient to determine accurately the fair value adjustments that would have been made to the balance sheet one year ago.

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

Income statement for the year ended 30 September 2006	**£m**
Revenue	66
Cost of sales	(46)
Gross profit	20
Distribution expenses	(2)
Administrative expenses	(17)
Exceptional items	(6)
Operating loss	(5)
Interest payable	(1)
Loss before taxation	(6)
Taxation	1
Loss after taxation	(5)

23. Acquisitions and disposals continued

2006

During 2006 the group purchased Illovo Sugar Limited (Illovo), completed a number of small acquisitions and disposed of its interests in a number of small businesses. The acquisitions had the following effect on the group's assets and liabilities.

		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	8		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 £38m adjustment to property, plant & equipment, and a £70m adjustment to deferred tax.

23. Acquisitions and disposals continued

Disposals

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

	Carrying values 2007 £m	Carrying values 2006 £m
Net assets		
Intangible assets	3	–
Property, plant & equipment	24	2
Investments in joint ventures and associates	15	–
Inventories	16	–
Trade and other receivables	15	–
Cash and cash equivalents	8	–
Trade and other payables	(10)	–
Interest-bearing loans and borrowings	(5)	(2)
Intercompany receivables/(payables)	3	(4)
Income tax	(1)	–
Taxation	(2)	–
Employee benefits	(1)	–
Net identifiable assets and liabilities	65	(4)
Minority interests disposed	–	2
Goodwill disposed	27	–
Recycle of effect of movements in foreign exchange	2	2
Provisions created	11	–
Loss on disposal	(39)	(4)
Total consideration	66	(4)
Satisfied by		
Cash consideration	66	–
Interest in joint venture	–	(4)
Net cash		
Cash consideration	66	–
Cash disposed	(8)	–
	58	–

24. Share-based payments

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

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

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

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

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

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

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

Further information regarding the operation of the above plans can be found on pages 40 to 43 of the Remuneration report.

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

	Balance outstanding at the beginning of the year	Granted/ awarded	Exercised	Vested	Expired/ lapsed	Balance outstanding at the end of the year	Options exercisable at the end of the year
2007							
the 1994 Scheme	569,610	–	(57,500)	–	–	512,110	422,110
the 2000 Scheme	226,500	–	(19,500)	–	(19,500)	187,500	187,500
the Share Incentive Plan	902,937	1,694,890	–	(441,120)	(261,232)	1,895,475	N/a
2006							
the 1994 Scheme	655,360	–	(85,750)	–	–	569,610	289,610
the 2000 Scheme	259,500	–	(33,000)	–	–	226,500	187,500
the Share Incentive Plan	682,077	220,860	–	–	–	902,937	N/a

24. 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
2007									
the 1994 Scheme	540.38	–	561.50	–	–	538.01	532.47	497-564	2.7
the 2000 Scheme	497.95	–	565.00	–	–	484.00	484.00	484	3.8
2006									
the 1994 Scheme	543.14	–	561.50	–	–	540.38	561.50	497-564	3.5
the 2000 Scheme	506.35	–	564.00	–	–	497.95	484.00	484-565	5.1

The weighted average market price for share options exercised during the year was 883 pence (2006 – 819 pence).

Ordinary shares already issued and subject to option under the 1994 Scheme and the 2000 Scheme, or subject to allocation under the 2000 Scheme, are held in a separate trust. The trust is funded by the Company. At 15 September 2007 the trust held 1,929,243 (2006 – 1,452,705) ordinary shares of the Company.

Fair values

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

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

No options were granted under the 1994 Scheme or the 2000 Scheme in either 2006 or 2007.

In accordance with the transitional provisions of IFRS 1, the group has recognised an expense in respect of all grants under these plans made after 7 November 2002 and unvested at 18 September 2004. The group recognised a total equity-settled share-based payment expense of £6m (2006 – £nil).

25. Analysis of net debt

	At 16 September 2006 £m	Cash flow £m	Acquisitions/ disposals £m	Exchange adjustments £m	At 15 September 2007 £m
Cash at bank and in hand, cash equivalents and overdrafts	198	149	–	2	349
Short-term borrowings	(373)	307	3	–	(63)
Other current investments	53	(52)	–	–	1
Loans over one year	(176)	(417)	(9)	4	(598)
	(298)	(13)	(6)	6	(311)

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.

26. Lease commitments

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

Sublease receipts of £3m (2006 – £5m) were recognised in the income statement in the period, the majority relating to operating leases. The total of future minimum sublease receipts expected to be received are £18m (2006 – £15m).

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

Finance leases

Finance lease liabilities are payable as follows:

	Minimum lease payments 2007 £m	Interest 2007 £m	Principal 2007 £m	Minimum lease payments 2006 £m	Interest 2006 £m	Principal 2006 £m
Within one year	2	1	1	1	1	–
Between one and five years	4	3	1	3	3	–
After five years	42	30	12	43	31	12
	48	34	14	47	35	12

The fair value of finance lease liabilities is £12m (see note 19).

Operating leases

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

	2007 £m	2006 £m
Within one year	62	62
Between one and five years	216	185
After five years	932	623
	1,210	870

27. Contingencies

Litigation and other proceedings against companies in the group are not considered material in the context of these financial statements.

The group has not adopted the amendments to IAS 39 in relation to financial guarantee contracts which 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. The guarantee contract is treated as a contingent liability until such time as it becomes probable that the relevant group company issuing the guarantee will be required to make a payment under the guarantee.

As at 15 September 2007, group companies have provided guarantees in the ordinary course of business amounting to £177m (2006 – £139m).

28. Related parties

The group has a controlling related party relationship with its parent company, which is also its ultimate parent company (see note 30). The group also has a related party relationship with its associates and joint ventures (see note 11) and with its directors. In the course of normal operations, related party transactions entered into by the group have been contracted on an arm's-length basis.

Material transactions and year end balances with related parties were as follows:

	Sub note	2007 £'000	2006 £'000
Charges to Wittington Investments Limited in respect of services provided by the Company and its subsidiary undertakings		162	152
Dividends paid by ABF and received in a beneficial capacity by:			
(i) Trustees of the Garfield Weston Foundation	1	5,220	5,028
(ii) Directors of Wittington Investments Limited who are not trustees of the Foundation		753	724
(iii) Directors of the Company who are not trustees of the Foundation and are not directors of Wittington Investments Limited	2	13	12
(iv) a member of the Weston family employed within the ABF group	3	553	531
Sales to fellow subsidiary undertakings on normal trading terms	4	2,382	2,663
Sales to a company with common key management personnel	5	3,120	3,466
Amounts due from fellow subsidiary undertakings on normal trading terms	4	602	679
Amounts due from a company with common key management personnel	5	411	354
Sales to joint ventures and associates on normal trading terms	6	39,908	116,987
Purchases from joint ventures and associates on normal trading terms	6	56,451	35,148
Amounts due from joint ventures and associates	6	1,907	26,979
Amounts due to joint ventures and associates	6	4,560	3,597

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 15 September 2007 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 15 September 2007 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 is disclosed within the Remuneration report on pages 41 to 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. The company with common key management personnel is George Weston Limited, in Canada.

6. Details of the group's principal joint ventures and associates are set out in note 30.

29. Subsequent events

The acquisition of certain of the European assets of Gilde Bakery Ingredients ('Gilde'), and the disposal of the group's German yeast business, was agreed on 2 October 2007. The acquisition of the operations in Spain, Portugal and Germany is dependent on clearances by the relevant competition authorities. Gilde will continue to operate these businesses until competition clearance has been received.

30. Group entities

Control of the group

The largest group in which the results of the Company are consolidated is that headed by Wittington Investments Limited, the accounts of which are available at Companies House, Crown Way, Cardiff, CF14 3UZ. It is the ultimate holding company, is incorporated in Great Britain and registered in England.

At 15 September 2007 Wittington Investments Limited together with its subsidiary, Howard Investments Limited, held 431,515,108 ordinary shares (2006 – 431,515,108) representing in aggregate 54.5% (2006 – 54.5%) of the total issued ordinary share capital of Associated British Foods plc.

Significant subsidiaries

A list of the group's significant subsidiaries is given below. The entire share capital of the companies listed is held within the group except where percentages are shown. These percentages give the group's ultimate interest and therefore allow for the situation where subsidiaries are owned by partly-owned intermediate subsidiaries.

Manufacturing activities	Country of incorporation
AB Agri Limited	UK
AB Brasil Industria e comercio de Alimentos LTDA	Brazil
AB Enzymes GmbH	Germany
AB Enzymes Oy	Finland
ABF Grain Products Limited	UK
AB Food & Beverages Australia Pty Ltd	Australia
AB Food & Beverages Philippines, Inc.	Philippines
AB Food & Beverages (Thailand) Limited	Thailand
AB Mauri Food, S.A.	Spain
AB Mauri India (Private) Limited	India
Abitec Corporation	US
Abitec 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
BSO Polska S.A. (98%)	Poland
Calsa de Colombia S.A.S.	Colombia
Cereform Limited	UK
Compania Argentina de Levanduras S.A.I.C	Argentina
Deutsche Hefewerke GmbH	Germany
Food Investments Limited	UK
Foods International S.A.S.	France
G. Costa and Company Limited	UK
George Weston Foods Limited	Australia
George Weston Foods (NZ) Limited	New Zealand
Germain's (Ireland) Limited	Republic of Ireland
Germain's Technology Group NA Inc.	US
Germain's Technology Group Polska Sp. z.o.o.	Poland
Guangxi Bo Hua Food Co., Ltd (71%)	China
Guangxi Boqing Food Co., Ltd (60%)	China
Guangxi Boxuan Food Co., Ltd (70%)	China
Harbin Mauri Yeast Co., Ltd (85%)	China
Hebei Mauri Food Co., Ltd	China
Illovo Sugar Limited (51%)	South Africa
Illovo Sugar (Malawi) Limited (39%)	Malawi

Manufacturing activities	Country of incorporation
Innovative Cereal Systems LLC.	US
Jacksons of Piccadilly Limited	UK
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 La-Nga Fermentation Co., Ltd (66%)	Vietnam
Mauri Maya Sanayi A.S.	Turkey
Mauri Products Limited	UK
Nambarrie Tea Company Limited	UK
Patak's Foods Limited	UK
Patak's Breads Limited	UK
R. Twining & Co., Ltd	US
R. Twining and Company Limited	UK
Serrol Ingredients Pty Limited	Australia
Shanghai AB Food & Beverages Co., Ltd	China
SPI Pharma S.A.S.	France
SPI Pharma Inc.	US
SPI Polyols Inc.	US
SugarPol Sp. z.o.o. (72%)	Poland
The Billington Food Group Limited	UK
The Ryvita Company Limited	UK
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
Primark Tiendas S.L.U.	Spain
Investment and other activities	
ABF European Holdings & Co SNC	Luxembourg
ABF Investments plc	UK
Talisman Guernsey Limited	Guernsey, Channel Islands

The group's interest in subsidiaries are all equity investments.

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

30. Group entities continued

Interest in joint ventures and associates

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

	Country of incorporation	Issued ordinary share capital Total	Group %
Australasian Lupin Processing Pty Ltd	Australia	A$560,000	50
C. Czarnikow Limited	UK	£1,000,000	43
Chiltern Bakeries Limited	UK	£100	44
Frontier Agriculture Limited	UK	£36,001,000	50
Harper-Love Adhesives Corporation	US	US$912,200	50
Levaduras Collico S.A.	Chile	CLP1,834,390,000	50
Murray Bridge Bacon Pty Ltd	Australia	A$11,040,200	20
New Food Coatings Pty Ltd	Australia	A$150,000	50
Qingdao Xinghua Cereal Oil & Foodstuff Co., Ltd	China	CNY24,844,000	30
Roal Oy	Finland	u3,196,000	50
Vivergo Fuels Limited	UK	£8,000,000	45
W. Jordan & Son (Silo) Limited	UK	£2,000	20

There is no significant loan capital in any of the joint ventures or associates. Each joint venture and associate carries out manufacturing and food processing activities and operates mainly in its country of incorporation.

The companies listed herein are those subsidiaries, joint ventures and associates whose results or financial position, in the opinion of the directors, principally affected the figures shown in these annual accounts as a list of all group companies would result in information of excessive length being given. A full list of subsidiaries will be annexed to the next annual return of Associated British Foods plc delivered to the Registrar of Companies.

31. Accounting estimates and judgements

Key sources of estimation uncertainty

In applying the accounting policies detailed on pages 52 to 57, management has made appropriate estimates in many areas and the actual outcome may differ from those calculated. The key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing material adjustment to the carrying value of assets and liabilities within the next financial year are:

Forecasts and discount rates

The carrying values of a number of items on the balance sheet are dependent on estimates of future cash flows arising from the group's operations which, in some circumstances, are discounted to arrive at a net present value:

- The carrying value of goodwill must be assessed for impairment at least annually and also when there is an indication that it may be impaired. This assessment involves comparing the book value of goodwill with its recoverable amount (being the higher of its value in use and its fair value less costs to sell). Value in use is determined with reference to projected future cash flows discounted at an appropriate rate. No impairment resulted from the assessment conducted in 2007; 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 in the balance sheet is dependent on the generation of sufficient future taxable profits in the jurisdictions in which the deferred tax assets arise. The group recognises deferred tax assets when it is more likely than not that they will be recovered, based on an assessment of the likelihood of there being sufficient taxable profits in the future.

Post-retirement benefits

The group's defined benefit pension schemes and similar arrangements are assessed annually in accordance with IAS 19. The accounting valuation, which has been assessed using assumptions determined with independent actuarial advice, resulted in an asset of £308m and a liability of £31m being recognised as at 15 September 2007. The size of these assets and liabilities is sensitive to the market value of the assets held by the schemes, to the discount rate used in assessing actuarial liabilities, and to the actuarial assumptions which include price inflation, rates of pension and salary increases, mortality and other demographic assumptions and the level of contributions. Further details are included in note 12.

Provisions

As described in the accounting policies on pages 52 to 57, provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date. These estimates are made taking into account a range of possible outcomes.

31. Accounting estimates and judgements continued

Property, plant & equipment residual values and useful lives

These assets are written down to their estimated residual values over their anticipated useful lives using the straight-line basis. Management reviews residual values annually considering market conditions and projected disposal values. In assessing useful lives, maintenance programmes and technological innovations are considered. The carrying value of property, plant & equipment is disclosed in note 9.

Biological assets

Cane roots valuation – the escalated average cost of planting cane roots is adjusted for the remaining expected life. This requires an estimation by management of the average number of ratoons expected from the crop. The carrying value of cane roots is disclosed in note 10.

Growing cane valuation – growing cane is valued 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 10.

Company balance sheet

at 15 September 2007

	Note	2007 £m	2006 £m
Fixed assets			
Intangible assets	1	49	53
Investments in subsidiaries	2	434	434
		483	487
Current assets			
Debtors			
– due within one year	3	2,203	1,809
– due after one year	3	1,199	1,042
Current asset investments	4	41	63
Cash at bank and in hand		4	3
		3,447	2,917
Creditors: amounts falling due within one year			
Bank loans and overdrafts – unsecured		(1)	(351)
Other creditors	5	(1,310)	(1,178)
		(1,311)	(1,529)
Net current assets		2,136	1,388
Total assets less current liabilities		2,619	1,875
Creditors: amounts falling due after one year			
Bank loans – unsecured		(412)	–
Amounts owed to subsidiaries	5	(1,887)	(1,516)
		(2,299)	(1,516)
Net assets excluding pension liability		320	359
Net pension liability		(4)	(3)
Net assets		316	356
Capital and reserves			
Called up share capital	6	47	47
Profit and loss reserve including pension reserve	6	269	309
Equity shareholders' funds		316	356

The financial statements on pages 94 to 99 were approved by the board of directors on 6 November 2007 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 15 September 2007

	2007 £m	2006 £m
Profit for the financial year	118	162
Net (increase)/decrease in own shares held	(8)	1
Dividends	(150)	(144)
Net addition to equity shareholders' funds	(40)	19
Opening equity shareholders' funds	356	337
Closing equity shareholders' funds	316	356

Accounting policies

for the year ended 15 September 2007

Basis of preparation

The financial statements are presented in sterling, rounded to the nearest million. They are prepared under the historical cost convention, except that derivative financial instruments are stated at their fair value, and in accordance with applicable United Kingdom accounting standards (UK GAAP) and the Companies Act 1985.

As permitted by s230(4) of the Companies Act 1985, a separate profit and loss account for the Company has not been included in these financial statements. As permitted by FRS 1, no cash flow statement for the Company has been included on the grounds that the group includes the Company in its own published consolidated financial statements. As permitted by FRS 8, no related party disclosures for the Company have been included.

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

Intangible assets – goodwill

Intangible assets consist of goodwill arising on acquisitions since 17 September 1998, being the excess of the fair value of the purchase consideration of new subsidiaries over the fair value of net assets acquired. Goodwill is capitalised in accordance with FRS 10 and amortised over its useful life, not exceeding 20 years. Goodwill previously written off against reserves has not been reinstated.

Investments in subsidiaries

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

Financial instruments

All financial assets and financial liabilities are measured initially at fair value, plus directly attributable transaction costs, and thereafter at amortised cost.

Pensions and other post-employment benefits

The Company operates both a defined contribution and defined benefit pension scheme. Contributions to the defined contribution scheme are charged to the profit and loss account as they become payable. 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. The exception to this is one unfunded defined benefit scheme, which the Company accounts for in accordance with FRS 17 using the advice of professional actuaries. The amount charged to the profit and loss account is the cost of benefits accruing to employees over the year, plus any benefit improvements granted to members during the year. It also includes a charge equal to the expected interest on plan liabilities over the year. The present value of plan liabilities is disclosed as a liability on the balance sheet net of any related deferred tax.

Share-based payments

The Share Incentive Plan allows executives to receive allocations of shares to be distributed subject to attainment of certain financial performance criteria and typically after a three year performance period. The fair value of the shares to be awarded is recognised as an employee expense with a corresponding increase in reserves. The fair value is measured at grant date and spread over the period during which the executives become unconditionally entitled to the shares. The fair value of the shares allocated is measured taking into account the terms and conditions 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 reserves. The fair value is measured at grant date and spread over the period during which the executives become unconditionally entitled to the options. The fair value of the options granted is measured using a binomial lattice model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is only due to share prices not achieving the threshold for vesting.

Shares in the Company are held in a separate trust, and are shown at cost as a deduction in arriving at equity shareholders’ funds.

Notes to the Company financial statements

for the year ended 15 September 2007

1. Intangible assets – goodwill

	£m
Cost	
At 16 September 2006 and 15 September 2007	71
Amortisation	
At 16 September 2006	18
Provided during the year	4
At 15 September 2007	22
Net book value	
At 16 September 2006	53
At 15 September 2007	49

2. Investments in subsidiaries

	£m
At 16 September 2006 and 15 September 2007	434

There were no provisions for impairment in either year.

3. Debtors

	2007 £m	2006 £m
Amounts falling due within one year		
Amounts owed by subsidiaries	2,175	1,785
Other debtors	7	7
Prepayments and accrued income	–	2
Corporation tax recoverable	21	15
	2,203	1,809
Amounts falling due after one year		
Amounts owed by subsidiaries	1,199	1,042

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

4. Current asset investments

	2007 £m	2006 £m
Cost		
Unlisted investments	41	63

Current asset investments comprise interest-bearing instruments and deposits. Market and redemption values are equal to cost.

5. Other creditors

	2007 £m	2006 £m
Amounts falling due within one year		
Other taxation and social security	1	1
Accruals and deferred income	14	17
Amounts owed to subsidiaries	1,295	1,160
	1,310	1,178
Amounts falling due after one year		
Amounts owed to subsidiaries	1,887	1,516

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

6. Capital and reserves

	Deferred shares of £1 each '000	Ordinary shares of $5^{15}/_{22}$p each '000	Nominal value £m
Authorised			
At 16 September 2006 and 15 September 2007	2,000	1,054,950	62
Issued and fully paid			
At 16 September 2006 and 15 September 2007	2,000	791,674	47

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

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

	Share capital £m	Profit and loss reserve £m	Total £m
At 16 September 2006	47	309	356
Net movement in own shares held	–	(8)	(8)
Profit for the year	–	118	118
Dividends	–	(150)	(150)
At 15 September 2007	47	269	316

Dividends

Details of dividends paid and proposed are provided in note 6 to the consolidated financial statements.

Own shares held reserve and share-based payments

Ordinary shares already issued and subject to option under the Associated British Foods 1994 Share Option Scheme and the Executive Share Option Scheme 2000, or subject to allocation under the Associated British Foods plc Executive Share Incentive Plan 2003, are held in a separate trust. The trust is funded by the Company. At 15 September 2007, the trust held 1,929,243 (2006 – 1,452,705) ordinary shares of the Company. The market value of these shares at the year end was £15m (2006 – £12m). The trust has waived its right to dividends. Refer to note 24 of the consolidated financial statements for further information on the group and Company's share-based payment plans.

7. Contingent liabilities

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its group, the Company considers these to be insurance arrangements and accounts for them as such. The guarantee contract is treated as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

The Company has no outstanding guarantees provided in the ordinary course of business as at 15 September 2007 (2006 – £nil).

8. Other information

Emoluments of directors

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

Employees

The Company had an average of 87 employees in 2007 (2006 – 87).

Employee benefits expense	2007 £m	2006 £m
Wages and salaries	11	9
Social security contributions	2	1
Charge for defined benefit schemes	1	5
Equity-settled share-based payment schemes	–	1
	14	16

The Company is a member of the Associated British Foods Pension Scheme, providing benefits based on final pensionable pay. Prior to 6 April 2006 some of the employees of the Company were members of the British Sugar Pension Scheme. On 6 April 2006, the British Sugar Pension Scheme was merged with the Associated British Foods Pension Scheme. Because the Company is unable to identify its share of the scheme's assets and liabilities on a consistent basis, as permitted by FRS 17, the scheme is accounted for by the Company as if it were a defined contribution scheme.

On 30 September 2002 the Scheme was closed to new members, with defined contribution arrangements introduced for these members. For the defined contribution scheme, the pension costs are the contributions payable.

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

The particulars of the actuarial valuation of the Scheme are contained in note 12 in the consolidated financial statements. There is no material difference in the valuation methodologies under IAS 19 and FRS 17.

Auditors' fees

Note 2 to the consolidated financial statements of the group provides details of the remuneration of the Company's auditors on a group basis.

Progress report

Saturday nearest to 15 September

	2003 £m	2004 £m	2005 £m	2006 £m	2007 £m
Revenue	4,909	5,165	5,622	5,996	6,800
Adjusted operating profit	427	478	555	561	622
Exceptional items	–	–	–	(97)	–
Amortisation of non-operating intangibles	(42)	(46)	(25)	(41)	(74)
Profits less losses on sale of property, plant & equipment	12	8	20	10	8
Losses on sale of businesses	20	7	(1)	(4)	(39)
Provision for loss on termination of an operation	–	–	(47)	(8)	–
Finance income	53	59	49	32	20
Finance expense	(30)	(23)	(34)	(46)	(55)
Other financial income	8	11	10	12	26
Profit before taxation	448	494	527	419	508
Income tax expense	(125)	(146)	(141)	(111)	(108)
Profit after taxation	323	348	386	308	400
Minority interests	3	(6)	–	–	–
Profit for the period	326	342	386	308	400
Basic and diluted earnings per ordinary share (pence)	41.3	43.3	48.0	38.1	46.7
Adjusted earning per share (pence)	41.3	46.6	52.5	50.9	52.9
Dividends per share (pence)	14.6	16.4	18.0	18.75	19.5

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

Directory

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Company secretary
Paul Lister

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Chartered Accountants

Bankers
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Lloyds TSB Bank plc
The Royal Bank of Scotland plc

Brokers
Credit Suisse
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London E14 4QJ

Panmure Gordon & Co
Moorgate Hall
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Timetable
Interim dividend paid
2 July 2007

Final dividend to be paid
11 January 2008

Annual general meeting
7 December 2007

Interim results to be announced
22 April 2008

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Design & Production
35 Communications

Photography
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25% pre-consumer waste and
25% post-consumer waste.
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Standard.
FSC mixed sources – product group from
recycled wood or fibre, well managed forests
and other controlled sources.

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Fibre source
100% post-consumer reclaimed material.
Bleaching
Pulp is bleached using an
Elemental Chlorine Free (ECF) process.
Accreditation
FSC 100% recycled product, supporting
responsible use of forest resources.
NAPM Approved Recycled grade.

Produced at a mill that is certified to the
ISO14001 Enviromental Management
Standard.

Mixed Sources
Product group from well-managed forests, controlled sources and recycled wood or fiber
FSC
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