Associated
British Foods
plc
Annual Report and Accounts 2009
Part of
everyday
life
Expanding our
sugar business
Offering a bigger
retail experience
Supplying world
leading brands
Working on a
global scale with
ingredients

Our highlights of the year

- Acquisition of the leading Iberian sugar producer, Azucarera Ebro
- Sale of Polish sugar business
- Restructuring of US packaged oils business – new joint venture, Stratas
- Zambian cane sugar expansion completed – capacity doubled
- Investment in Chinese beet and cane sugar
- Enzyme capacity investment in Finland completed
- Yeast and yeast extracts plant under construction in Harbin
- New Primark stores in UK and Spain and first openings in the Netherlands, Germany and Portugal
- US Private Placement secures long-term non-bank finance

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

Group revenue
£9.3bn
Up 12%

Adjusted operating profit*
£720m
Up 8%

Adjusted profit before tax**
£655m
Up 4%

Adjusted earnings per share**
57.7p
Up 5%

Dividends per share
21.0p
Up 4%

Net investment in capital expenditure and acquisitions less disposals
£832m

Net debt
£999m

Operating profit
£625m
Up 13%

Profit before tax
£495m
Down 6%

Basic earnings per share
45.5p
Up 1%

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Associated British Foods is a diversified international food, ingredients and retail group with sales of £9.3bn, and 96,000 employees in 44 countries.

We aim to achieve strong, sustainable leadership positions in markets that offer potential for profitable growth, and deliver quality products and services that are central to people's lives.

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

£2,579m
REVENUE
£223m
ADJUSTED OPERATING PROFIT
28%
PERCENTAGE OF TOTAL REVENUE

Sugar & Agriculture

Sugar, Europe
British Sugar's UK beet sugar factories produce over one million tonnes of sugar annually. Its Spanish business, Azucarera, produces over 800,000 tonnes of sugar each year.

Sugar, China
We have majority interests in five cane sugar mills in Guangxi Province and operate seven beet sugar factories in the north east of the country. Continuous investment has raised annual sugar capacity to 850,000 tonnes.

Sugar, southern Africa
Illovo is Africa's largest sugar producer with agricultural and production facilities in six countries. Illovo grows 5.1 million tonnes of sugar cane itself and its annual sugar production is 1.9 million tonnes.

Agriculture
AB Agri sells animal feed to farmers and purchases grain from them. It also provides sustainable supply chain solutions to food, drink and biofuel producers. It has facilities in the UK and China and markets products in over 40 countries worldwide.

Retail

Retail
Primark is a major value retail group employing over 27,800 people. It operates stores in the UK, Republic of Ireland, Spain, the Netherlands, Portugal and Germany.

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

Buying and merchandising teams in Dublin (Republic of Ireland) and Reading (UK) 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.

£2,314m
REVENUE
£252m
ADJUSTED OPERATING PROFIT
26%
PERCENTAGE OF TOTAL REVENUE

£3,188m
REVENUE

£191m
ADJUSTED OPERATING PROFIT

35%
PERCENTAGE OF TOTAL REVENUE

Ingredients

Yeast and bakery ingredients
AB Mauri operates globally in yeast and bakery ingredient production with 48 plants in 27 countries, supplying plant and artisanal bakers and the foodservice and wholesale channels. It is a 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 manufactures and markets enzymes, yeast extracts, speciality proteins and lipids.

Grocery

Hot beverages, 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.

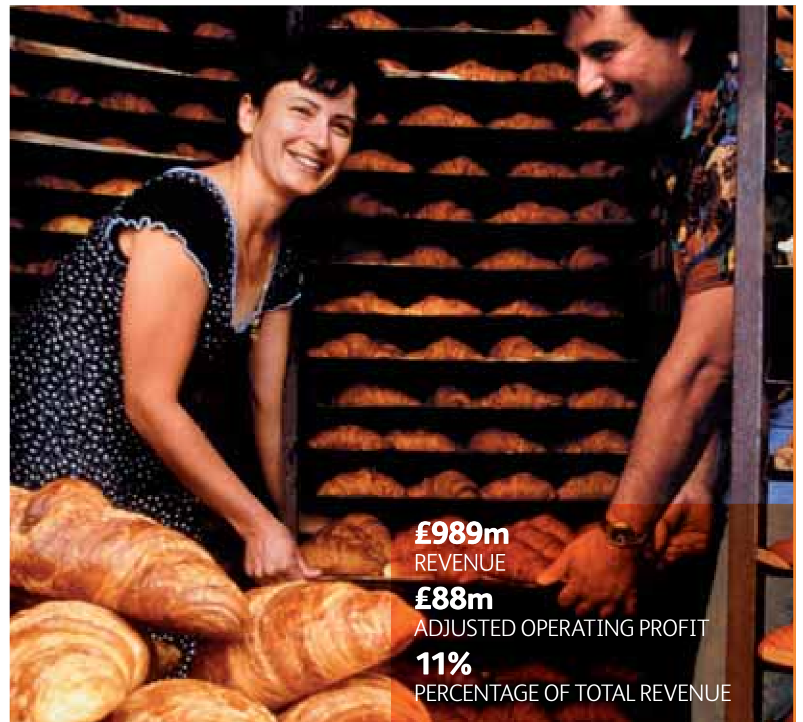
Vegetable oils
Mazola is the leader in premium corn oil in the US. In Mexico, Capullo is a premium canola oil.

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

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

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

Meat
In Australia we are a leading supplier of ham, bacon and smallgoods through the Don and KRC brands.



£989m
REVENUE

£88m
ADJUSTED OPERATING PROFIT

11%
PERCENTAGE OF TOTAL REVENUE

Chairman's statement

Charles Sinclair
Chairman

This is my first report to shareholders having succeeded Martin Adamson as Chairman in April and I am pleased to be able to report another good performance. Considerable progress was made in the development of the group during the year with significant capital expenditure, the restructuring of a number of businesses and growth in adjusted earnings per share of 5%. All of this was achieved against a background of a worldwide economic slow-down, with many of the countries in which we operate in recession.

The fact that we have been able to continue with our high level of capital investment despite these economic conditions is a testament to the strength of the group's balance sheet and our ability to generate cash. A number of major long-term projects are under way including the restructuring of our meat business in Australia, the combining of Jordans and Ryvita in the UK, the creation of a packaged edible oil joint venture in North America, capacity expansions for Sugar and Ingredients in southern Africa, Europe and China, the building of the Vivergo biofuels facility in the UK and further new stores for Primark across Europe.

Such investment benefits today's stakeholders but must also serve their interests tomorrow. Accordingly, our capital investment also addresses reduction in energy and water usage and promotes greater use of renewable fuels in our factories. The major infrastructure projects, particularly in the developing world, will provide local employment opportunities and a whole range of other social benefits.

Group revenue increased by 12% to £9.3bn and adjusted operating profit was up 8% to £720m. With over 50% of the group's revenue and profit arising outside the UK, the weakness of sterling had a favourable currency translation effect on these results. Good trading was delivered by a number of our businesses, most notably from sugar in the UK and Africa, Allied Bakeries and Primark. However, the difficulties experienced by our Chinese sugar operations and the North American edible oils business, evident in our half year results, held back profit for the full year.

Primark continues to deliver excellent growth in both revenue and profit, achieved through strong UK like-for-like sales growth and the addition of further retail selling space. Whilst there are still many opportunities to extend Primark's estate in the UK and Ireland, expansion into continental Europe represents an exciting and substantial growth prospect for this highly successful business.

Our European sugar operations have emerged from regime reform and profit is returning to more acceptable levels. For a relatively modest net investment, we strengthened our position in European sugar with the acquisition of Azucarera Ebro, the leading sugar producer in Iberia, and the disposal of our smaller sugar business in Poland. Azucarera will provide EU refining capacity for cane raws imported from least developed countries and is expected to be earnings accretive after the first year. Illovo delivered an excellent operating result and continues to explore the significant organic expansion opportunities available in Africa.

A notable landmark in the development of the group's cash generating ability is the achievement of adjusted earnings before interest, tax, depreciation and amortisation of £1bn.

The profitability of our Chinese sugar businesses was severely affected by low sugar prices in the first half of the year but these saw some recovery in the second half. Profitable development of the beet sugar business in north east China is dependent on agricultural improvements and factory efficiencies which will take a number of years to achieve.

The challenges experienced by our grocery businesses last year from extreme movements in commodity costs were not repeated but were replaced instead by the pressures of trading in a recessionary environment. Although results in the first half were significantly affected by the losses sustained on high-priced US corn oil futures contracts, the second half performance was much better. There was some evidence of consumers trading down to cheaper products, but the group's major grocery brands, particularly Kingsmill, held up well.

A notable landmark in the development of the group's cash-generating ability is the achievement of adjusted earnings before interest, tax, depreciation and amortisation of £1bn. Together with a reduction in working capital during the year, reflecting an increased management focus and lower commodity prices, this provided the funds for net capital expenditure and investment in new businesses of £832m including debt assumed and net of disposals.

The events in the financial markets since last year end have turned an accounting surplus in our defined benefit pension schemes last September of £61m into a deficit of £106m. This deficit is somewhat reduced from the position at the half year and, in the context of the group's resources, is manageable. It will nevertheless have a detrimental effect on other financial income in the coming year.

Net debt at the end of the year was £999m despite the substantial level of investment. The completion of the US private placement earlier in the year raised some US$600m, lengthened our debt maturity profile and diversified our sources of financing. The group now has a very comfortable level of headroom on its committed bank facilities. This provides a sound platform for continued investment.

Board changes

I began my report by referring to Martin Adamson's retirement in April this year. Martin served on the board for almost ten years, of which more than six were as Chairman, and in that time steered the group through a period of considerable change. Revenue was doubled. The trading footprint of the group was increased from 16 countries to 44 and our worldwide workforce tripled with the substantial investments in Africa, China and Primark. Martin's extensive business experience and sound judgement have been of immeasurable benefit to the board and we greatly appreciate the substantial contribution he has made to the group's success over the last decade. We wish him a long and happy retirement.

Employees

It is pleasing during a time of worldwide recession and widespread unemployment to be able to report a small increase in the size of our workforce. The growth of the business has resulted in the number of our employees now exceeding 96,000 and I would like to thank them for their dedication and hard work. The trading environment over the past year has been difficult and the success of the group is a tribute to their commitment and enthusiasm.

Dividends

A final dividend of 14.1p is proposed, to be paid on 8 January 2010 to shareholders on the register on 4 December 2009. Together with the interim dividend of 6.9p paid on 3 July 2009, this will make a total of 21.0p for the year, an increase of 4%.

Outlook

The likely scale and speed of economic recovery remains uncertain, and we are cautious about the outlook for the UK consumer over the next year. However, we expect good revenue and operating profit growth with the benefit of returns from our recent long-term investments and restructuring together with improvement in our Chinese and US businesses. Net financing costs will be higher but we are confident of progress in earnings for the full year.

Charles Sinclair
Chairman

Operating review

George Weston
Chief Executive

The group delivered satisfactory results at a time when economic uncertainty and declining consumer spending presented our businesses with considerable challenges. Group revenue increased by 12% to £9.3bn and adjusted operating profit increased by 8% to £720m. Sugar, Primark and Ingredients delivered major improvements in profit, and Agriculture traded well and matched the exceptional performance of last year. Grocery was more affected and its profit decline was mainly attributable to long positions in vegetable oil futures taken out in the first half by ACH at values well above market. Sterling's weakness had a beneficial effect on the translation of profits from our overseas businesses.

Over the years we have developed the group through a combination of capital investment, process improvement, building new revenue streams and the acquisition of complementary businesses. Despite the economic environment, this year proved to be no exception and, if anything, the pace of activity increased with capital investment at a high level. All of our businesses have been strengthened as a result and are better equipped to deliver growth in the future.

In Sugar, the changes to the EU regime are now behind us and the market has been more stable. There has been much change and consolidation of producers in recent years. Our leading positions in the UK and Iberia, together with access to sugars from least developed countries, position us well for the EU market over the next few years. We expect volume growth from our African and Chinese operations over the coming years. Illovo has ambitious expansion plans and the doubling of capacity in Zambia was completed this year. Although profitability was held back by low prices in China, the addition of another mill in southern China expands this consistently profitable operation. Some progress was made in the beet sugar business in the north east of China but much remains to be achieved in improving agricultural yields and factory efficiency.

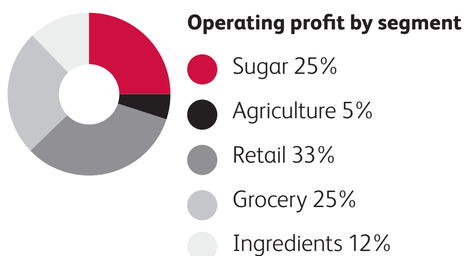
Primark had a remarkable year. Like-for-like growth of 7% demonstrated the strong development of its consumer franchise, particularly in the UK. The potential of continental Europe for the Primark model was even more evident this year and we are committed to expansion in Spain and the Netherlands. Early signs in Germany and Portugal are encouraging.

Development of our Grocery businesses was held back by the problems at ACH in the first half. However, it is noteworthy that considerable work was undertaken this year with integration work in our meat business in Australia, Patak's and Blue Dragon, Jordans and Ryvita and Stratas in the US. Each of these businesses will emerge much stronger.

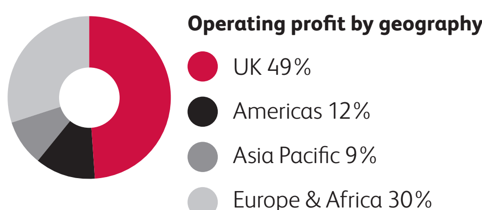
Capacity expansion was the major feature in Ingredients with investment in enzymes, yeast and yeast extracts all of which have demonstrated their growth potential in recent years.

A number of long-term capital projects are in progress across the group, many of which are expected to complete during 2010. They will contribute to the continued growth of our businesses.

Operating profit by segment



Operating profit by geography



Over the years we have developed the group through a combination of capital investment, process improvement, building new revenue streams and the acquisition of complementary businesses. Despite the economic environment, this year proved to be no exception and the pace of activity increased.

SUGAR & AGRICULTURE

SUGAR Revenue
£1,575m (2008, £1,267m)

Adjusted operating profit
£189m (2008, £153m)

The results from Sugar moved substantially ahead this year with both revenue and profit increasing by 24%. This was achieved by a sharp recovery in profit at British Sugar UK, reversing the trend of declines in recent years, and continued growth by Illovo which more than offset disappointing results in China.

In the EU, our UK and Polish businesses increased profit with good factory operating performances, robust sales, the benefit of a strong euro, a reduction in the restructuring levy and favourable energy costs. Very favourable growing conditions in the UK yielded an excellent beet crop with sugar per hectare at record levels and 1.19 million tonnes of sugar was produced. Factory operations benefited from further improvements in energy efficiency, returns from prior year investments and high sugar extraction rates. The contribution from the combined heat and power generation plants at Bury and Wissington increased with the supply of electricity to the grid at high prices. The business in Poland delivered a strong commercial performance which more than offset lower sugar production of 163,000 tonnes. Restructuring work at our closed factory sites in York, Dobre and Ostrawite proceeded to plan and the associated renunciation compensation of €116m was received in full from the European Commission in June 2009.

Following the renunciation of quota across the EU in 2008, supply and demand of sugar in the market has been broadly balanced. This has led to more stability for pricing. The final changes relating to reform of the EU sugar regime took place at the beginning of October 2009 and no further changes are anticipated until the next review which is expected to be implemented from October 2015.

A number of developments during the year strengthened our presence in the EU market. We acquired Azucarera Ebro, the leading sugar producer in Iberia, in April this year. It operates from four beet factories, three in the north of Spain and one in the south. A sugar refinery is being commissioned on the site of the southern factory, given its proximity to the port of Cadiz, and it will have the capacity to produce 400,000 tonnes of sugar. The supply of cane raws is expected to be primarily from Illovo. In August we announced that we had reached agreement to sell our Polish sugar business, the country's fourth largest producer, to Pfeifer & Langen. Completion, which is subject to regulatory approval, is expected in late 2009. During the year British Sugar established a joint venture with Illovo, Mitra Sugar, to source sugars from outside the EU and market them to companies within the EU. As a result of our leading positions in the UK and now in Iberia, together with access to the sugars of the least developed countries, we have a strong platform for the future.

Illovo delivered an excellent operating result driven by strong sales. These resulted from higher local market prices, currency translation gains for the operations outside South Africa and by recovery of the world sugar price. Sugar production was lower than expected at 1.9 million tonnes, with poor weather conditions in South Africa impacting the cane crop and excessive rains and early commissioning difficulties impacting volume throughput at the expanded mill in Zambia. In contrast Malawi had another excellent year with good production volumes and operating performances.

PART OF EVERYDAY LIFE...

We have built a global sugar business with operations in China, Europe and Africa in which we continue to invest

EVERYDAY LIFE IN SUGAR

Understanding the bigger picture is an essential component of British Sugar Group's successful strategy which has seen its revenue grow from £700m to £1.6bn in four years.

A prime example of this strategic vision has been in its adaptation to the EU's decision to allow duty-free imports of raw sugar from the Least Developed Countries (LDCs) from 1 October 2009. By stimulating trade between the EU and many of the world's poorest countries, this policy is designed to aid economic development.

At the same time, the European Commission also realised that many LDCs lacked the infrastructure to take advantage of these new trading opportunities. Take Swaziland for example. Here subsistence agriculture employs 70% of the population and overgrazing, soil depletion and drought are real problems.

In response, the EU invested in programmes such as the construction of an irrigation dam and canal system at Lubovane. Opened in March 2009, it allows local farmers to grow higher value crops, including sugar cane.

But growing crops is only one part of the story, which is where British Sugar Group comes in. Illovo is working closely with local farmers and smallholders to grow cane, which in turn has justified the expansion of the Ubombo factory. Alongside this there are plans to generate more renewable energy from the cane biomass with the surplus electricity feeding into Swaziland's national grid.

In Europe, British Sugar and Illovo established Mitra Sugar, a trading company which acts as a bridge between LDC sugar producers seeking to export to the EU and European refiners. One of Mitra's customers is Azucarera Ebro, Iberia's premier sugar company which joined the British Sugar Group in April 2009. Azucarera's new refinery at Guadalete comes on stream in late 2009 and will process up to 400,000 tonnes of raw sugar, turning it into sugar products for both manufacturers and retail customers across southern Europe.

2005: £700m

2009: £1.6bn

BRITISH SUGAR GROUP HAS MORE THAN DOUBLED REVENUE IN THE PAST FOUR YEARS

Above: In April 2009, Azucarera Ebro, the leading sugar producer in Iberia, joined the group.

Our business in Zambia achieves the highest cane yield per hectare of any of Illovo's operations at levels which are world class. During the year we completed the doubling of capacity in Zambia as well as smaller-scale expansion projects in Swaziland, Mozambique and Tanzania. Streamlining of the South African business continued with the sale of the Umfolozi and Pongola mills and creation of a new joint venture at Gledhow. Illovo successfully raised rand 3bn of additional capital through a rights issue to finance its future expansion plans. Proceeds were received in late September after the group's year end. The Zambian business completed a US$50m rights issue during the year to finance its capacity increase.

Our businesses in China had a very difficult year with the significant sugar stock overhang from 2007/8 depressing prices during the first half. A reduced crop in the north, with exceptionally low sugar content, impacted operating costs. Sugar prices in China rallied in the second half driven by government purchases, a smaller national crop this year and higher world sugar prices. Importantly for the price outlook, consumption exceeded production in China by some 1.7 million tonnes in 2008/9. Looking forward the business will be strengthened by the commissioning of the new cane sugar mill at Jinchengjiang and by the beet sugar business focusing on the development of agriculture and production in seven of its 12 factories.

Construction of Vivergo's wheat bioethanol plant is progressing well at Hull in the UK, with commissioning now planned for autumn 2010. All major plant items have now been received and installation is well under way. Contracts have been signed with AB Agri to supply wheat from Frontier and for the sale of the distillers' grain co-products. It is expected that a yeast supply agreement with AB Mauri will be signed shortly. The European market for bioethanol is still in its infancy but is expected to grow considerably over the next few years. The UK mandate for the inclusion of renewables in transport fuel requires the current 3.25% to increase to 5% by 2013/14. Longer term, the EU Renewable Energy Directive will require the member states to derive 10% of transport fuel from renewable sources

AGRICULTURE Revenue
£1,004m (2008, £867m)

Adjusted operating profit
£34m (2008, £33m)

AB Agri had another very strong year continuing to perform well above expectations in a market that experienced lower commodity prices but with continued volatility. Growth was achieved both in its UK and international operations, driven by good market experience, trading and nutritional expertise and by excellent performances from new business streams.

Frontier, our grain and crop inputs supply joint venture, produced exceptional results having anticipated the correction in the value of the global grain markets and the increased demand for seed, fertiliser and crop protection products. In a quite different market from the previous year, Frontier's unique national grain trading structure and its integrated crop inputs supply business enabled it to respond quickly to changing customer demand. Its national network for grain trading and exporting facilities was ideally suited to merchandising the UK crop which was not only large but also of variable quality.

KW Trident, our ruminant feeds business, significantly increased its presence in the UK blends market. AB Vista delivered excellent sales growth of its high-technology, valued-added feed enzymes, and a new enzyme, Econase XT, was recently granted approval by the European Food Safety Authority. International sales of our other specialist products, pre-mixes and piglet starter feeds, continued to grow, particularly in the developing markets of Eastern Europe.

As part of our sustainable supply chain offerings to processors and retailers, AB Agri has developed the first Carbon Trust accredited greenhouse gas reduction model for dairy farms. This has been used to help Sainsbury reduce the overall greenhouse gas emissions from its milk-supplying farms. Sainsbury has recently signed an agreement with AB Agri to extend this carbon-scoring work to include beef, lamb, pork, poultry and eggs in its UK supply chain. This will require AB Agri to carbon footprint more than 18,000 farms over the next four years.

We continued to invest in our compound feed business in China. We opened a new mill in Henan province to meet this market's high demand for pig feed, replacing an old leased mill, and began construction of a new ruminant-specific mill in Tianjin. When complete, this expansion will have delivered a 20% increase in production capacity.

PART OF EVERYDAY LIFE...

Primark is taking its winning formula to the rest of Europe

Whilst there are still many opportunities to extend Primark's estate in the UK, expansion into continental Europe represents an exciting and substantial growth prospect

RETAIL

Revenue
£2,314m (2008, £1,933m)

Adjusted operating profit
£252m (2008, £233m)

Primark celebrates its 40th birthday this year and Arthur Ryan, its founder and chief executive throughout its rise to become a leading force on the high street, has chosen this landmark to announce that he will stand down as chief executive to concentrate on his role as Chairman. Responsibility for the day-to-day running of the business has been assumed by Paul Marchant as chief executive. Mr Marchant was appointed chief operating officer in January and brings with him a wealth of experience in retailing. Since then, he has worked closely with Mr Ryan and the strong management team. Mr Ryan's skill and experience will play an important part in maintaining the growth momentum and pursuing the significant strategic opportunities available to this business.

Primark again delivered exceptional sales and profit growth even though each of its three main markets were subject to recessionary pressure and a decline in consumer confidence. Sales increased by 20% as a result of growth in selling space and like-for-like sales growth of 7%. The value sector continued to capture an increasing share of the UK clothing retail market and Primark is in the vanguard of this movement. Organic growth was also achieved through Primark's strong competitive position, its highly appealing merchandise and better weather than last year.

Operating profit margin declined from 12.1% to 10.9% this year, primarily as a result of the increased fixed overhead of the new UK distribution centre at Thrapston. The weakness of sterling during the year significantly increased the cost of goods sourced in US dollars. As a result of forward buying of currency, this mainly affected the second half of the financial year. However, the impact on gross margins was mitigated by better buying, lower freight costs and a more profitable sales mix. A further gross margin reduction is expected for the forthcoming period up to Christmas but with an improvement at the beginning of 2010 with the benefit of forward buying of US dollars at improved exchange rates.

We opened 12 new stores during the year: five in Spain, four in the UK and our first stores in each of the Netherlands, Germany and Portugal. We closed smaller stores in Bristol and Tooting when the new stores were opened there. The new Bristol store is our second largest after Manchester, trading from 100,000 sq ft over four floors. This brings the total number of stores trading by the year end to 191, from 5.9 million sq ft of selling space which is an increase of 9% since last year end. Our stores in continental Europe performed well although it is still early days for Germany and Portugal. Plans are in place to open 11 new stores in the coming year, including our first store in Belgium, and there is a good pipeline of further stores.

As Primark has grown, its record on ethical trading, in common with all clothing retailers, has been subject to close scrutiny. It offers good quality fashion at low prices because it purchases very large volumes and has low mark-ups, minimal advertising and low overheads. Primark's success is also a result of its ability to respond quickly to changes in the marketplace with its flat management structure, a strong buying team and an excellent distribution capability. More than 95% of its third-party suppliers are shared with other leading European high street brands.

Sourcing from developing countries carries with it an obligation to ensure that workers making garments are treated fairly. Primark takes this responsibility seriously and has contributed to the industry-wide efforts to improve labour standards.

Primark has committed to undertake over 1,000 audits in 2009, nearly doubling the number achieved last year. A new Ethical Trade Director has been appointed along with a number of other appointments based in the main regions from which we source. Relationships with non-government organisations have been strengthened, especially in China, India and Bangladesh. Projects relating to the determination of a living wage, women's rights and home-working are under way.

New store openings:

Algeciras (Spain)	Oviedo (Spain)	Bristol (UK) – relocation
Barcelona (Spain)	Rotterdam (Netherlands)	Corby (UK)
La Coruna (Spain)	Bremen (Germany)	High Wycombe (UK)
La Gavia (Spain)	Lisbon (Portugal)	Tooting (UK) – relocation

Value retailing has grown enormously over the past decade. Verdict Research estimates that value clothing retailers have increased their market share from 11% in 1998 to 25% in 2008. Primark has been in the vanguard of this trend to the extent that some commentators predict a long-term shift in consumer behaviour towards value, which they have dubbed, the 'Primark Effect'.

From its foundation in Ireland in 1969, Primark established a winning formula using a retail model based on highly competitive pricing and fast-changing fashion-conscious product lines. Throughout its development it has demonstrated tenacious adherence to these principles while displaying considerable agility in adapting to changes in both the market environment and consumer behaviour.

The last two decades have been the era of 'fast fashion' during which catwalk-looks and celebrity creations have been converted at ever-increasing speed into affordable purchases for everyone.

This has been fuelled by growth in the numbers and purchasing power of middle income groups and in particular by a new affluence amongst the young who enjoy expressing themselves through fashion, music and leisure. High fashion turnover has spurred frequency of shopping trips and higher than industry average sales per square foot. Moreover it has driven the footfall necessary to generate volume purchase in other categories within the stores such as footwear, lingerie and homeware.

Primark over this period has enjoyed a consistently growing share of a growing sector. But there has been another dynamic which has driven the remarkable growth of the business. Since 2001, Primark has grown its selling footprint from 1.7m sq ft to 5.9m sq ft. A significant feature of this growth has been the increase in average store size over that period from 16,000 sq ft to 30,000 sq ft.

Compared to the 1990s, new stores tend to be bigger than the average (the Manchester flagship store was extended to 136,000 sq ft last year). The high profile of the 70,000 sq ft Oxford Street store has helped affirm the brand as a leading value retailer in the UK. To achieve this transformation, ABF has invested over £1bn on new stores, extensions to existing stores and new fit-outs since 2005. As a result, Primark has transformed itself from its origins as a low price-point, tertiary-located clothing retailer into a leading value retailer in the UK.

Although competition and change in consumption patterns are potential competitive threats, Primark has consistently shown superior growth to the clothing category overall.

It would seem for an ever-growing army of satisfied, fashion-conscious customers, Primark has indeed become a part of everyday life.

2001:
1.7m sq ft

2009:
5.9m sq ft

PRIMARK HAS MORE THAN TRIPLED ITS RETAIL SELLING SPACE SINCE 2001

25%

THE MARKET SHARE THAT VALUE RETAILERS ENJOYED IN 2008. IN 1998 IT WAS 11%

PART OF EVERYDAY LIFE…

Our grocery brands are enjoyed by households all over the world

GROCERY

Revenue
£3,188m (2008, £2,820m)

Adjusted operating profit
£191m (2008, £194m)

Grocery revenue increased by 13% to £3,188m driven by the full year effect of price increases taken in the previous financial year, favourable translation resulting from the weakness of sterling, the inclusion of Jordans and some volume growth. Profit declined by 2% to £191m mainly as a result of the first half problems of ACH in the US and a highly competitive UK retail sugar market for Silver Spoon. By contrast, Allied Bakeries and Twinings Ovaltine made very good progress.

In the US and Mexico, profitability at ACH was heavily impacted in the first half by taking long positions in vegetable oil futures at values well above the current market after a period when vegetable oil prices had risen sharply. Volumes of Mazola and Capullo were lower than last year as a reaction to the consequentially higher consumer prices. The performance in the second half steadily improved with higher Mazola volumes, following its consumer price reductions, and the full utilisation of the oil futures. Difficult market conditions have hampered the recovery of Capullo in Mexico. Home baking products and spices had a good year. Good progress was made with the integration of the foodservice, speciality food ingredient and retail private-label bottled oils businesses in Stratas, the 50% joint venture formed with Archer Daniels Midland (ADM) in October. The products produced at ACH's factories are being transferred on a phased basis to the low-cost facilities contributed by ADM to Stratas. Major cost savings will be realised when ACH's facilities are finally closed in spring 2010. Following the transfer of its commodity oils business to Stratas, ACH has rationalised its overhead and focused on improvements to its processes to support what is now a branded food business.

In Australia, revenue was well ahead of last year reflecting the recovery of higher input costs and a strong performance from milling. Profit was also ahead although margin pressure was a feature both in the baking and meat businesses. A number of new products were launched during the year. Following the closure of the Canberra and Orange bakeries, announced at the end of last year, the consolidation of baking in New South Wales was completed with the upgrade of the Newcastle bakery. New product launches and packaging formats were also used to develop the Don and KR Castlemaine brands following the combination of these meat businesses last year. Rationalisation is progressing to plan with the closure of the factory in Perth and the start of the construction of the new factory in Castlemaine.

The UK grocery businesses made further progress led by a strong performance from Allied Bakeries where sales improved through distribution gains, delivered on the back of stronger trading relationships. In June this year Kingsmill became the first UK bread brand to use the Carbon Trust's Carbon Reduction Label when it featured the label on its Great Everyday White, Tasty Wholemeal and 50/50 loaves. At the end of the year we launched the Little Big Loaf in response to consumer demand for a loaf with full-sized slices but fewer of them.

Early indications are that this unique offering has been well received by the market. Following an increased focus on health and safety in its commercial fleet, which covers one million kilometres each week, the business was delighted to receive an award for its promotion of safe driving by its employees.

Twinings Ovaltine is a successful international business which benefited from the favourable translation of the results of its overseas operations into sterling. It also delivered good volume growth, particularly from Ovaltine, in its developing markets with strong growth in Asia and the newer markets of Nigeria and Brazil. Growth slowed in Twinings as volumes of its premium products were affected but there was high consumer demand for Everyday tea. In the UK, a new television and press campaign supporting Twinings speciality teas was introduced in May with encouraging results. The Twinings brand also performed well in Australia supported by a successfully executed marketing plan including television commercials.

On 2 November 2009 Twinings announced that it was entering a period of consultation with employees over a proposed reorganisation of its tea manufacturing footprint. The changes will ensure that manufacturing will be closer to its major customer markets, it will have the capacity to meet future growth demands and it will be lower cost and more efficient than the current configuration. It is proposed to invest in high-speed, automated packaging equipment at Andover to produce high-volume products mainly destined for the UK market. The Chinese factory would be doubled in size and would concentrate on the US and Asia Pacific markets and a new factory to be built in Poland would specialise in rest-of-world markets. The factory in Newcastle would close. The programme would take over two years to complete. The charge for this reorganisation of some £19m, of which £8m is non-cash, would be included in the income statement for the 2009/10 financial year.

Silver Spoon experienced a highly competitive market but benefited from increased demand for home baking ingredients. This, combined with distribution gains, resulted in higher sales and market share across the Silver Spoon sugar and Allinson flour ranges. The Silver Spoon brand was extended into the growing cake making and decorating category with the launch of the Cakecraft range in June. Closure of the Newark packaging plant and transfer of operations to an expanded plant at Bury St. Edmunds is virtually complete.

This year we successfully integrated Jordans Cereals and Ryvita into a single business headquartered in Biggleswade, with common systems and processes. This was achieved on time and on budget whilst maintaining a high level of service to customers. Ryvita continued to perform well with good year-on-year sales growth in its core crispbread business. Jordans' trading improved during the year, after a slow start, with growth achieved in most of its key branded lines. The Country Crisp range was rationalised and responded well to its relaunch with improved recipes and new packaging.

The ethnic foodservice sector in the UK continued to suffer from the effects of recession which impacted sales by Westmill Foods. Profit was lower than last year as a consequence but our main brands, Lucky Boat, Patak's, Green Dragon, Habib and Rajah continued to develop well. Rajah was relaunched in the summer to coincide with its participation in three regional UK cultural events celebrating Asian music, dance and food.

Last year AB World Foods successfully combined the Blue Dragon and Patak's businesses with the creation of a single supply chain and the commissioning of a new sauces factory in Poland for Blue Dragon. This year we have focused on delivering the benefits of this combination and achieved a strong sales performance. Margin was impacted by adverse commodity and currency movements. The Blue Dragon brand continued to grow driven by the success of its stir-fry and sweet chilli dipping sauces. The Patak's brand has undergone a major relaunch with new and improved recipes and a new television advertising campaign focusing on the Pathak family heritage. Meena's, a premium Indian sauce range launched in the UK a year ago, has quickly established itself with availability in all major supermarkets.

EVERYDAY LIFE IN GROCERY

It's 7am in New York city and an executive looks out on the Manhattan skyline while drinking a refreshing cup of Twinings tea.

3,400 miles away in London a schoolboy is eating his lunchtime sandwich made with Kingsmill bread and simultaneously in Bangkok, mum is giving the children their evening snack with a cooling and nutritious glass of Ovaltine. Each and every day our grocery brands are enjoyed by millions of people around the world.

Encompassing a range of food categories that includes sugar, bread, cooking oils, breakfast cereals, packed meats and hot beverages; our Grocery business is built on brands that are known and trusted in diverse cultures across the globe. To build and maintain a business of this scale requires investment, expertise and skill in specific product sectors and markets.

Our operating model is based on empowering the best management teams to service markets in which they have expertise. Whether that entails building and expanding the Twinings tea business globally or selecting the best Pakistani basmati rice for export to the UK, we employ experts who are focused on meeting and exceeding the requirements of consumers in local markets across the globe.

Our long-term business objective is to grow organically and by acquisition in complementary activities, while striving to achieve high levels of operating efficiency. Our baking businesses, for example, include centres of expertise in the UK, Australia and New Zealand with products that span everyday, premium and part-baked catering breads. This gives us the scale and expertise to provide the baked products people want to eat at the best possible prices.

Whether it is a pecan pie made with Karo corn syrup in Birmingham, Alabama, or a cup of Nambarrie tea in Belfast Northern Ireland, our products form part of everyday life around the world.

PART OF EVERYDAY LIFE…
We are a leader in yeast and bakery ingredients, supporting local markets on a global scale

EVERYDAY LIFE IN INGREDIENTS

Five years is a short time when you are building up a business, but that is how long it has taken to grow our Yeast and Bakery Ingredients business from a small UK joint venture into the worldwide number two in the market.

AB Mauri was formed in November 2004 as a new operating division. It was created by bringing together the yeast and bakery ingredients businesses which were acquired from Burns Philp, our existing bakery ingredient operations, and other more recent acquisitions. Consistent commitment and investment since, has seen AB Mauri consolidate its European operations and construct new factories in areas of strong market growth such as China.

AB Mauri has its global headquarters in the UK and is organised into six geographic regions. It operates from more than 48 locations in 27 countries and from its humble beginnings now has a total sales turnover of over one billion US dollars.

As well as its regional structure, there are two centrally managed Technology Groups. The Global Technology Group, based in Sydney, Australia covers all aspects of yeast manufacturing and operations including strain development, engineering, fermentation technology, project and procurement management.

The Bakery Technology Group based in the Netherlands covers baking science, research formulation and application skills, and a highly focused team responsible for the management of global accounts business.

This team manages relationships with those major international bakery and food service groups whose geographic scope extends across several or all of AB Mauri's regional businesses.

Today AB Mauri has impressive geographic reach through its international family of yeast and bakery ingredient businesses. These businesses are supported by outstanding distribution networks.

AB Mauri is a young company that has come a long way in a very short time. Its name may still be new to many people. However some of the local brands have great local heritage and are well recognised and respected in their markets. Examples include Fleischmann, Mauri, Calsa, Tower, Cereform, Serrol, Maurimix, Mauripan and Fermipan. For millions of people around the world AB Mauri plays a significant role in their daily lives . . . without them even knowing.

Above: Baking ingredients account for almost a third of our Ingredients revenues.

INGREDIENTS

Revenue
£989m (2008, £824m)

Adjusted operating profit
£88m (2008, £78m)

Revenue and operating profit increased by 20% and 13% respectively, largely driven by the benefit of sterling weakness against the US dollar and euro.

"We have consistently developed the group through investment and this year it enabled the delivery of good results in difficult economic times. The pace of development activity has increased and all our businesses are well equipped to deliver future growth

The yeast and bakery ingredients business of AB Mauri performed well, with good sales growth in all geographic regions. Particularly good progress was made in yeast in South America and in technical ingredients in the Americas, but with tough trading conditions experienced in India. Operating margins improved following price increases achieved early in the year and the benefit of capital investment in cost reduction projects at our newly acquired factory in Italy.

Capital investment continued apace with further progress made on the significant expansion of the Chinese yeast plant in Harbin which is due to open in 2010. Working closely with the relevant local authorities we continued our programme to upgrade effluent treatment plants in South America, India, Vietnam, China and the UK which will improve the quality of waste water, ensuring compliance with ever-tightening regulatory standards. A major new Innovations Centre was opened in Bangalore in April to provide a regional focus on Bakery Ingredients throughout south and west Asia. We closed our small yeast facility in Ireland and transferred production to Hull in the UK. The sale of the former Gilde Bakery Ingredients business in Iberia and our manufacturing plant in Portugal was completed in June in accordance with the agreement reached with the EU Commission.

ABF Ingredients had a difficult year with lower sales volumes and pressure on margins as some commodity prices fell. Feed enzymes performed well with good growth generated from geographic expansion and new products. The expansion of enzymes capacity in Finland by some 30% was completed during the year. This removes the previous capacity constraint allowing previously outsourced production to be brought in-house and provides much needed flexibility for further development of this fast-growing business. Construction of the new yeast extracts facility, adjacent to the Chinese yeast plant in Harbin, is due to complete in 2010. When opened this will be a low-cost complement to our existing facility in Hamburg, Germany which is running at full capacity.

In the US, the cost of key raw materials including fatty acids, rice and palm oil, fell from the high levels experienced last year which, combined with a better approach to global sourcing, resulted in an improvement in profitability. Our speciality proteins business has focused on whey protein production at Juda, Wisconsin, and we closed the loss-making Norfolk, Nebraska milk protein facility. To minimise the cost base and maximise sales and management efficiencies we have merged the whey protein business with our speciality extruded ingredients business based in Woodland, California.

George Weston
Chief Executive

Financial review

John Bason
Finance Director

Group performance

Group revenue increased by 12% to £9.3bn with substantial growth in every business segment. The food businesses benefited from the weakness of sterling, the flow-through of price increases from last year, acquisitions and some volume growth. There was continued strong trading from Primark. At constant currency, and excluding the impact of acquisitions and disposals, revenue increased by 7%. Revenue from the US packaged oils business that was contributed to the Stratas joint venture has been included in disposed businesses. Since the disposal, the group's interest in the joint venture has been equity accounted with the result that sales revenues are not consolidated.

Adjusted operating profit increased by 8% to £720m. At constant currency, and excluding the benefit of acquisitions, it increased by 3% but this ignores the impact that sterling weakness had on import costs which, for a number of businesses, and Primark in particular, was a significant factor in second half margin compression. Under international accounting standards, inventory acquired with a business is stated at its fair value and typically profit is reduced when the sale subsequently takes place. For the Azucarera acquisition this resulted in an increase of £12m in inventory, from book value to fair value. This non-cash amount, which reduced profit in the year, has been added back in calculating adjusted operating profit.

Other items excluded in calculating adjusted operating profit are profits less losses on the sale of property, plant and equipment, amortisation of non-operating intangibles and any exceptional items.

A net loss of £65m arose on the sale and closure of businesses, in line with that reported at the half year. This primarily related to the contribution of the US packaged oils business to the Stratas joint venture, £37m of which related to the write-off of property, plant and equipment at the two redundant ACH factories.

Finance expense less finance income of £78m compared with a charge of £53m last year. This year-on-year increase resulted from the continued significant level of capital investment in organic growth opportunities, the acquisition of new businesses and the impact of the US private placement which is currently a more expensive source of finance than bank debt at prevailing interest rates. Other financial income of £13m was primarily net income from retirement benefit schemes, being the expected return on assets in the group's schemes less the charge on pension scheme liabilities. This compared with a net income of £21m last year.

Profit before tax fell from £527m to £495m. This included the impact of the loss on disposal of businesses this year and an £11m reduction, year-on-year, in profits less losses on the sale of property, plant and equipment. Last year's profit before tax included a charge of £46m for exceptionals. Adjusted to exclude these items, underlying profit before tax increased by 4% to £655m.

Taxation

The tax charge of £112m included an underlying charge of £166m, at an effective tax rate of 25.3% on the adjusted profit before tax. This was higher than last year's 24.4% as a result of the mix of profits in different tax jurisdictions and last year's one-time benefit from tax credits related to our investment in Zambia.

The overall tax charge for the year benefited from a £25m (2008 – £21m) credit for tax relief on the amortisation of non-operating intangible assets and goodwill arising from asset acquisitions. A tax credit of £25m arose on the loss on the sale of businesses and fixed assets and the tax on the fair value inventory adjustment discussed above amounted to £4m.

Earnings and dividends

Earnings attributable to equity shareholders were £359m, £2m higher than last year, and the weighted average number of shares in issue used to calculate earnings per share fell from 790 million to 789 million. Earnings per ordinary share were 1% ahead of last year at 45.5p. Adjusted earnings per share which provides a more consistent measure of performance increased by 5% from 54.9p to 57.7p.

The interim dividend was increased by 2% to 6.9p and a final dividend has been proposed at 14.1p 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 £111m and will be charged next year. The dividend is covered 2.75 times on an adjusted basis.

We continued to invest significantly in the future of the group with expenditure on capital and acquisitions, net of disposal proceeds, of £832m.

Balance sheet

Non-current assets increased by £647m to £6,018m. Property, plant and equipment of £3,519m increased by £409m driven by acquisitions, which added £218m, and capital expenditure net of depreciation of £223m. Working capital increased by £65m primarily due to higher inventory values as a result of the Azucarera acquisition. Excluding the impact of acquisitions, working capital fell reflecting lower commodity costs and an increased focus on working capital management. Net borrowings at the year end were £208m higher than last year at £999m.

A currency gain of £243m arose on the translation into sterling of the group's foreign currency denominated net assets. This resulted from the fact that sterling was weaker against all major currencies at the end of this year than at the end of the previous year. The group's net assets increased by £232m to £5,076m.

Return on capital employed for the group fell from 16.6% to 15.4%. This is largely a consequence of the substantial level of investment made this year in a number of long-term capital projects which have yet to yield a return. Return on capital employed is defined as adjusted operating profit expressed as a percentage of average capital employed for the year.

Cash flow

Net cash flow from operating activities was £833m compared with £553m last year. This substantial increase mainly reflects a strong working capital performance with an inflow of £117m compared with an outflow of £110m last year, despite the considerable growth in the business.

We continued to invest significantly in the future growth of the group with a net £832m spent on property, plant and equipment, intangibles and acquisitions net of disposals during the year. Capital expenditure amounted to £545m of which £159m was spent on the acquisition and fit-out of Primark stores. Elsewhere expenditure was incurred on yeast and yeast extract production in China, the expansion of our sugar interests in southern Africa, bioethanol production in the UK and enzymes capacity in Finland. Compensation received for sugar quota renounced last year amounted to £101m.

We invested £391m on acquisitions, principally on the leading sugar producer in Iberia but also on an animal feed mill in the UK and a sugar cane farm in Zambia. £145m was received from business disposals, primarily the Polish sugar business, the Pongola mill in South Africa and the former Gilde Bakery Ingredients business in Iberia which was sold, together with our manufacturing plant in Portugal, in accordance with an agreement reached with the EU Commission.

Financing

Cash and cash equivalents totalled £383m at the year end. These were managed during the year by a central treasury department, operating under strictly controlled guidelines, which also arranges term bank finance for acquisitions and to meet short-term working capital requirements, particularly for the sugar beet and wheat harvests.

At the year end the group had total committed borrowing facilities amounting to £1,847m of which £1,007m was drawn down. £1,073m of these facilities expire in October 2011, with the remainder maturing from 2012 to 2021. The group also had access, at the year end, to £841m of uncommitted credit lines under which £358m was drawn. The significant increase in headroom on these facilities since last year is the consequence of the £320m bank facility which was secured at the beginning of the year, and the US$610m raised in March through a private placement in the US which strengthened the group balance sheet and secured long-term non-bank financing.

Pensions

Pensions are accounted for in accordance with IAS 19 – Employee benefits. The total pension expense for the year was £69m compared with £62m last year.

On an IAS 19 basis, liabilities in the group's defined benefit pension schemes now exceed employee benefit assets by £106m compared with last year's surplus of £61m. This turnaround is the consequence of a fall in asset values as equity and bond markets have responded to the worldwide recession together with inflationary increases in scheme liabilities. The triennial actuarial valuation of the UK Pension Scheme undertaken in 2008 revealed a funding deficit of £163m which, by agreement with the Trustees, the Company will eliminate with five deficit payments of £30m each, the first of which was made in March 2009. Total contributions to defined benefit plans in the year amounted to £75m (2008 – £54m).

For defined contribution schemes the charge for the year is equal to the contributions made which amounted to £33m (2008 – £26m).

Post balance sheet events

On 14 September 2009, Illovo concluded a rand 3bn rights issue to fund further expansion projects in Africa. The issue was 99.4% subscribed. ABF took up its 51% entitlement at a cost of £126m. The rights issue reduces the group's consolidated net debt by £119m after the year end.

On 2 November 2009, Twinings announced that it was entering a period of consultation with employees over a proposed reorganisation of its tea manufacturing operations. The charge for this reorganisation is expected to be £19m and will be included in the income statement for the financial year 2009/10.

John Bason
Finance Director

Our approach to corporate responsibility is based on the group's core values.

Corporate responsibility

Our approach to corporate responsibility is based on the group's core values – taking care of our people, managing our environmental impacts, being good neighbours and fostering ethical business relationships. Because the organisational structure of the group is highly decentralised, responsibility for managing environmental, social and ethical issues day-to-day rests with the management of each operating business.

As a minimum, however, all businesses must comply with our Business Principles, which can be found online at www.abf.co.uk. These Business Principles include the group's Health and Safety and Environmental Policies for which the Group Human Resources Director has overall responsibility. He reports to the Chief Executive and is supported directly by a Group Safety & Environment Manager who also works with the Director of Legal Services on these principles and compliance issues.

Our businesses devise procedures appropriate to and compliant with local laws, cultures and operating conditions. Every business has an accountable board director and a senior manager who are responsible for safety and environmental matters. The board reviews our safety and environmental performance annually as well as reviewing the outcome of the external assurance processes. The Group Human Resources Director receives a monthly briefing and the Chief Executive receives briefings quarterly, based on performance monitoring data. The board assesses the sophistication of each business' risk management and safety cultures, considers levels of resources and agrees actions for the coming year.

Key facts

The following key performance indicators provide both a like-for-like comparison with last year's data among the established operations of the group and the impact of the new acquisition, Azucarera Ebro.

	2009 excluding Azucarera Ebro	2009 including Azucarera Ebro	2008
Work-related deaths	**9**	**9**	4
Reportable Injury Rate (% employees having a reportable injury)	**0.67%**	**0.81%**	0.77%
Energy Consumption (GWh)	**25,438**	**26,529**	25,412
CO_2 emissions (million tonnes)	**3.60**	**3.86**	3.59
Water usage (million tonnes)	**138.9**	**139.3**	155.9
Waste production (thousand tonnes)	**437**	**464**	355

We have always had a clear policy of meeting the relevant legal safety standards in every country in which we operate and we use the national standards as a minimum. During 2009 we invested over £22m in upgrading plant and equipment to improve our safety. The businesses use risk control procedures and training to prevent injury at work and 27 sites have been independently certified as meeting OHSAS 18001 safety management systems or equivalent.

We very much regret that there were nine deaths at work during the year. Three of these fatalities were contractors working on major factory expansion projects in AB Mauri, Bo Tian in northern China and Illovo Sugar in Africa. We have placed great emphasis on the management of contractors and on construction safety standards. The six employee deaths occurred at AB Agri and Bo Tian in northern China, ACH in America and three in Illovo Sugar, Africa. Each had a different immediate cause. We carried out a detailed investigation into all of the accidents, put stronger controls in place to prevent a recurrence and communicated these across the Company.

We are pleased to report that in 2009, 114 factories and 129 Primark stores achieved a year's operation without any reportable injuries and since 2006 our overall rate of reportable injuries has reduced by 65%.

Despite this good progress, we fully recognise that further improvement is achievable. For all our manufacturing and retail operations, the working environment and physical safety standards such as machinery guarding, electrical safety and control of hazardous substances, are carefully monitored and upgraded using guidance published by national regulatory authorities as a benchmark. We place special focus on construction safety and reducing the risks from moving vehicles. Our businesses have continued to develop the breadth and depth of their risk-management systems, which include clear objectives and personal safety improvement targets, effective physical controls and management procedures and routine performance monitoring. The Group Human Resources Director together with the Group Safety & Environment Manager reviewed the safety improvement action plans of the operating companies to ensure that they address the principal risks and have agreed their safety priorities for the coming year.

We place a high value on the efficient use of natural resources, the minimisation of impact from our operations on the communities and physical environments in which we operate and on legal compliance. The principal environmental impacts from our operations are energy usage and the resultant emissions of carbon dioxide, the abstraction of water, the treatment and disposal of waste water and the generation and disposal of waste.

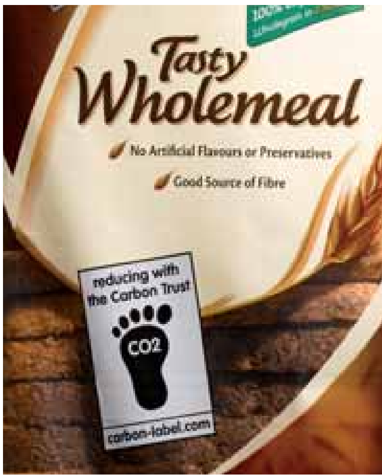
During 2009 we invested over £47m in upgrading our environmental controls. Thirty-two of our sites have been externally certified to ISO 14001 or equivalent for their environmental risk management systems.

Efficient use of energy is central to the way we work as it not only reduces our use of natural resources it reduces our operating costs. In 2009 our established factories used a total of 25.4 Terawatt hours of energy, an almost identical amount as in 2008 despite the growth of the business. Our sugar factories, which account for 85% of the Company's total energy usage, reduced their energy consumption by 3%.

As a result of the energy usage, we emitted, or caused to be emitted, 3.6 million tonnes of carbon dioxide in our established factories, a similar amount to 2008. We are pleased to report that half of our energy comes from renewable energy sources, mainly fibre (bagasse) from the processing of sugar cane, which prevents us having to burn fossil fuels.

We also target the efficient use of water. The two major water users are the sugar and yeast processes. Compared with last year our established factories have been able to reduce the amount of water entering our factories by 17 million tonnes, although water usage is affected by climatic conditions and rainfall patterns and so cannot be guaranteed each year.

We aim to minimise waste and its associated financial penalties and to maximise operational efficiency. The waste that we generate is properly handled and disposed of. We seek opportunities to use the intrinsic value in the waste and to recycle. In 2009 our UK operations recycled 50,000 tonnes of packaging, mostly paper and plastic.



A pioneer in carbon footprinting

Across the group we use our knowledge and expertise to help tackle climate change. Measuring carbon footprints – the impact of human activities on the environment in terms of units of carbon dioxide and other greenhouse gases – is a particular focus. It is a powerful tool enabling farmers and producers, retailers and consumers to make more informed choices.

AB Agri is a pioneer in the development of sustainable agricultural practices. It has developed the world's first carbon footprinting model for dairy farms. This enables farmers to measure the environmental impact of individual feeds and rations on their dairy herds – which are responsible throughout the UK for producing about 10% of all greenhouse gases (methane, nitrous oxide and carbon dioxide).

This model was developed using the Carbon Trust's PAS 2050 methodology for measuring embedded greenhouse gas emissions and can be applied to other livestock sectors such as meat, poultry and egg production. Major retailers are already embracing the development: for example, Sainsbury's recorded a reduction of 5,000 tonnes of CO_2 over 12 months during a trial involving 325 farms.

British Sugar and our Silver Spoon brand were pilot partners with the Carbon Trust in developing the PAS 2050 standard. Silver Spoon used it to analyse the carbon footprint of its homegrown granulated sugar, completing a detailed assessment at each stage of production from growing and transporting the sugar beet to refining and delivering to store.

Now, anyone buying a 1kg bag of Silver Spoon granulated sugar knows that it generated 0.5kg of carbon – a significantly reduced footprint thanks to the company's many years of focusing on energy efficiency.

Kingsmill is the first bread manufacturer in the UK licensed to use the Carbon Trust's carbon reduction label. It is now carried on Kingsmill's three best-selling loaves, showing the carbon footprint of each and demonstrating the brand's commitment to reducing these over the next two years.

Meanwhile, the carbon footprints of our TOPSOIL and LimeX products, used as soil improvers in agriculture and by the landscape and amenity industries, are also now certified according to PAS 2050. TOPSOIL produces 9kg of CO_2 per tonne of product and LimeX 2kg per tonne.

A world FIRST

AB Agri has developed the first carbon footprinting model for dairy farms

0.5kg

The amount of carbon generated in the production of 1kg of Silver Spoon granulated sugar – a comparatively small footprint

Charles Sinclair

Non-executive director (age 61)

Appointed a director on 1 October 2008 and Chairman on 21 April 2009, he is a non-executive director of SVG Capital plc. He was chief executive of Daily Mail and General Trust plc from 1989 until he retired from that role and the board on 30 September 2008.

George G Weston

Executive director (age 45)

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.

John G Bason

Executive director (age 52)

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.

Peter Smith

Independent non-executive director (age 63)

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

Lord Jay of Ewelme GCMG

Independent non-executive director (age 63)

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

WG Galen Weston OC

Non-executive director (age 69)

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.

Timothy Clarke

Senior independent non-executive director (age 52)

Appointed a director on 3 November 2004, he was chief executive of Mitchells & Butlers plc, following its demerger from Six Continents PLC, until May 2009. He joined Bass PLC in 1990 having previously been a partner of Panmure Gordon & Co.

Javier Ferrán

Independent non-executive director (age 53)

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.

Corporate governance

The board remains committed to the principles of good corporate governance and to maintaining high standards of business ethics and professionalism across the group, which it believes are vital to the Company's business integrity and successful long-term performance. The board recognises that corporate governance is not an end in itself but an important means to an end.

The Listing Rules of the Financial Services Authority require UK listed companies to report on the manner in which they apply the Combined Code on Corporate Governance (the 'Combined Code') which is publicly available at www.frc.org.uk The board recognises that the Combined Code represents best practice and this report, together with the Remuneration report, sets out how the Company applies the principles of this Combined Code which deal with directors, directors' remuneration, relations with, and accountability to, shareholders, and the audit of the Company. The board will also continue to keep developments in the Combined Code, including the current consultation being conducted by the Financial Reporting Council, under review and will in due course consider how best to address any such developments.

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

Statement of compliance

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

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

The board of directors

Role and responsibilities

All members of the board take collective responsibility for the overall management and performance of the Company. The board met formally nine times during the year. The individual attendance by directors is detailed on page 32.

Whilst the board has delegated day-to-day management of the Company to the Chief Executive, there is a formal schedule of matters reserved to the board for decision, through which the board oversees control of the Company's affairs. This schedule of matters reserved includes the approval of:

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

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

Composition

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

Following the retirement of Martin Adamson in April 2009, Charles Sinclair was appointed Chairman. On his appointment as Chairman, Charles Sinclair met the independence criteria set out in the Combined Code.

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. Collectively, the non-executive directors bring a wide range of international experience and expertise to the board. They each occupy or have occupied senior positions in industry or public life and consequently contribute significantly to board decision-making.

Details of the full board are set out on pages 28 and 29.

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, Charles Sinclair, is responsible for the running and leadership of the board. The Chief Executive, George Weston, is responsible for leading and managing the business within the authorities delegated by the board.

Senior independent director

Tim Clarke is the recognised senior independent director.

Re-election

Under the Articles, both now and as they are proposed to be amended at the forthcoming annual general meeting, all directors seek election at their first annual general meeting following appointment. The Articles also require all directors who held office at the time of the two preceding annual general meetings, and in any event not less than one third of the directors, to submit themselves for re-election. In accordance with the Combined Code, all non-executive directors who have served for more than nine years must also submit themselves for re-election on an annual basis. Accordingly, Galen Weston, Lord Jay, Javier Ferrán and Tim Clarke will be required to seek re-election at the forthcoming annual general meeting.

Induction and continuing professional development

On joining the board, directors are given background documents describing the Company and its activities and are provided with an appropriate induction programme. The Company offers major shareholders the opportunity to meet new non-executive directors. Site visits were arranged during the year for Charles Sinclair 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. The Company Secretary manages the provision of information to the board at other appropriate times, in consultation with the Chairman and Chief Executive. 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.

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

Corporate governance continued

Location of board meetings

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

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

Independent professional advice

The board has adopted a procedure whereby directors may, in order to comply with 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

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

The attendance by individual directors at board and committee meetings during the year ended 12 September 2009 was as follows:

Board committees

Membership of the three key committees was refreshed in April 2009. Current membership of each committee is detailed below.

Nomination committee

Current members: Tim Clarke, Javier Ferrán, Lord Jay, Charles Sinclair, Peter Smith.

Chairman: Charles Sinclair.

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

Audit committee

Current members: 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: Tim Clarke, Javier Ferrán, Lord Jay, Charles Sinclair, Peter Smith.

Chairman: Charles Sinclair.

Details of the Remuneration committee and its policies can be found on pages 42 to 47.

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

	Nomination committee		Audit committee		Remuneration committee		Full board meeting	
DIRECTORS	Possible	Actual	Possible	Actual	Possible	Actual	Possible	Actual
Martin Adamson (1)	1	1	–	–	3	3	5	5
Charles Sinclair (2)	1	1	1	1	6	6	9	9
George Weston	–	–	–	–	–	–	9	9
John Bason	–	–	–	–	–	–	9	9
Tim Clarke	1	1	3	2	6	5	9	8
Lord Jay	1	1	3	3	6	6	9	9
Javier Ferrán	1	1	–	–	6	6	9	9
Peter Smith	1	1	3	3	6	5	9	8
Galen Weston	–	–	–	–	–	–	9	3

(1) Martin Adamson retired as a director and as Chairman on 21 April 2009.
(2) Charles Sinclair was appointed as a non-executive director on 1 October 2008 and as Chairman on 21 April 2009.

Board evaluation

During the year, the board commissioned Egon Zehnder to carry out an independent evaluation of its performance. The review was conducted by way of a detailed questionnaire completed by each of the directors and the Company Secretary, followed by one-to-one interviews between each individual and the external consultant.

The review produced areas for consideration, in particular how the board could improve its deliberations. The issues identified have been discussed and changes to board practice implemented as appropriate. Overall, the evaluation process in 2009 confirmed that the board and its principal committees had functioned efficiently during the year and that all the directors continue to contribute effectively and with proper commitment to their roles, including of time.

Relations with shareholders

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

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

The annual general meeting takes place in London. Formal notification is sent to shareholders approximately one month in advance and in any event at least 21 days before the meeting. Other general meetings may also be convened from time to time on at least 21 days' notice or where certain requirements are met including prior approval by shareholders by way of special resolution, on 14 days' notice. 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. Details of the meeting and the resolutions to be proposed together with explanatory notes are set out in the Notice of Meeting which is sent to shareholders. Any member attending the AGM has the right to ask questions. The Company must cause to be answered any such question relating to the business being dealt with at the meeting, except in certain circumstances including if it is undesirable in the interests of the Company or the good order of the meeting to do so or if to do so would involve the disclosure of confidential information. Shareholders attending the meeting are advised of the number of proxy votes lodged for each resolution. All resolutions are voted on by poll and the results announced to the London Stock Exchange and posted on the Company's website.

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 52 of this annual report and accounts.

The independent auditors' report on page 53 includes a statement by the auditors about their reporting responsibilities. The board recognises that its responsibility to present a balanced and understandable assessment extends to interim and other price-sensitive public reports, reports to regulators and information required to be presented by law.

Going concern

The group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business review on pages 2 to 25. The financial position of the group, its cash flows, liquidity position and borrowing facilities are described in the Financial review on pages 24 and 25. In addition, the risk management review on pages 38 to 41 and note 25 on pages 90 to 102 provide details of the group's policy on managing its financial and commodity risks.

The group has considerable financial resources, good access to debt markets, a diverse range of businesses and a wide geographic spread. It is therefore well placed to manage business risks successfully despite the current economic uncertainty.

After making enquiries the directors have a reasonable expectation that the Company and the group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

Procedures to deal with directors' conflicts of interest

The Company has procedures in place to deal with the situation where a director has a conflict of interest. As part of this process, the members of the board endeavour to:

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

The Company has complied with these procedures during the year.

Corporate governance continued

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 until April 2009)
Charles Sinclair (member from November 2008 and Chairman from April 2009)
Tim Clarke
Javier Ferrán
Lord Jay
Peter Smith

Executive directors may be invited to attend as appropriate.

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

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

Duties

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

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

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

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

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

Activities

The Nomination committee makes recommendations to the board on succession for executive directors, the reappointment 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.

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 relevant non-executive directors are also available for inspection at the Company's registered office.

Report of the Audit committee

Summary of the role of the Audit committee

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

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

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

Composition of the Audit committee

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

Peter Smith (chairman)
Tim Clarke
Lord Jay
Charles Sinclair (from November 2008 until April 2009)

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. 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 announcements. These reviews considered:

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

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

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

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

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

Corporate governance continued

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.

Having satisfied itself that the external auditors remain independent, the Audit committee has recommended to the board that KPMG Audit Plc be reappointed.

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
- changes since the last annual assessment in the nature and extent of significant financial risks and the group's ability to respond to changes in its business and the external environment.

The group's 'whistle-blowing' 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 to review key issues within their sphere 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, that the financial information used within the business is reliable and that the consolidated accounts preparation and financial reporting processes comply with all relevant regulatory reporting requirements. 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 a continuing 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 bi-annually that it has complied with these policies and procedures.

High-level controls

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

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

Internal audit

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

All group businesses are required to comply with the group's financial control framework that sets out minimum control standards. A key function of the group's internal audit resources is to undertake audits to ensure compliance with the financial control framework and make recommendations for improvement in controls where appropriate. Internal audit also conducts regular reviews to ensure that risk management procedures and controls are observed. 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.

Financial reporting

Detailed management accounts are prepared every four weeks, consolidated in a single system and reviewed by senior management and the board. They include a comprehensive set of financial reports and key performance indicators covering commercial, operational, environmental and people issues. Performance against budgets and forecasts is discussed regularly at board meetings and at meetings between operational and group management. The adequacy and suitability of key performance indicators is reviewed regularly. All chief executives and finance directors of the group's operations are asked to sign an annual confirmation that their business has complied with the Group Accounting Manual and specifically to confirm the adequacy and accuracy of accounting provisions.

Corporate governance continued

Principal risks and uncertainties

The group's risk management process seeks to enable the early identification, evaluation and effective management of the key risks facing the businesses at an operational level and to operate internal controls to 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 board reviews annually the risk management process and its implementation in each of the businesses. A review of the main risks facing the group is embedded within every board agenda and summarised on an annual basis. The Audit committee receives reports on internal financial control issues both from management and 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 reviewed by the board are currently:

Food safety

Our businesses have 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 and meat products are part of people's daily lives all over the world and every effort is made to ensure these are produced efficiently and to a high quality.

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

Global economic slowdown and changing consumer demand

The economic slowdown and turmoil in the global economy has adversely impacted consumer markets, including those in which we operate. Our businesses are dependent on continued consumer demand for their products, and reduced consumer wealth may result in consumers becoming unwilling or unable to purchase our products, with clear implications for turnover and profitability.

Our strategy is aimed at delivering value to consumers, through strong brands, supported by differentiated innovation and continued product improvement. We seek to build mutually rewarding relationships with customers in order to make our products available across all relevant channels.

We have a significant number of global brands and any adverse event affecting consumer confidence or continuity of supply of such a brand could have an adverse impact in many of our markets, or in some cases affect intangible asset values. We support our brands and their growth through competitive levels of investment in advertising and promotions. The breadth of the business portfolio and our geographic reach also help to mitigate general economic risks. We aim to protect the value of our brands through research and development, product quality and by operating in accordance with relevant laws and regulations.

These measures are aimed at extending our consumer offerings, reducing the impact of falling consumer demand or of consumers switching to alternative products, thus allowing us to compete effectively in our key categories and countries.

Input costs, supplier and supply chain reliance

Primark's ethical trade programme has been strengthened considerably over the past year. In March, Primark appointed its first Ethical Trade Director and in the last 12 months it has doubled the size of its in-house ethical trade team around the world. Primark is visiting and working with more suppliers than ever before. It will audit more than 1,000 factories in 2009, up from 533 last year. An important and growing area of team activity is training, both internally and externally. In the first half of 2009 Primark's buyers and key personnel received over 1,500 hours of ethical trade training, as part of a continuous programme to help them understand the impact of their actions further down the supply chain and improve their purchasing practices. Primark is concentrating on developing the support it gives to suppliers to meet its code of conduct and held supplier training sessions in India and the UK. Plans are under way for others in China, Bangladesh and Turkey to be held by the end of 2009. In addition to a new supplier management system which will help with monitoring and remediation, a suppliers' extranet, including many practical tools to improve compliance, is due to be launched by the end of 2009.

Primark is engaging with local experts, including unions and Non-Government Organisations (NGOs), in many of the regions from which it sources. It has built solid partnerships with a number of NGOs, such as a grassroots project with SAVE in India, to understand and address the challenges faced by workers in the communities where its products are made, and in Bangladesh a project with Nari Uddug Kendra, particularly focusing on training workers on their entitlements, including wages and associated rights. Two projects on living wages, one in Bangladesh and one in China, are under way with the aim of creating long-term improvements in labour standards. Primark is an active member of the Ethical Trading Initiative and participates in a number of working groups including the General Merchandisers, Homeworking, Purchasing Practices, Reporting and China Forum. Primark launched a dedicated ethical trade section on its website in May which provides information and updates on its programme.

Profitable manufacturing is dependent on obtaining adequate supplies of production materials in a timely and cost-effective manner. Prices are significantly influenced by global economic conditions and can fluctuate, which may have an impact on margins and cash flows.

We are also dependent on suppliers and global supply chains as a means of producing and supplying our products. As a result we are exposed to business interruption from natural disasters or catastrophes and through additional risks of changes in local legal and regulatory schemes, labour shortages and disruptions from environmental and industrial incidents.

In the current climate we also face a risk that our suppliers may fail to meet their contractual obligations. Active monitoring of suppliers and the supply chain is in place, and regular supplier counterparty risk analysis is undertaken to mitigate this risk.

We actively monitor our external environment, review and revisit our business continuity and disaster recovery plans, and continue to adapt our internal cost structures to deliver products at competitive prices.

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.

Environment

We recognise the impact that our businesses have on the environment. Therefore, as a minimum, we comply with current applicable legislation of the countries in which we operate and our operations are conducted with a view to ensuring that:

- emissions to air, releases to water and landfilling 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 our products is minimised, consistent with requirements for food safety and product protection;
- products are transported efficiently to minimise fuel usage, consistent with customers' demands, production arrangements and vehicle fleet operations;
- accidents are prevented so far as is reasonably practical; and
- effective emergency response procedures are in place to minimise the impact of foreseeable incidents.

Particular attention is paid to recently acquired businesses to ensure they operate in accordance with the standards we expect 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.

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

In addition to the consumption of energy we generate surplus electricity from highly efficient Combined Heat and Power (CHP) plants and sell this electricity to other companies. All UK CHP plants 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 directly from the combustion of fossil fuels to create steam, heat and electricity at our factories, and indirectly by the power stations from which we buy our 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 the handling and disposal of waste and the treatment of waste water. The principal legal risk is regulatory action for non-compliance with licence conditions and statutory requirements. All of our businesses have named senior executives and responsible managers accountable for waste, and the management of the physical and legal risks, for which they employ specialists, is included in their annual objectives.

Corporate governance continued

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

Details of our environmental performance are published in a separate report on our website: www.abf.co.uk

Health and safety

We are 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. We consider health and safety to be no less important than any other function. We require our 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. We ensure 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.

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

Details of our safety performance are published in a separate report on our website: www.abf.co.uk

People

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

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 borrowings. Commodity risks arise from the procurement of raw materials and the exposure to changes in market prices. Liquidity risk arises from the availability of internal and external funding to enable the group to meet its financial obligations as and when they fall due.

Sufficient funding is maintained by way of external loans and committed bank facilities to meet our expected needs. An extended period of constraint in the capital markets, where availability of funds from the bank loan and public debt markets was limited at a time when cash flow was under pressure, might compromise our ability to implement current long-term strategies.

Credit risk is the risk that a counterparty will default on its contractual financial obligations resulting in a loss to the group. Credit risk arises from cash balances, credit exposures to customers including outstanding receivables, derivative financial instruments, and financial guarantees. Credit risk is managed at both a group and business level according to internal guidelines, with businesses responsible for their exposure to customer credit risk. Financial transactions are dealt through financial institutions with a credit rating of A or better.

Details of the group's accounting and risk management policies with respect to financial instruments and the associated quantitative and qualitative disclosures are set out in note 25 on pages 90 to 102.

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.

Loss of a major site and business continuity

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.

Major projects

The group undertakes a number of major capital investment projects, each of which carries the risk of overspending initial cost estimates, overrunning construction timelines and failing to meet design specifications. All major projects are managed by dedicated teams who work in close liaison with business management.

Initial project plans are reviewed by group management and, for the larger projects, by the board. Updates on progress are provided throughout the project.

Management succession

The devolved nature of the group requires us to pay particular attention to the strength of the various management teams around the world, with specific focus on succession planning. The status of each division's succession plan is reviewed with group management twice a year, and with the board annually. Development of our senior managers is co-ordinated by the Group HR Director and Head of Executive Development. In addition, a small number of executive search companies have been briefed to introduce us to talented executives from other companies who could add value to the group.

Regulatory and political environment

Our businesses are subject to a wide variety of regulations in the different countries in which they operate because of their diverse nature. They may also be affected by political developments in the countries in which they operate. These uncertainties in the external environment are considered when developing strategy and reviewing performance and we remain vigilant to future changes. We engage with governments and NGOs to ensure the views of our stakeholders are represented and we try to anticipate, and contribute to, important changes in public policy wherever we operate.

Remuneration report

1. Introduction

This report sets out the policy and disclosures on directors' remuneration as required by the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 issued under the Companies Act 2006 (the 'Act'). In accordance with the Act, 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 Act, being the sections entitled 'Directors' remuneration', 'Long-term incentives', 'Directors' pensions' and 'Directors' share options'.

2. The Remuneration committee

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

Committee composition

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

Martin Adamson (Chairman until 21 April 2009)
Charles Sinclair (Chairman from 21 April 2009)
Tim Clarke
Lord Jay
Javier Ferrán
Peter Smith

Consultants

The committee has retained Towers Perrin to provide independent market information and remuneration advice. 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

George Weston did not advise in respect of his own remuneration.

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;
- align executive rewards with shareholder value;
- attract and retain high-calibre executive directors;
- motivate executive directors to achieve challenging performance levels and reward them for so doing;
- recognise both individual and corporate achievement; and
- reflect the diversity of the group's interests.

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

During 2009, the Remuneration committee reviewed the incentive arrangements for executive directors and other senior executives and concluded that the current arrangements were working satisfactorily. The only change has been a minor alteration to the financial measures in the annual bonus, such that working capital targets will be more stretching in the future.

The Remuneration committee continues to believe that a substantial element of compensation should be 'at risk' in order to reward and drive performance and to align better the interests of executives with those of shareholders. The current proportion of variable pay in the form of annual performance bonus and long-term incentives compared to base salary for executive directors is around 1.3 to 1 for 'on target' performance.

Other executives are eligible to participate in incentive arrangements similar to those of the executive directors, and based on the same principles, but with lower levels of potential payout. The current proportion of variable pay to base salary for first line executives is around 0.8 to 1 for 'on target' performance.

Base salary

Base salaries are paid to individuals for delivering a fully competent level of performance, and 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. The committee also takes into account pay and employment conditions of employees in the Company and of other undertakings in the same group as the Company when determining directors' remuneration.

Annual performance bonus

Executive directors and other senior executives are eligible to participate in an annual cash-based bonus scheme with payments based on the achievement of stretching financial targets and personal performance assessed against individual short and medium-term objectives. Financial targets for all ABF executives are set on a business-by-business basis and reflect what can be directly influenced and the area of work for which each executive is accountable. Adjusted operating profit and working capital were chosen as the prime financial measures as they are common metrics which are used on a day-to-day basis to drive and monitor performance within the group.

At the start of the financial year, budgeted operating profit is set as the 'on target' performance level, and the Remuneration committee determines the range of operating profit at which the minimum and maximum incentive payouts will be made. Similarly the target and range for working capital as a percentage of sales is determined, and this acts as a multiplier to the bonus achieved for adjusted operating profit, whereby that bonus can be enhanced or reduced by up to 20%.

The maximum annual bonus opportunity for executive directors is 150% of base salary. Up to 20% may be paid for achievement of specific personal objectives and up to 130% may be paid for achievement of financial results as outlined above. 'On target' performance yields around 78% of base salary.

Long-term incentives

Long-term incentives are paid in shares to reward long-term business growth and to promote executive retention. 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.

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

The first allocation under the new arrangements was made in November 2006, the second allocation in November 2007 and the third in November 2008. All these allocations were to a maximum face value of 125% of base salary, and related to three-year performance periods – September 2006 to September 2009, September 2007 to September 2010, and September 2008 to September 2011 respectively.

Performance under the long-term share plan for all three allocations has been and will be measured against an absolute 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 because:

- it is a measure which is well understood both by participants and shareholders;
- it is a published figure with limited adjustments; and
- it encompasses the diverse nature of the group.

It was also agreed to use an absolute rather than a relative measure, as ABF is a global business for which UK inflation factors are largely irrelevant.

Other measures have been considered, but found to be unhelpful or inappropriate. Measures which require testing against a group of companies, for example, relative TSR, are difficult to use given the problem of finding realistic comparators. Measures of cash flow or returns are already encompassed within the adjusted earnings per share measure.

The three-year vesting period for the first share allocation ends on 21 November 2009. As 21 November is a non-trading day, shares are due for release on 23 November. The ABF group performance conditions for the financial years September 2006 to September 2009 have not been met and there will be no release of shares to executive directors for the 2006/9 Scheme. However as all financial targets are set by reference to the business for which each executive is directly responsible, and a number of businesses have met their targets, 52 divisional executives, representing around 73% of eligible participants, will receive a release of shares in November.

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

	Award date	Market price at date of award	End of performance period	Vesting date	Shares vested during the year	Market price at date of vesting	Value vested	Conditional allocations of shares as at 13.09.08	Conditional allocations of shares as at 12.09.09
George Weston	21.11.06	890.1p	12.09.09	21.11.09	–	–	–	94,793	94,793
	21.11.07	905.85p	18.09.10	21.11.10	–	–	–	103,494	103,494
	21.11.08	656p	17.09.11	21.11.11	–	–	–	–	157,203
John Bason	21.11.06	890.1p	12.09.09	21.11.09	–	–	–	68,812	68,812
	21.11.07	905.85p	18.09.10	21.11.10	–	–	–	71,618	71,618
	21.11.08	656p	17.09.11	21.11.11	–	–	–	–	104,802

Remuneration report continued

3. Directors' remuneration policy continued

Under the terms of the Scheme, the fourth allocation of conditional shares, to a maximum face value of 125% of base salary, will be made on or after 23 November 2009. 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 2012.

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

Executive directors' salaries were reviewed on 1 December 2008 in accordance with normal policy. George Weston's salary was increased by 4.24% to £860,000 and John Bason's salary was increased by 5.0% to £577,500. Executive directors' salaries are next subject to review on 1 December 2009 but increases, if any, are expected to be modest.

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 current fee for a non-executive director is £54,000 per annum. The chairman of the Audit committee and the Senior Independent Director are paid an additional fee of £10,000 per annum. The Chairman is paid an annual fee of £300,000 per annum.

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.

No adjustments were made to the fees in December 2008, but the next review will take place in December 2009.

The remuneration paid to all directors for the year to 12 September 2009 was as follows:

	For the year to 12 September 2009				
	Salary or fees £000	Annual bonus* £000	Benefits £000	**2009 total £000**	2008 total £000
Non-executive directors					
Martin Adamson (retired 21 April 2009)	167	–	–	**167**	266
Charles Sinclair (Chairman from 21 April 2009)	159	–	–	**159**	–
Galen Weston	–	–	–	**–**	–
Lord MacGregor (retired)	–	–	–	**–**	12
Mike Alexander (retired)	–	–	–	**–**	10
Tim Clarke	64	–	–	**64**	59
Lord Jay	54	–	–	**54**	52
Javier Ferrán	54	–	–	**54**	52
Peter Smith	64	–	–	**64**	61
Executive directors					
George Weston	832	1,165	14	**2,011**	1,727
John Bason	552	780	24	**1,356**	1,167

* 2008/9 bonus to be paid in December 2009 for the financial year 2008/9.

5. Directors' pensions

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

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

Directors' pension disclosure for year ended 12 September 2009

The table below shows the defined benefit pension entitlements from the Associated British Foods Pension Scheme ('the ABF Scheme'), and employer-financed arrangements where appropriate, of executive directors of Associated British Foods plc who were members of the ABF Scheme during the year ended 12 September 2009.

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 12.09.09 £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 12.09.09 £000 (F)	Value of accrued pension at 13.09.08 £000 (G)	Total change in value during period £000 (H)
George Weston	41	41	304	18	358	2,984	2,290	694
John Bason	24	24	161	18	318	2,476	1,865	611

Notes:
1. Pension accruals (A) and (C) relate to 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 Actuarial Guidance Note GN11, and without making any deduction for any underfunding.
3. The value of net increase in pension (E) represents the incremental value to the director of his pension benefits during the year, resulting from additional service and increases in salary. It is based on the increase in accrued pension net of inflation (B) after deducting the director's contribution during the year (D).
4. The change in the transfer value (H) includes the effect of fluctuations in the transfer value due to factors beyond the control of the Company and directors, such as stock market movements. The director's contributions during the year (D) are excluded from this value.
5. Both directors opted out of the ABF Scheme on 5 April 2006 and since then have earned benefits in the Employer Financed Retirement Benefit Scheme (EFRBS). The figures shown represent the aggregate of benefits in the ABF scheme and the EFRBS.
6. Voluntary contributions paid by directors and resulting benefits are not shown.
7. Pension benefits include a 50% spouse's pension. Pensions are guaranteed to increase in payment in line with RPI, limited each year to 5% for service accrued to 31 December 2007, and 2.5% for benefits accrued post 1 January 2008. Additional discretionary increases to pensions in payment have been granted in the past.

Remuneration report continued

6 Directors' share options

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

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

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

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

	Options as at 13.09.08	Lapsed in year	Exercised during year	Options as at 12.09.09	Exercise price	Earliest normal exercise date	Expiry date	Exercise date	Price on exercise
George Weston	22,500**	–	–	22,500	484p	17.01.04	16.01.11	–	–
John Bason	50,000**	–	–	50,000	484p	17.01.04	16.01.11	–	–
	50,000*	–	–	50,000	497p	07.12.06	06.12.11	–	–
	50,000*	–	–	50,000	564p	09.12.07	08.12.12	–	–

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

At close of business on 11 September 2009, the last trading day before the end of the financial year, the market value of the Company's ordinary shares was 838.0 pence. During the previous 12 months the price ranged from 611.5 pence to 848.5 pence.

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 (2004 = 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 12 September 2009 are set out below:

	Date of appointment	Effective date of current contract	Notice period from Company	Notice period from director
Martin Adamson*	11.10.99	11.12.02	6 months	6 months
Charles Sinclair**	01.10.08	21.04.09	12 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
Tim Clarke	03.11.04	03.11.04	6 months	6 months
Lord Jay	01.11.06	01.11.06	6 months	6 months
Javier Ferrán	01.11.06	01.11.06	6 months	6 months
Peter Smith	28.02.07	28.02.07	6 months	6 months

* Martin Adamson retired as non-executive Chairman on 21 April 2009.
** Charles Sinclair's notice period will reduce to six months from April 2010.

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 12 September 2009 had the following beneficial interests in the shares of the Company and its holding company.

	As at 12 September 2009	As at 13 September 2008
Charles Sinclair		
Associated British Foods plc, ordinary shares of $5^{15}/_{22}$p	**6,740**	–
George Weston		
Wittington Investments Limited, ordinary shares of 50p	**5,209**	5,209
Associated British Foods plc, ordinary shares of $5^{15}/_{22}$p	**3,188,783**	3,188,783
John Bason		
Associated British Foods plc, ordinary shares of $5^{15}/_{22}$p	**17,216**	16,880
Galen Weston		
Wittington Investments Limited, ordinary shares of 50p	**37,953**	37,953
Associated British Foods plc, ordinary shares of $5^{15}/_{22}$p	**5,672,560**	5,672,560
Tim Clarke		
Associated British Foods plc, ordinary shares of $5^{15}/_{22}$p	**4,000**	4,000
Lord Jay		
Associated British Foods plc, ordinary shares of $5^{15}/_{22}$p	**100**	100
Javier Ferrán		
Associated British Foods plc, ordinary shares of $5^{15}/_{22}$p	**500**	500
Peter Smith		
Associated British Foods plc, ordinary shares of $5^{15}/_{22}$p	**2,000**	2,000

In addition to the above, George Weston and John Bason were allocated a conditional grant of shares under the Share Incentive Plan, details of which are shown on page 43.

The interests above remained the same at 3 November 2009.

10. 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.

11. Compliance statement

In compliance with the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, the auditable part of the Remuneration report comprises directors' remuneration on page 44, directors' pensions on page 45, directors' share options on page 46 and long-term incentives on page 43.

Paul Lister
Company Secretary

Other disclosures

Business review

The Companies Act 2006 requires the Company to set out in the Directors' report a fair review of the business of the Company during the financial year ended 12 September 2009 including an analysis of the position of the business at the end of the financial year and a description of the principal risks and uncertainties facing the Company (the 'Business review'). The purpose of the Business review is to enable shareholders to assess how the directors have performed their duties under section 172 of the Companies Act 2006, being the duty to promote the success of the Company. The information that fulfils the requirements of the Business review can be found in the following sections of this report:

- Chairman's statement on pages 4 and 5.
- Our group at a glance on pages 2 and 3.
- Operating review on pages 6 to 23, which includes a review of the external environment, key strategic aims and performance measures.
- Financial review on pages 24 and 25.
- Corporate responsibility on pages 26 and 27.
- Principal risks and uncertainties are described on pages 38 to 41.
- Details of the principal operating subsidiaries are set out on page 104.

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 23.

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 104.

The audited financial statements of the group and Company appear on pages 54 to 111.

Results and dividends

The consolidated income statement is on page 54. Profit for the financial year attributable to equity shareholders amounted to £359m.

The directors recommend a final dividend of 14.1p per ordinary share, to be paid, if approved, on 8 January 2010 which, together with the interim dividend of 6.9p per share paid in July, amounts to 21.0p for the year. Dividends are detailed on page 69.

Research and development

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

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

Charitable and political donations

Contributions to charitable organisations by the group during the year totalled £2.4m (2008 – £1.6m). No political donations were made during the year.

Financial instruments

Details of the group's use of financial instruments, together with information on our risk objectives and policies and our exposure to price, credit, liquidity, cash flow and interest rate risks, can be found in note 25 on pages 90 to 102.

Payments to suppliers

The Company has no material trade creditors but has a group policy on payment of suppliers set out in its Business Principles which states that the group settles its bills promptly, being a signatory to the Prompt Payment Code. Further information concerning this Code, and copies of it, can be found at www.promptpaymentcode.org.uk

Employees

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

- Equal opportunities – it is committed to offering equal opportunities to all people in their recruitment, training, continuing employment 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 group an opportunity for retraining. It is group policy that the training, career development and promotion of disabled persons should, as far as possible, be the same as that of other employees.
- Health and safety – health and safety are considered as equal in importance to that of any other function of the group and its business objectives. The policy and a full global report is available on the Company's website at www.abf.co.uk

- Harassment – the group will not tolerate sexual, mental or physical harassment in the workplace. It expects incidents of harassment to be reported to the appropriate human resources director.
- Human rights – managers must take account of the core International Labour Organisation labour conventions and strive to observe the UN Declaration on Human Rights, by respecting the dignity and human rights of its employees and in particular as stated below:

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

  It remunerates fairly with respect to skills, performance, its peers and local conditions.
- Communication – the group will brief and consult employees and their representatives on all relevant matters on a regular basis in order to take their views into account with regard to decision-making and to achieve a common awareness of all the financial and economic factors affecting the performance of the group.
- Security – the security of our staff and customers is paramount and the group will at all times take the necessary steps to minimise risks to their safety.

Property, plant & equipment

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

Substantial shareholding and controlling interest

Details of a controlling interest in the shares of the Company are given in note 30 on page 104.

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 5 December 2008, 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 4 December 2013. No such shares have been issued. The directors propose to renew this authority at the annual general meeting to be held on 4 December 2009 for the following year.

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 4 December 2009 and the directors will seek to renew this authority for the following year.

Power to purchase the Company's own shares is also provided in the Articles subject to statutory provisions. The Company has no existing authority to purchase its own shares.

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 the 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, and in any event not less than one third of the directors, to submit themselves for re-election. In accordance with the Combined Code, all non-executive directors who have served for more than nine years must also submit themselves for election on an annual basis.

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. As indicated above, 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.

Other disclosures continued

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 their renegotiation or withdrawal. The most significant agreements are the US$1.2bn syndicated loan facility which was signed on 12 October 2006 and under which £211m was drawn down at the year end, the £320m syndicated loan facility which was signed on 14 October 2008 and under which no funds were drawn down at the year end and the £120m Finance Contract from the European Investment Bank which was signed on 5 December 2007 and under which £120m was drawn down at the year end.

In addition to these bank facilities, in March 2009 the Company issued US$610m of private placement notes to institutional investors. In accordance with the scheduled maturities, no repayment of these notes had taken place by the year end. In the event of a change in ownership of the Company, the Company is obliged to make an offer of immediate repayment to the note holders.

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 its potential impact on the business of the group as a whole.

Essential contracts or arrangements

Individual companies in the group have contractual and other arrangements with many third parties in support of the group's businesses activities. Such contracts and arrangements may be deemed essential to one or more operating companies but there are no contracts or arrangements considered to be essential to the group as a whole. Through the British Sugar IPA Agreement via the National Farmers Union, approximately 1,000 individual contracts with sugar beet growers are created.

Further information

Further information that fulfils the requirements of Part 6 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 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 85; and
- details of the employee share scheme set out on pages 88 and 89.

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 53.

Auditors

In accordance with section 489 of the Companies Act 2006, a resolution for the reappointment 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 3 November 2009 appear on pages 28 and 29, other than Martin Adamson who retired from the board and as Chairman on 21 April 2009.

Charles Sinclair was appointed as a non-executive director on 1 October 2008 and as Chairman on 21 April 2009.

Also in accordance with the Articles and the Combined Code on Corporate Governance, Galen Weston, who has served for more than nine years, Lord Jay, Javier Ferrán and Tim Clarke retire from the board. These directors, being eligible, offer themselves for re-election at the annual general meeting.

Directors' indemnities

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

Directors' responsibility statement

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

    1. The Chairman's statement on pages 4 and 5;
    2. Operating review on pages 6 to 23, which includes a review of the external environment, key strategic aims, future development and performance measures;
    3. Financial review on pages 24 and 25;
    4. Other disclosures: 'Research and development';
    5. Other disclosures: 'Financial instruments';
    6. Other disclosures: 'Property, plant & equipment';
    7. Other disclosures: 'Power of the directors'; and
    8. Other disclosures: 'Principal risks and uncertainties'.

On behalf of the board

Charles Sinclair
Chairman
3 November 2009

George Weston
Chief Executive

John Bason
Finance Director

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).

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of their profit or loss 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 adequate accounting records that are sufficient to show and explain the parent company's transactions and 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 2006. 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, Remuneration report and Corporate governance report that complies 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 12 September 2009 which comprise the consolidated income statement, the consolidated and parent company balance sheets, the consolidated cash flow statement, the consolidated statement of recognised income and expense, the parent company reconciliation of movements in equity shareholders' funds and the related notes. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with sections 495, 496 and 497 of the Companies Act 2006. 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

As explained more fully in the Statement of directors' responsibilities in respect of the annual report and the financial statements set out on page 52, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/UKP

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 12 September 2009 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the parent company financial statements have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006; and, as regards the group financial statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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

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

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 52, in relation to going concern; and
- the part of the Corporate governance statement relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

Stephen Oxley
for and on behalf of KPMG Audit Plc
Chartered Accountants
Statutory Auditor
8 Salisbury Square
London
EC4Y 8BB

3 November 2009

Consolidated income statement

for the year ended 12 September 2009

CONTINUING OPERATIONS	Note	2009 £m	2008 £m
REVENUE	1	**9,255**	8,235
Operating costs before exceptional items	2	**(8,639)**	(7,660)
Exceptional items[1]	2	**–**	(46)
		616	529
Share of profit after tax from joint ventures and associates	11	**10**	15
Profits less losses on sale of property, plant & equipment		**(1)**	10
OPERATING PROFIT		**625**	554
Adjusted operating profit	1	**720**	664
Profits less losses on sale of property, plant & equipment		**(1)**	10
Amortisation of non-operating intangibles	8	**(82)**	(74)
Inventory fair value adjustment	22	**(12)**	–
Exceptional items		**–**	(46)
Profits less losses on sale and closure of businesses	22	**(65)**	5
PROFIT BEFORE INTEREST		**560**	559
Finance income	4	**17**	21
Finance expense	4	**(95)**	(74)
Other financial income	4	**13**	21
PROFIT BEFORE TAXATION		**495**	527
Adjusted profit before taxation		**655**	632
Profits less losses on sale of property, plant & equipment		**(1)**	10
Amortisation of non-operating intangibles		**(82)**	(74)
Inventory fair value adjustment		**(12)**	–
Exceptional items		**–**	(46)
Profits less losses on sale and closure of businesses		**(65)**	5
Taxation – UK (excluding tax on exceptional items)		**(71)**	(50)
– UK (on exceptional items)		**–**	(14)
– Overseas (excluding tax on exceptional items)		**(41)**	(92)
– Overseas (on exceptional items)		**–**	20
	5	**(112)**	(136)
PROFIT FOR THE PERIOD		**383**	391
ATTRIBUTABLE TO			
Equity shareholders		**359**	357
Minority interests		**24**	34
PROFIT FOR THE PERIOD		**383**	391
Basic and diluted earnings per ordinary share (pence)	7	**45.5**	45.2
Dividends per share paid and proposed for the year (pence)	6	**21.0**	20.25

[1]Refer to accounting policy on page 59.

Consolidated balance sheet

at 12 September 2009

	Note	2009 £m	2008 £m
NON-CURRENT ASSETS			
Intangible assets	8	**1,913**	1,815
Property, plant & equipment	9	**3,519**	3,110
Biological assets	10	**92**	66
Investments in joint ventures	11	**122**	75
Investments in associates	11	**32**	23
Employee benefits assets	12	**16**	106
Deferred tax assets	13	**184**	101
Other receivables	14	**140**	75
TOTAL NON-CURRENT ASSETS		**6,018**	5,371
CURRENT ASSETS			
Assets classified as held for sale	15	**136**	19
Inventories	16	**1,262**	1,042
Biological assets	10	**101**	80
Trade and other receivables	14	**1,121**	1,228
Other financial assets	25	**12**	63
Cash and cash equivalents	17	**383**	348
TOTAL CURRENT ASSETS		**3,015**	2,780
TOTAL ASSETS		**9,033**	8,151
CURRENT LIABILITIES			
Liabilities classified as held for sale	15	**(26)**	–
Interest-bearing loans and overdrafts	18	**(584)**	(278)
Trade and other payables	19	**(1,413)**	(1,365)
Other financial liabilities	25	**(76)**	(25)
Income tax		**(113)**	(89)
Provisions	20	**(248)**	(85)
TOTAL CURRENT LIABILITIES		**(2,460)**	(1,842)
NON-CURRENT LIABILITIES			
Interest-bearing loans	18	**(806)**	(870)
Provisions	20	**(173)**	(101)
Deferred tax liabilities	13	**(396)**	(449)
Employee benefits liabilities	12	**(122)**	(45)
TOTAL NON-CURRENT LIABILITIES		**(1,497)**	(1,465)
TOTAL LIABILITIES		**(3,957)**	(3,307)
NET ASSETS		**5,076**	4,844
EQUITY			
Issued capital	21	**47**	47
Other reserves	21	**173**	173
Translation reserve	21	**439**	221
Hedging reserve	21	**(32)**	25
Retained earnings	21	**4,121**	4,088
		4,748	4,554
Minority interests	21	**328**	290
TOTAL EQUITY		**5,076**	4,844

The financial statements on pages 54 to 106 were approved by the board of directors on 3 November 2009 and were signed on its behalf by:
Charles Sinclair, *Chairman* and **John Bason**, *Director*.

Consolidated cash flow statement

for the year ended 12 September 2009

	2009 £m	2008 £m
CASH FLOW FROM OPERATING ACTIVITIES		
Profit before taxation	**495**	527
Profits less losses on sale of property, plant & equipment	**1**	(10)
Profits less losses on sale and closure of businesses	**65**	(5)
Inventory fair value adjustment	**12**	–
Exceptional items	**–**	46
Finance income	**(17)**	(21)
Finance expense	**95**	74
Other financial income	**(13)**	(21)
Share of profit after tax from joint ventures and associates	**(10)**	(15)
Amortisation	**85**	76
Depreciation	**290**	234
Change in the fair value of biological assets	**(90)**	(84)
Share-based payment expense	**5**	5
Pension costs less contributions	**(40)**	(18)
Decrease/(increase) in inventories	**58**	(103)
Decrease/(increase) in receivables	**159**	(156)
(Decrease)/increase in payables	**(100)**	149
Purchases less sales of current biological assets	**(7)**	(9)
Decrease in provisions	**(20)**	(6)
Cash generated from operations	**968**	663
Income taxes paid	**(135)**	(110)
NET CASH FROM OPERATING ACTIVITIES	**833**	553
CASH FLOWS FROM INVESTING ACTIVITIES		
Dividends received from joint ventures	**3**	1
Dividends received from associates	**1**	1
Purchase of property, plant & equipment	**(545)**	(502)
Purchase of intangibles	**(24)**	(70)
Purchase of non-current biological assets	**(10)**	(3)
Sale of property, plant & equipment	**19**	30
Quota renunciation compensation	**101**	–
Purchase of subsidiaries, joint ventures and associates	**(266)**	(211)
Sale of subsidiaries, joint ventures and associates	**145**	59
Loans to joint ventures	**(52)**	–
Purchase of minority interests	**(2)**	(10)
Purchase of other investments	**(4)**	(3)
Interest received	**12**	19
NET CASH FROM INVESTING ACTIVITIES	**(622)**	(689)
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid to minorities	**(23)**	(21)
Dividends paid to shareholders	**(161)**	(156)
Interest paid	**(89)**	(74)
Decrease/(increase) in other current investments	**12**	(7)
Financing:		
Increase in short-term loans	**283**	59
(Decrease)/increase in long-term loans	**(100)**	182
Sale of shares in subsidiary undertakings to minority interests	**19**	–
Movements from changes in own shares held	**(15)**	(3)
NET CASH FROM FINANCING ACTIVITIES	**(74)**	(20)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**137**	(156)
Cash and cash equivalents at the beginning of the period	**210**	349
Effect of movements in foreign exchange	**14**	17
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	**361**	210

Consolidated statement of recognised income and expense

for the year ended 12 September 2009

	2009 £m	2008 £m
Actuarial losses on defined benefit schemes	**(217)**	(254)
Deferred tax associated with defined benefit schemes	**62**	71
Effect of movements in foreign exchange	**270**	360
Net loss on hedge of net investment in foreign subsidiaries	**(27)**	(58)
Deferred tax associated with movements in foreign exchange	**1**	(3)
Current tax associated with movements in foreign exchange	**(4)**	–
Movement in cash flow hedging position	**(81)**	34
Deferred tax associated with movement in cash flow hedging position	**18**	(7)
Share of recognised income and expense of joint ventures and associates	**(1)**	(1)
Net gain recognised directly in equity	**21**	142
Profit for the period	**383**	391
TOTAL RECOGNISED INCOME AND EXPENSE FOR THE PERIOD	**404**	533
ATTRIBUTABLE TO:		
Equity shareholders	**361**	466
Minority interests	**43**	67
	404	533

Significant accounting policies

for the year ended 12 September 2009

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 12 September 2009 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 3 November 2009.

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 Practice. These are presented on pages 107 to 111.

Basis of preparation

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

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

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

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

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

The financial statements of the group are prepared for the 52 weeks ended 12 September 2009, except that, to avoid delay in the preparation of the consolidated financial statements, the results of certain subsidiaries are included up to 31 August 2009. The results of Illovo are included for the period to 30 September 2009 in line with Illovo's local reporting date. Adjustments are made as appropriate for significant transactions or events occurring between 31 August and 30 September.

Basis of consolidation

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

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

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

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

Business combinations

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

Revenue

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

Borrowing costs

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Significant accounting policies continued

for the year ended 12 September 2009

Financial assets and liabilities

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

Cash and cash equivalents

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

Derivative financial instruments

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

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

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

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

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

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

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

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

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

Intangible assets other than goodwill

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

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

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

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

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

Goodwill

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

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

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

Research and development

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

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

Impairment

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

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

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

Calculation of recoverable amount

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

Reversals of impairment

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

Significant accounting policies continued

for the year ended 12 September 2009

Property, plant & equipment

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

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

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

Leases

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

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

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

Biological assets

Biological assets are measured at fair value less costs to sell. Cane roots and growing cane are stated at fair value determined on the following bases:

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

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

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

Inventories

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

New accounting policies

The following 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 12 – *Service concession agreements*

IFRIC 13 – *Customer loyalty programmes*

IFRIC 14 – IAS 19: *The limit on a defined benefit asset, minimum funding requirements and their interaction*

The following standards and interpretations issued by the International Accounting Standards Board ('IASB') or the IFRIC have not yet been adopted by the group:

Amendment to IFRS 3 – *Business combinations* and IAS 27 – *Consolidated and separate financial statements* (effective prospectively for annual periods beginning on or after 1 July 2009).

These revised standards implement substantial revisions in the application of acquisition accounting, notably with respect to the treatment of acquisition costs, step and partial acquisitions, minority interests and contingent consideration. The group has reviewed these changes and, with the exception of the requirement to expense acquisition costs, does not expect them to have a material impact on the group's results.

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 standard is not expected to have a material effect on the disclosure of the group's operating segments.

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

The amendment to IAS 23 generally eliminates the option to expense as incurred borrowing costs attributable to the acquisition, construction or production of a qualifying asset, and instead requires the capitalisation of such borrowing costs as part of the cost of specific assets. The group does not expect these changes to have a material effect on the group's results.

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

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

IAS 1 (Revised) – *Presentation of financial statements* (effective for annual periods beginning on or after 1 January 2009, endorsed by the EU in December 2008).

IAS 27 (Revised) – *Consolidated and separate financial statements* (effective for annual periods beginning on or after 1 July 2009, endorsed by the EU in June 2009).

Amendments to IFRS 7 – *Improving disclosures about financial instruments* (effective for annual periods beginning on or after 1 January 2009, not yet endorsed by the EU) requires enhanced disclosures about fair value measurements of financial instruments by using a three-level fair value hierarchy that prioritises the inputs to valuation techniques used in fair value calculations. The amended standard also requires improved disclosure in respect of liquidity risk. The group is currently assessing the impact that these amendments will have on the group's disclosures.

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

Notes forming part of the financial statements

for the year ended 12 September 2009

1. Segmental analysis

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

Business segments

The group is comprised of the following business segments:

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

Geographical segments

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

United Kingdom
Europe & Africa
The Americas
Asia Pacific

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

	Revenue		Adjusted operating profit	
	2009 £m	2008 £m	**2009 £m**	2008 £m
BUSINESS SEGMENTS				
Grocery	**3,188**	2,820	**191**	194
Sugar	**1,575**	1,267	**189**	153
Agriculture	**1,004**	867	**34**	33
Ingredients	**989**	824	**88**	78
Retail	**2,314**	1,933	**252**	233
Central	**–**	–	**(34)**	(28)
	9,070	7,711	**720**	663
Businesses disposed:				
Grocery	**177**	434	**–**	–
Agriculture	**–**	42	**–**	1
Ingredients	**8**	48	**–**	–
	185	524	**–**	1
	9,255	8,235	**720**	664
GEOGRAPHICAL SEGMENTS				
United Kingdom	**4,140**	3,766	**354**	309
Europe & Africa	**2,027**	1,489	**219**	159
The Americas	**1,068**	860	**85**	105
Asia Pacific	**1,835**	1,596	**62**	90
	9,070	7,711	**720**	663
Businesses disposed:				
United Kingdom	**–**	42	**–**	2
Europe & Africa	**–**	30	**–**	2
The Americas	**185**	452	**–**	(3)
	185	524	**–**	1
	9,255	8,235	**720**	664

1. Segmental analysis – for the year ended 12 September 2009

Business segments

	Grocery £m	Sugar £m	Agriculture £m	Ingredients £m	Retail £m	Central £m	Eliminations £m	Total £m
Revenue from continuing businesses	3,197	1,683	1,005	1,033	2,314	–	(162)	9,070
Businesses disposed	177	–	–	8	–	–	–	185
Internal revenue	(9)	(108)	(1)	(44)	–	–	162	–
Revenue from external customers	3,365	1,575	1,004	997	2,314	–	–	9,255
Adjusted operating profit from continuing businesses	191	189	34	88	252	(34)	–	720
Businesses disposed	–	–	–	–	–	–	–	–
Adjusted operating profit	191	189	34	88	252	(34)	–	720
Inventory fair value adjustment	–	(12)	–	–	–	–	–	(12)
Amortisation of non-operating intangibles	(27)	(25)	(1)	(29)	–	–	–	(82)
Profits less losses on sale of property, plant & equipment	–	(1)	–	–	–	–	–	(1)
Profits less losses on sale and closure of businesses	(57)	(2)	–	(6)	–	–	–	(65)
Profit before interest	107	149	33	53	252	(34)	–	560
Finance income						17	–	17
Finance expense						(95)	–	(95)
Other financial income						13	–	13
Taxation						(112)	–	(112)
PROFIT FOR THE PERIOD	107	149	33	53	252	(211)	–	383
Segment assets (excluding investments in associates and joint ventures)	2,414	2,570	230	1,240	1,780	54	–	8,288
Investments in associates and joint ventures	32	42	51	29	–	–	–	154
SEGMENT ASSETS	2,446	2,612	281	1,269	1,780	54	–	8,442
Cash and cash equivalents						391	–	391
Employee benefits assets						16	–	16
Deferred tax assets						184	–	184
SEGMENT LIABILITIES	(503)	(557)	(90)	(150)	(339)	(296)	–	(1,935)
Interest-bearing loans and overdrafts						(1,390)	–	(1,390)
Income tax						(114)	–	(114)
Deferred tax liabilities						(396)	–	(396)
Employee benefits liabilities						(122)	–	(122)
NET ASSETS	1,943	2,055	191	1,119	1,441	(1,673)	–	5,076
Capital additions	96	184	11	77	177	5	–	550
Depreciation	89	76	8	32	85	–	–	290
Impairment of PP&E	37	–	–	–	–	–	–	37
Amortisation	29	27	–	29	–	–	–	85
Impairment of intangibles on closure of business	6	–	–	–	–	–	–	6
Other significant non-cash expenses (inventory fair value adjustment)	–	12	–	–	–	–	–	12

Geographical segments

	United Kingdom £m	Europe & Africa £m	The Americas £m	Asia Pacific £m	Eliminations £m	Total £m
Revenue from external customers	4,140	2,027	1,253	1,835	–	9,255
Segment assets	3,258	2,689	1,021	1,474	–	8,442
Capital additions	198	189	20	143	–	550
Depreciation	149	62	27	52	–	290
Impairment of PP&E	–	–	37	–	–	37
Amortisation	14	35	26	10	–	85
Impairment of intangibles on closure of business	–	–	6	–	–	6
Other significant non-cash expenses (inventory fair value adjustment)	–	12	–	–	–	12

Notes forming part of the financial statements continued

for the year ended 12 September 2009

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

Business segments

	Grocery £m	Sugar £m	Agriculture £m	Ingredients £m	Retail £m	Central £m	Eliminations £m	Total £m
Revenue from continuing businesses	2,833	1,359	870	860	1,933	–	(144)	7,711
Businesses disposed	434	–	42	54	–	–	(6)	524
Internal revenue	(13)	(92)	(3)	(42)	–	–	150	–
Revenue from external customers	3,254	1,267	909	872	1,933	–	–	8,235
Adjusted operating profit from continuing businesses	194	153	33	78	233	(28)	–	663
Businesses disposed	–	–	1	–	–	–	–	1
Adjusted operating profit	194	153	34	78	233	(28)	–	664
Exceptional items	(61)	25	–	(10)	–	–	–	(46)
Amortisation of non-operating intangibles	(22)	(24)	–	(28)	–	–	–	(74)
Profits less losses on sale of property, plant & equipment	2	1	–	4	3	–	–	10
Profits less losses on sale and closure of businesses	–	–	1	4	–	–	–	5
Profit before interest	113	155	35	48	236	(28)	–	559
Finance income						21	–	21
Finance expense						(74)	–	(74)
Other financial income						21	–	21
Taxation						(136)	–	(136)
PROFIT FOR THE PERIOD	113	155	35	48	236	(196)	–	391
Segment assets (excluding investments in associates and joint ventures)	2,415	2,072	213	1,146	1,628	15	–	7,489
Investments in associates and joint ventures	12	31	40	15	–	–	–	98
SEGMENT ASSETS	2,427	2,103	253	1,161	1,628	15	–	7,587
Cash and cash equivalents						348	–	348
Employee benefits assets						106	–	106
Deferred tax assets						101	–	101
Other current investments						9	–	9
SEGMENT LIABILITIES	(525)	(404)	(89)	(149)	(266)	(143)	–	(1,576)
Interest-bearing loans and overdrafts						(1,148)	–	(1,148)
Income tax						(89)	–	(89)
Deferred tax liabilities						(449)	–	(449)
Employee benefits liabilities						(45)	–	(45)
NET ASSETS	1,902	1,699	164	1,012	1,362	(1,295)	–	4,844
Capital additions	90	194	10	54	140	6	–	494
Depreciation	81	55	7	27	64	–	–	234
Impairment of PP&E	17	2	–	3	–	–	–	22
Amortisation	24	24	–	28	–	–	–	76

Geographical segments

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

2. Operating costs and gross profit

	Note	2009 £m	2008 £m
OPERATING COSTS			
Cost of sales (including amortisation of intangibles)		**7,085**	6,327
Distribution costs		**1,002**	908
Administration expenses		**552**	471
		8,639	7,706
OPERATING COSTS ARE STATED AFTER CHARGING/(CREDITING):			
Employee benefits expense	3	**1,295**	1,122
Amortisation of non-operating intangibles	8	**82**	74
Amortisation of operating intangibles	8	**3**	2
Depreciation of owned property, plant & equipment	9	**290**	234
Operating lease payments under property leases		**81**	70
Operating lease payments for hire of plant & equipment		**10**	7
Other operating income		**(18)**	(12)
Research and development expenditure		**23**	21
Fair value gains on financial assets and liabilities held for trading		**(97)**	(25)
Fair value losses on financial assets and liabilities held for trading		**95**	24
Foreign exchange gains on operating activities		**(93)**	(22)
Foreign exchange losses on operating activities		**90**	16

In 2008, an exceptional credit of £25m arose in British Sugar comprising compensation receivable for quota renunciation less factory closure costs and the write-off of the unamortised cost of quota purchased in 2006. The compensation was received in full in 2009.

An exceptional charge of £71m was made for the cost of business restructuring, principally the Australian meat and dairy business following the acquisition of KR Castlemaine. These costs comprised severance costs, impairment of property, plant & equipment and other closure costs.

A tax credit of £23m arose on the above exceptional items. Following a change in tax law in the UK Finance Act 2008, Industrial Buildings Allowances are being phased out. An exceptional tax charge of £17m reflected the consequential increase in the group's deferred tax liability.

AUDITORS' REMUNERATION	2009 £m	2008 £m
FEES PAYABLE TO THE COMPANY'S AUDITOR AND ITS ASSOCIATES IN RESPECT OF THE AUDIT		
Group audit of the Company's financial statements	**0.5**	0.6
Audit of the Company's subsidiaries pursuant to legislation	**4.2**	3.4
Total audit remuneration	**4.7**	4.0
FEES PAYABLE TO THE COMPANY'S AUDITOR AND ITS ASSOCIATES IN RESPECT OF NON-AUDIT RELATED SERVICES		
Other services pursuant to legislation	**0.3**	0.3
Tax services	**2.4**	2.3
Information technology services	**–**	0.2
Due diligence	**0.2**	1.3
All other services	**0.3**	0.2
Total non-audit related remuneration	**3.2**	4.3
FEES PAYABLE TO THE COMPANY'S AUDITOR AND ITS ASSOCIATES IN RESPECT OF THE GROUP'S PENSION SCHEMES		
Audit of the pension schemes	**–**	0.1
	–	0.1

Notes forming part of the financial statements continued

for the year ended 12 September 2009

3. Employees

		2009	2008
AVERAGE NUMBER OF EMPLOYEES			
United Kingdom		**32,399**	30,840
Europe & Africa		**39,065**	40,137
The Americas		**4,166**	4,358
Asia Pacific		**20,621**	20,481
		96,251	95,816

	Note	£m	£m
EMPLOYEE BENEFITS EXPENSE			
Wages and salaries		**1,128**	977
Social security contributions		**93**	78
Contributions to defined contribution schemes	12	**33**	26
Charge for defined benefit schemes	12	**36**	36
Equity-settled share-based payment schemes	23	**5**	5
		1,295	1,122

Details of directors' remuneration, share options and pension entitlements are shown in the Remuneration report on pages 42 to 47.

4. Interest and other finance income and expense

		2009 £m	2008 £m
FINANCE INCOME			
Interest income on financial assets not at fair value through profit or loss:			
– cash and cash equivalents		**13**	18
– unwinding of discount on receivables		**3**	3
– finance leases		**1**	–
Total finance income		**17**	21
FINANCE EXPENSE			
Interest expense on financial liabilities not at fair value through profit or loss:			
– bank loans and overdrafts		**(55)**	(53)
– all other borrowings		**(31)**	(16)
– finance leases		**(1)**	(1)
– other payables		**(2)**	(4)
– unwinding of discount on provisions		**(5)**	–
Fair value loss on current asset investments		**(1)**	–
Total finance expense		**(95)**	(74)
OTHER FINANCIAL INCOME			
Expected return on employee benefit scheme assets	12	**154**	149
Interest charge on employee benefit scheme liabilities	12	**(142)**	(126)
Net financial income in respect of employee benefit schemes		**12**	23
Net foreign exchange gains/(losses) on financing activities		**1**	(2)
Total other financial income		**13**	21

5. Income tax expense

	Note	2009 £m	2008 £m
CURRENT TAX EXPENSE			
UK – corporation tax at 28% (2008 – 29.1%)		**63**	41
Overseas – corporation tax		**86**	73
Underprovided in prior years		**3**	2
		152	116
DEFERRED TAX EXPENSE			
UK deferred tax		**10**	28
Overseas deferred tax		**(48)**	(9)
(Over)/underprovided in prior years		**(2)**	1
TOTAL INCOME TAX EXPENSE IN INCOME STATEMENT		**112**	136
RECONCILIATION OF EFFECTIVE TAX RATE			
Profit before taxation		**495**	527
Less share of profit after tax from joint ventures and associates		**(10)**	(15)
PROFIT BEFORE TAXATION EXCLUDING SHARE OF PROFIT AFTER TAX FROM JOINT VENTURES AND ASSOCIATES		**485**	512
Nominal tax charge at UK corporation tax rate of 28% (2008 – 29.1%)		**136**	149
Lower tax rates on overseas earnings		**(44)**	(38)
Expenses not deductible for tax purposes		**12**	12
Utilisation of losses		**–**	(10)
Deferred tax not recognised		**7**	3
Abolition of UK Industrial Buildings Allowances	2	**–**	17
Adjustments in respect of prior periods		**1**	3
		112	136
INCOME TAX RECOGNISED DIRECTLY IN EQUITY			
Deferred tax associated with actuarial gains and losses on defined benefit schemes		**(62)**	(71)
Deferred tax associated with movement in cash flow hedging position		**(18)**	7
Deferred tax associated with movements in foreign exchange		**(1)**	3
Current tax associated with movements in foreign exchange		**4**	–
		(77)	(61)

Deferred taxation balances are analysed in note 13.

6. Dividends

	2009 pence per share	2008 pence per share	2009 £m	2008 £m
2007 final	**–**	13.00	**–**	103
2008 interim	**–**	6.75	**–**	53
2008 final	**13.50**	–	**107**	–
2009 interim	**6.90**	–	**54**	–
	20.40	19.75	**161**	156

The 2009 interim dividend was declared on 21 April 2009 and paid on 3 July 2009. The 2009 final dividend of 14.1 pence, total value of £111m, will be paid on 8 January 2010 to shareholders on the register on 4 December 2009.

Dividends relating to the period were 21.0 pence per share totalling £165m (2008 – 20.25 pence per share totalling £160m).

Notes forming part of the financial statements continued

for the year ended 12 September 2009

7. Earnings per share

The calculation of basic earnings per share at 12 September 2009 was based on the net profit attributable to equity shareholders of £359m (2008 – £357m), and a weighted average number of shares outstanding during the year of 789 million (2008 – 790 million). The calculation of the weighted average number of shares excludes the shares held by the Employee Share Ownership Plan Trust on which the dividends are being waived.

Adjusted earnings per ordinary share, which exclude the impact of profits less losses on the sale of property, plant & equipment and businesses, amortisation of non-operating intangibles, the inventory fair value adjustment on the acquisition of Azucarera, 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 and share incentives. The diluted, weighted average number of shares is 789 million (2008 – 790 million). There is no difference between basic and diluted earnings.

	2009 £m	2008 £m
ADJUSTED PROFIT FOR THE PERIOD	**455**	434
Profits less losses on sale of property, plant & equipment	**(1)**	10
Profits less losses on sale and closure of businesses	**(65)**	5
Inventory fair value adjustment	**(12)**	–
Exceptional items	**–**	(46)
Tax effect on above adjustments	**29**	(3)
Amortisation of non-operating intangibles	**(82)**	(74)
Tax credit on non-operating intangibles amortisation and goodwill	**25**	21
Minority share of amortisation of non-operating intangibles net of tax	**10**	10
PROFIT FOR THE PERIOD ATTRIBUTABLE TO EQUITY SHAREHOLDERS	**359**	357

	2009 pence	2008 pence
ADJUSTED EARNINGS PER SHARE	**57.7**	54.9
Sale of property, plant & equipment	**(0.1)**	1.3
Sale and closure of businesses	**(8.3)**	0.6
Inventory fair value adjustment	**(1.5)**	–
Exceptional items	**–**	(5.8)
Tax effect on above adjustments	**3.6**	(0.4)
Amortisation of non-operating intangibles	**(10.4)**	(9.4)
Tax credit on non-operating intangibles amortisation and goodwill	**3.2**	2.7
Minority share of amortisation of non-operating intangibles net of tax	**1.3**	1.3
EARNINGS PER ORDINARY SHARE	**45.5**	45.2

8. Intangible assets

	Goodwill £m	Non-operating: Technology £m	Non-operating: Brands £m	Non-operating: Customer relationships £m	Non-operating: Grower agreements £m	Non-operating: Other £m	Operating: Other £m	Total £m
COST								
At 15 September 2007	1,023	183	217	61	154	7	63	1,708
Acquired through business combinations	128	7	67	10	–	–	17	229
Other acquisitions – externally purchased	–	–	–	–	–	–	36	36
Other disposals	–	–	–	–	–	–	(53)	(53)
Transferred to assets classified as held for sale	(11)	–	–	–	–	–	–	(11)
Effect of movements in foreign exchange	85	27	16	4	–	–	3	135
AT 13 SEPTEMBER 2008	1,225	217	300	75	154	7	66	2,044
Acquired through business combinations	28	–	27	14	8	–	5	82
Other acquisitions – externally purchased	–	–	–	–	–	–	41	41
Other disposals	–	–	–	–	–	–	(18)	(18)
Transferred to assets classified as held for sale	(26)	–	–	–	–	–	(2)	(28)
Effect of movements in foreign exchange	69	14	11	9	25	1	5	134
AT 12 SEPTEMBER 2009	1,296	231	338	98	187	8	97	2,255
AMORTISATION AND IMPAIRMENT								
At 15 September 2007	–	46	40	24	16	7	5	138
Amortisation for the year	–	21	23	15	15	–	2	76
Impairment	5	–	–	–	–	–	–	5
Other disposals	–	–	–	–	–	–	(5)	(5)
Effect of movements in foreign exchange	–	9	6	–	–	–	–	15
AT 13 SEPTEMBER 2008	5	76	69	39	31	7	2	229
Amortisation for the year	–	21	30	15	16	–	3	85
Impairment on closure of business	–	–	–	–	–	–	6	6
Effect of movements in foreign exchange	–	5	4	5	7	1	–	22
AT 12 SEPTEMBER 2009	5	102	103	59	54	8	11	342
NET BOOK VALUE								
At 15 September 2007	1,023	137	177	37	138	–	58	1,570
At 13 September 2008	1,220	141	231	36	123	–	64	1,815
AT 12 SEPTEMBER 2009	1,291	129	235	39	133	–	86	1,913

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

£30m of intangible assets are included within assets classified as held for sale (2008 – £11m) (see note 15) of which £28m (net) (2008 – £11m) was transferred in the year.

The impairment of operating intangibles relates to the closure of factories following the contribution of the US packaged oils business to the Stratas joint venture, the cost of which has been included within losses on sale and closure of businesses in the income statement and is included in the Grocery segment.

Notes forming part of the financial statements continued

for the year ended 12 September 2009

8. Intangible assets continued

Impairment

Goodwill

As at 12 September 2009, the consolidated balance sheet included goodwill of £1,291m. 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	2009 £m	2008 £m
ACH	Grocery	**231**	225
AB Mauri	Ingredients	**330**	297
Twinings/Ovaltine	Grocery	**119**	119
Capullo	Grocery	**58**	58
Illovo	Sugar	**168**	143
AB World Foods	Grocery	**58**	58
Northern China Sugar	Sugar	**60**	56
Other*	Various	**267**	264
		1,291	1,220

* 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.

These calculations are performed annually or more frequently if events or circumstances indicate that the carrying amount may not be recoverable.

- 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 annual 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 adjusted for specific risks of the business if necessary. 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%.
- For some recently acquired intangible assets, management expects to achieve growth over the next three to five years in excess of the long-term growth rates for the applicable country or region. In these circumstances, the cash flow forecast is extended to between three and five years using specific growth assumptions.
- Changes in selling price and direct costs are based on past results and expectations of future changes in the market.

Sensitivity to changes in key assumptions

Each of the group's CGUs had significant headroom under the annual impairment review with the exception of the recently acquired sugar business in north east China. A significant national sugar stock overhang from 2007/8, depressed prices and a reduced crop in the north with exceptionally low sugar content impacted operating costs. Current forecasts support the carrying value of the assets of the business but the achievement of these forecasts depends on the recovery of sugar prices, improvements in agricultural yields, and higher factory volumes.

9. Property, plant & equipment

	Land and buildings £m	Plant and machinery £m	Fixtures and fittings £m	Assets under construction £m	Total £m
COST					
At 15 September 2007	1,328	1,927	771	78	4,104
Acquired through business combinations	57	36	1	14	108
Other acquisitions	91	115	93	195	494
Businesses disposed	(3)	(28)	(1)	–	(32)
Other disposals	(10)	(50)	(16)	–	(76)
Transfer to assets classified as held for sale	(4)	(4)	–	–	(8)
Transfers from assets under construction	23	85	3	(111)	–
Effect of movements in foreign exchange	71	127	21	20	239
AT 13 SEPTEMBER 2008	1,553	2,208	872	196	4,829
Acquired through business combinations	85	114	3	16	218
Other acquisitions	147	155	96	152	550
Businesses disposed	(9)	(35)	(1)	–	(45)
Other disposals	(42)	(176)	(35)	–	(253)
Transfer to assets classified as held for sale	(37)	(61)	(2)	(4)	(104)
Transfers from assets under construction	16	142	2	(160)	–
Effect of movements in foreign exchange	54	88	19	(17)	144
AT 12 SEPTEMBER 2009	**1,767**	**2,435**	**954**	**183**	**5,339**
DEPRECIATION AND IMPAIRMENT					
At 15 September 2007	231	1,038	193	–	1,462
Depreciation for the year	30	138	66	–	234
Impairment	2	20	–	–	22
Businesses disposed	(1)	(24)	(1)	–	(26)
Other disposals	–	(40)	(12)	–	(52)
Effect of movements in foreign exchange	13	60	6	–	79
AT 13 SEPTEMBER 2008	275	1,192	252	–	1,719
Depreciation for the year	38	168	84	–	290
Impairment on closure of business	15	22	–	–	37
Businesses disposed	(1)	(16)	–	–	(17)
Other disposals	(40)	(152)	(34)	–	(226)
Transfer to assets classified as held for sale	(12)	(28)	(1)	–	(41)
Effect of movements in foreign exchange	5	49	4	–	58
AT 12 SEPTEMBER 2009	**280**	**1,235**	**305**	**–**	**1,820**
NET BOOK VALUE					
At 15 September 2007	1,097	889	578	78	2,642
At 13 September 2008	1,278	1,016	620	196	3,110
AT 12 SEPTEMBER 2009	**1,487**	**1,200**	**649**	**183**	**3,519**

	2009 £m	2008 £m
Net book value of finance lease assets	**13**	14
Land and buildings at net book value comprise:		
– freehold	**1,161**	976
– long leasehold	**242**	214
– short leasehold	**84**	88
	1,487	1,278
Capital expenditure commitments – contracted but not provided for	**211**	229

£64m of property, plant & equipment is included within assets classified as held for sale (2008 – £8m) (see note 15) of which £63m (net) (2008 – £8m) was transferred in the year.

Notes forming part of the financial statements continued

for the year ended 12 September 2009

9. Property, plant & equipment continued

Impairment

The impairment of property, plant & equipment relates to the closure of factories following the contribution of the US packaged oils business to the Stratas joint venture, the cost of which has been included within losses on sale and closure of businesses in the income statement and is included in the Grocery segment.

In 2008 the impairment of property, plant & equipment principally related to a restructuring of the Australian meat business, following the acquisition of KR Castlemaine, the cost of which was recorded as an exceptional item within operating costs in the income statement, and included in the Grocery segment.

10. Biological assets

	Current			Non-current
	Growing cane £m	Other £m	Total £m	Cane roots £m
At 15 September 2007	53	–	53	48
Acquired through business contributions	–	2	2	–
Harvested cane transferred to inventory	(65)	(9)	(74)	–
Purchases	10	1	11	3
Sales	–	(2)	(2)	–
Changes in fair value	66	12	78	6
Effect of movements in foreign exchange	12	–	12	9
AT 13 SEPTEMBER 2008	76	4	80	66
Acquired through business combinations	4	–	4	4
Harvested cane transferred to inventory	(64)	(8)	(72)	–
Purchases	1	6	7	10
Changes in fair value	77	4	81	9
Effect of movements in foreign exchange	1	–	1	3
AT 12 SEPTEMBER 2009	**95**	**6**	**101**	**92**

CANE ROOTS	**2009**	2008
AREA UNDER CANE AS AT THE END OF THE PERIOD (HECTARES):		
South Africa	**8,162**	9,669
Malawi	**19,924**	20,446
Zambia	**17,072**	14,466
Swaziland	**8,175**	8,172
Tanzania	**8,515**	8,515
Mozambique	**5,255**	5,235
	67,103	66,503

GROWING CANE

The following assumptions have been used in the determination of the estimated sucrose tonnage at 12 September 2009:

	South Africa	Malawi	Zambia	Swaziland	Tanzania	Mozambique
Expected area to harvest (hectares)	5,379	19,463	15,551	7,597	8,275	5,030
Estimated yield (tonnes cane/hectare)	72.2	111.7	133.0	102.6	75.0	92.0
Average maturity of cane	52.0%	66.7%	66.7%	66.7%	50.0%	66.7%

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

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

11. Investments in joint ventures and associates

	Joint ventures			Associates		
	Shares £m	Goodwill £m	Total £m	Shares £m	Goodwill £m	Total £m
At 15 September 2007	41	5	46	25	8	33
Acquisitions	18	1	19	–	–	–
Profit for the period	10	–	10	5	–	5
Dividends received	(1)	–	(1)	(1)	–	(1)
Transfer to subsidiary	–	–	–	(7)	(8)	(15)
Other reserves movements	(1)	–	(1)	(1)	–	(1)
Effect of movements in foreign exchange	2	–	2	2	–	2
AT 13 SEPTEMBER 2008	69	6	75	23	–	23
Acquisitions	41	8	49	3	–	3
Profit for the period	2	–	2	4	–	4
Dividends received	(3)	–	(3)	(1)	–	(1)
Effect of movements in foreign exchange	(1)	–	(1)	3	–	3
AT 12 SEPTEMBER 2009	**108**	**14**	**122**	**32**	**–**	**32**

Profit for the period of £6m (£2m joint ventures and £4m associates) comprises £10m shown in share of profit after tax from joint ventures and associates (£6m joint ventures and £4m associates) and a £4m loss relating to joint ventures included in profits less losses on sale and closure of businesses.

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	
	2009 £m	2008 £m	**2009 £m**	2008 £m
Non-current assets	**105**	30	**18**	13
Current assets	**235**	154	**152**	55
Current liabilities	**(159)**	(115)	**(132)**	(44)
Non-current liabilities	**(73)**	–	**(6)**	(1)
Goodwill	**14**	6	**–**	–
Net assets	**122**	75	**32**	23
Revenue	**913**	576	**18**	27
Expenses	**(915)**	(562)	**(12)**	(19)
Taxation	**4**	(4)	**(2)**	(3)
Profit for the period	**2**	10	**4**	5

Notes forming part of the financial statements continued

for the year ended 12 September 2009

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 12 September 2009. Past service cost is recognised immediately to the extent that the benefits have already vested.

The last actuarial valuation of the Associated British Foods Pension Scheme was carried out as at 5 April 2008. At the valuation date the total market value of the assets of the Scheme was £2,223m and represented 93% of the benefits that had accrued to members after allowing for expected future increases in earnings. Following completion of the actuarial valuation, the group agreed to make five annual payments of £30m in order to eliminate the deficit at 5 April 2008. The first of these payments was made in March 2009.

Overseas schemes

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

Assumptions

The UK pension schemes represent 90% (2008 – 91%) of both the group's scheme assets and scheme liabilities. 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:

	2009 %	2008 %	2007 %
Discount rate	**5.7**	6.0	5.8
Inflation	**3.5**	3.7	3.3
Rate of increase in salaries	**5.0**	5.2	4.8
Rate of increase for pensions in payment	**3.3**	3.5	3.1
Rate of increase for pensions in deferment (where provided)	**3.5**	3.7	3.3

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

Examples of the resulting life expectancies are as follows:

	2009		2008	
LIFE EXPECTANCY FROM AGE 65 (IN YEARS)	**Male**	**Female**	Male	Female
Member aged 65 in 2009	**20.8**	**22.7**	20.7	22.6
Member aged 65 in 2029	**22.6**	**24.2**	22.5	24.1

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	2009 %	2009 £m	2008 %	2008 £m	2007 %	2007 £m
Expected long-term rates of return:						
Equities	**7.2**	**674**	7.7	752	7.3	826
Government bonds	**4.2**	**673**	4.7	643	4.3	684
Non-government bonds	**5.7**	**696**	6.0	694	5.8	622
Property	**5.7**	**75**	6.2	90	5.8	106
Other	**0.5**	**17**	5.0	23	5.8	18
Total market value of assets		**2,135**		2,202		2,256
Present value of scheme liabilities		**(2,211)**		(2,117)		(1,972)
Aggregate net (deficit)/surplus of the plan		**(76)**		85		284
Irrecoverable surplus (a)		**–**		–		–
Net pension (liability)/asset		**(76)**		85		284
Unfunded liability included in the present value of scheme liabilities above		**(11)**		(8)		(6)

The sensitivities regarding the principal assumptions used to measure scheme liabilities at 12 September 2009 are:

	Change in assumption	Impact on scheme liabilities
Discount rate	decrease/increase by 0.5%	increase/decrease by 8.3%
Inflation	increase/decrease by 0.5%	increase/decrease by 8.7%
Rate of increase in salaries	increase/decrease by 0.5%	increase/decrease by 1.7%
Rate of mortality	reduce by one year	increase by 2.7%

OVERSEAS SCHEMES	2009 %	2009 £m	2008 %	2008 £m	2007 %	2007 £m
Expected long-term rates of return:						
Equities	**8.8**	**102**	8.9	108	8.4	109
Government bonds	**7.0**	**69**	6.9	49	6.4	51
Non-government bonds	**4.1**	**36**	4.0	37	3.7	33
Property	**5.9**	**6**	6.4	5	6.0	6
Other	**5.4**	**25**	6.1	23	9.4	19
Total market value of assets		**238**		222		218
Present value of scheme liabilities		**(242)**		(211)		(192)
Aggregate net (deficit)/surplus of the plans		**(4)**		11		26
Irrecoverable surplus (a)		**(26)**		(35)		(34)
Net pension liability		**(30)**		(24)		(8)
Unfunded liability included in the present value of scheme liabilities above		**(32)**		(22)		(25)

(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 liability of £76m (2008 – £85m asset) plus the overseas schemes' net pension liability of £30m (2008 – £24m liability) totals a liability of £106m (2008 – £61m asset). This equates to the employee benefits asset of £16m (2008 – £106m) and liability of £122m (2008 – £45m) shown on the face of the consolidated balance sheet.

Notes forming part of the financial statements continued

for the year ended 12 September 2009

12. Employee entitlements continued

Income statement

The charge to the income statement comprises:

	2009 £m	2008 £m
Charged to operating profit:		
Defined benefit plans		
Current service cost	**(35)**	(35)
Past service cost	**(2)**	(2)
Gain on curtailment	**1**	1
Defined contribution plans	**(33)**	(26)
Total operating cost	**(69)**	(62)
Reported in other financial income:		
Expected return on assets	**154**	149
Interest charge on liabilities	**(142)**	(126)
Net financial income from employee benefit schemes	**12**	23
Net impact on the income statement (before tax)	**(57)**	(39)

The actual return on scheme assets was a loss of £49m (2008 – loss of £21m).

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 2009, the benefits paid in respect of unfunded plans was £1m (2008 – nil). Company contributions to funded defined benefit plans are subject to periodic review. In 2009, contributions to funded defined benefit plans amounted to £76m (2008 – £54m). Contributions to defined contribution plans amounted to £33m (2008 – £26m).

Total contributions to funded plans and benefit payments by the group in respect of unfunded plans are currently expected to be approximately £70m in 2010 (2009 – £45m).

Statement of recognised income and expense

Amounts recognised in the statement of recognised income and expense:

	2009 £m	2008 £m
Actual return less expected return on pension scheme assets	**(203)**	(170)
Experience gains and losses arising on the scheme liabilities	**5**	61
Changes in assumptions underlying the present value of the scheme liabilities	**(33)**	(144)
	(231)	(253)
Change in unrecognised surplus	**14**	(1)
Net actuarial loss recognised in the statement of recognised income and expense (before tax)	**(217)**	(254)

Cumulative actuarial losses from 19 September 2004 reported in the statement of recognised income and expense are £325m (2008 – cumulative losses of £108m).

12. Employee entitlements continued

Reconciliation of change in assets and liabilities

	2009 assets £m	2008 assets £m	**2009 liabilities £m**	2008 liabilities £m	**2009 net £m**	2008 net £m
Asset/(liability) at beginning of year	**2,424**	2,474	**(2,328)**	(2,164)	**96**	310
Current service cost	**–**	–	**(35)**	(35)	**(35)**	(35)
Employee contributions	**11**	10	**(11)**	(10)	**–**	–
Acquired through business combinations	**–**	–	**–**	(2)	**–**	(2)
Businesses disposed	**–**	–	**–**	1	**–**	1
Employer contributions	**76**	54	**–**	–	**76**	54
Benefit payments	**(117)**	(113)	**117**	113	**–**	–
Past service cost	**–**	–	**(2)**	(2)	**(2)**	(2)
Gain on curtailments	**–**	–	**1**	1	**1**	1
Financial income	**154**	149	**–**	–	**154**	149
Financial expenses	**–**	–	**(142)**	(126)	**(142)**	(126)
Actuarial gain/(loss)	**(203)**	(170)	**(28)**	(84)	**(231)**	(254)
Effect of movements in foreign exchange	**28**	20	**(25)**	(20)	**3**	–
Asset/(liability) at end of year	**2,373**	2,424	**(2,453)**	(2,328)	**(80)**	96

HISTORY OF EXPERIENCE GAINS AND LOSSES	**2009**	2008	2007	2006
Difference between the expected and actual return on scheme assets				
– amount (£m)	**(203)**	(170)	(20)	75
– percentage of scheme assets	**8.6%**	7.0%	0.8%	3.1%
Experience gains and losses on scheme liabilities				
– amount (£m)	**5**	61	(32)	4
– percentage of scheme liabilities	**0.2%**	2.6%	1.5%	0.2%
Total amount included in statement of recognised income and expense				
– amount (£m)	**(231)**	(253)	108	49
– percentage of scheme liabilities	**9.4%**	10.9%	5.0%	2.2%

Notes forming part of the financial statements continued

for the year ended 12 September 2009

13. Deferred tax assets and liabilities

	Property plant & equipment £m	Intangible assets £m	Employee benefits £m	Financial assets and liabilities £m	Other temporary differences £m	Tax value of carry-forward losses £m	Total £m
At 15 September 2007	160	98	80	–	52	(30)	360
Amount charged to the income statement	32	(7)	11	–	(11)	(4)	21
Amount charged to the statement of recognised income and expense	–	–	(71)	7	3	–	(61)
Acquired through business combinations	–	24	–	–	(2)	–	22
Effect of change in tax rate:							
– income statement	(1)	–	–	–	–	–	(1)
Effect of movements in foreign exchange	5	6	1	(1)	2	(6)	7
AT 13 SEPTEMBER 2008	196	121	21	6	44	(40)	348
Amount charged to the income statement	(5)	(7)	13	–	5	(45)	(39)
Amount charged to the statement of recognised income and expense	–	–	(62)	(18)	(1)	–	(81)
Acquired through business combinations	3	5	–	–	(18)	(13)	(23)
Businesses disposed	(1)	–	–	–	–	–	(1)
Effect of change in tax rate:							
– income statement	–	–	–	–	–	(1)	(1)
Effect of movements in foreign exchange	4	8	–	(2)	(5)	4	9
AT 12 SEPTEMBER 2009	**197**	**127**	**(28)**	**(14)**	**25**	**(95)**	**212**

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:

	2009 £m	2008 £m
Deferred tax assets	**(184)**	(101)
Deferred tax liabilities	**396**	449
	212	348

The recoverability of deferred tax assets is supported by the expected level of future profits in the countries concerned. Other deferred tax assets totalling £11m (2008 – £6m) have not been recognised on the basis that their future economic benefit is uncertain.

In addition, there are temporary differences of £1,778m (2008 – £1,460m) relating to investments in subsidiaries. No deferred tax has been provided in respect of these differences, since the timing of the reversals can be controlled and it is probable that the temporary differences will not reverse in the future.

14. Trade and other receivables

	2009 £m	2008 £m
NON-CURRENT – OTHER RECEIVABLES		
Loans and receivables	**132**	55
Other non-current investments	**8**	20
	140	75
CURRENT – TRADE AND OTHER RECEIVABLES		
Trade receivables	**847**	827
Other receivables	**135**	131
Accrued income	**22**	34
	1,004	992
Prepayments and other non-financial receivables	**117**	236
	1,121	1,228

£20m trade and other receivables (2008 – £nil) are included within assets held for sale (see note 15) of which £3m relates to non-financial receivables.

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

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

Trade and other receivables includes £19m in respect of finance lease receivables (£18m in non-current loans and receivables and £1m in current other receivables). There were no balances in 2008. Minimum lease payments receivable are £1m within one year, £16m between one and five years, and £4m after five years.

The finance lease receivables relate to property, plant & equipment leased to a joint venture of the group (see note 28).

15. Assets and liabilities classified as held for sale

In August 2009, agreement was reached to sell the Polish sugar business, completion of which is subject to competition clearance, and the Polish sugar business has been classified as a disposal group held for sale at the year end. The disposal of the business will not qualify as a discontinued operation. 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.

In the prior year, £11m of goodwill and £8m of property, plant & equipment was classified as held for sale. The goodwill was included within the Grocery and The Americas segments. The property, plant & equipment was included within the Sugar and Europe & Africa segments.

	2009 £m	2008 £m
ASSETS CLASSIFIED AS HELD FOR SALE		
Intangible assets	**30**	11
Property, plant & equipment	**64**	8
Inventories	**14**	–
Trade and other receivables	**20**	–
Cash and cash equivalents	**8**	–
	136	19
LIABILITIES CLASSIFIED AS HELD FOR SALE		
Trade and other payables	**25**	–
Income tax	**1**	–
	26	–

Notes forming part of the financial statements continued

for the year ended 12 September 2009

16. Inventories

	2009 £m	2008 £m
Raw materials and consumables	**329**	325
Work in progress	**14**	15
Finished goods and goods held for resale	**919**	702
	1,262	1,042
Write down of inventories	**(60)**	(39)

£14m of inventories (2008 – £nil) are included within assets classified as held for sale (see note 15), of which £3m relates to non-financial receivables.

17. Cash and cash equivalents

	Note	2009 £m	2008 £m
CASH			
Cash at bank and in hand		**340**	326
Cash equivalents		**43**	22
Cash and cash equivalents	25	**383**	348
RECONCILIATION TO THE CASH FLOW STATEMENT			
Cash and cash equivalents included in assets classified as held for sale	15	**8**	–
Bank overdrafts	18	**(30)**	(138)
Cash and cash equivalents in the cash flow statement		**361**	210

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

Cash equivalents generally comprise:

(i) deposits placed on money markets for periods up to three months which earn interest at the respective short-term deposit rate; and

(ii) funds invested with fund managers that have a maturity of less than or equal to three months and are at fixed rates.

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

18. Interest-bearing loans and overdrafts

	Note	2009 £m	2008 £m
CURRENT LOANS AND OVERDRAFTS			
Secured bank loans		**43**	24
Unsecured bank loans and overdrafts		**541**	253
Finance lease liabilities	26	**–**	1
		584	278
NON-CURRENT LOANS			
Secured redeemable debenture stock 2013		**150**	150
Secured bank loans		**101**	113
Unsecured bank loans		**542**	594
Finance lease liabilities	26	**13**	13
		806	870
	25	**1,390**	1,148

	2009 £m	2008 £m
10¾% secured redeemable debenture stock 2013 (GBP)	**150**	150
Secured bank loans		
– GBP floating rate	**–**	1
– USD floating rate	**15**	13
– EUR fixed rate	**1**	1
– ZAR floating rate	**6**	–
– RMB floating rate	**39**	14
– RMB fixed rate	**4**	6
– Other floating rate	**45**	57
– Other fixed rate	**34**	45
Unsecured bank loans and overdrafts		
– Bank overdrafts	**30**	138
– GBP floating rate	**120**	148
– GBP fixed rate	**82**	–
– USD floating rate	**21**	195
– USD fixed rate	**278**	1
– EUR floating rate	**330**	285
– EUR fixed rate	**21**	3
– ZAR floating rate	**99**	50
– RMB floating rate	**86**	–
– RMB fixed rate	**8**	–
– Other floating rate	**7**	25
– Other fixed rate	**1**	2
Finance lease liabilities (fixed rate)	**13**	14
	1,390	1,148

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

Bank overdrafts generally bear interest at floating rates.

Notes forming part of the financial statements continued

for the year ended 12 September 2009

19. Trade and other payables

	2009 £m	2008 £m
Trade payables	**667**	570
Accruals	**560**	664
	1,227	1,234
Deferred income and other non-financial payables	**186**	131
	1,413	1,365

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

£25m trade and other payables (2008 – £nil) are included within liabilities classified as held for sale (see note 15), of which £4m relates to non-financial payables.

20. Provisions

	Restructuring £m	Deferred consideration £m	Other £m	Total £m
At 13 September 2008	58	105	23	186
Created	45	145	6	196
Acquired through business combinations	–	–	92	92
Unwinding of discount	–	5	–	5
Utilised	(37)	(11)	(12)	(60)
Released	(1)	(1)	(2)	(4)
Effect of movements in foreign exchange	2	1	3	6
AT 12 SEPTEMBER 2009	**67**	**244**	**110**	**421**
Current	60	133	55	248
Non-current	7	111	55	173
	67	**244**	**110**	**421**

Provisions include financial liabilities of £421m (2008 – £174m) (see note 25).

Restructuring

Restructuring provisions relate to the cash costs, including redundancy, associated with the group's announced reorganisation plans, of which the majority will be utilised in 2009/10.

Deferred consideration

Deferred consideration comprises estimates of amounts due to the previous owners of businesses acquired by the group which are often linked to performance or other conditions. It also includes £122m of advance consideration received in respect of the agreement to dispose of the Polish sugar business.

Other

Other provisions mainly comprise litigation claims, onerous leases and warranty claims arising from the sale and closure of businesses. The extent and timing of the utilisation of these provisions is more uncertain given the nature of the claims and the period of the warranties.

21. Total equity

Reconciliation of movement in capital and reserves

	Attributable to equity shareholders							
	Share capital £m	Other reserves £m	Translation reserve £m	Hedging reserve £m	Retained earnings £m	Total £m	Minority interests £m	Total equity £m
At 15 September 2007	47	173	(49)	(1)	4,074	4,244	220	4,464
Total recognised income and expense for the period	–	–	270	26	170	466	67	533
Dividends paid to shareholders	–	–	–	–	(156)	(156)	–	(156)
Net decrease in own shares held	–	–	–	–	3	3	–	3
Minority interests acquired/disposed	–	–	–	–	–	–	24	24
Dividends paid to minorities	–	–	–	–	–	–	(21)	(21)
Changes in fair value of minority interests on acquisition	–	–	–	–	(3)	(3)	–	(3)
AT 13 SEPTEMBER 2008	47	173	221	25	4,088	4,554	290	4,844
Total recognised income and expense for the period	–	–	218	(57)	200	361	43	404
Dividends paid to shareholders	–	–	–	–	(161)	(161)	–	(161)
Net increase in own shares held	–	–	–	–	(10)	(10)	–	(10)
Minority interests acquired/disposed	–	–	–	–	–	–	9	9
Sale of shares to minority interests	–	–	–	–	–	–	19	19
Gain on deemed disposal	–	–	–	–	10	10	(10)	–
Dividends paid to minorities	–	–	–	–	–	–	(23)	(23)
Changes in fair value of minority interests on acquisition	–	–	–	–	(6)	(6)	–	(6)
AT 12 SEPTEMBER 2009	**47**	**173**	**439**	**(32)**	**4,121**	**4,748**	**328**	**5,076**

Share capital

	Deferred shares of £1 each 000	Ordinary shares of $5\tfrac{15}{22}$p each 000	Nominal value £m
AUTHORISED			
At 13 September 2008 and 12 September 2009	2,000	1,054,950	62
ISSUED AND FULLY PAID			
At 13 September 2008 and 12 September 2009	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 are 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.

Notes forming part of the financial statements continued

for the year ended 12 September 2009

22. Acquisitions and disposals

Acquisitions

2009

During the period, the group completed the acquisition of the Iberian sugar business, Azucarera Ebro, together with a small feed mill in the UK and a sugar cane farm in Zambia, as well as a number of other small acquisitions. Costs associated with these acquisitions are included within cash and deferred consideration. Deferred consideration was paid in respect of the beet sugar operations acquired in north east China last year.

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

	Note	Pre-acquisition carrying amounts £m	Recognised values on acquisition £m
NET ASSETS			
Intangible assets	8	5	54
Property, plant & equipment	9	202	218
Biological assets		3	8
Joint ventures and associates		12	12
Other non-current receivables		52	52
Inventories		156	169
Trade and other receivables		61	61
Other financial assets		2	2
Cash and cash equivalents		1	1
Trade and other payables		(130)	(130)
Overdrafts		(4)	(4)
Interest-bearing loans		(121)	(121)
Taxation		37	23
Provisions		(92)	(92)
Net identifiable assets and liabilities		184	253
Goodwill			18
Minority interests			(3)
Total consideration			268
SATISFIED BY			
Cash consideration			235
Deferred consideration			17
Consideration previously paid			16
NET CASH			
Cash consideration			235
Net overdrafts acquired			3
Cash consideration in respect of prior year acquisitions			11
			249

The differences between pre-acquisition carrying amounts and amounts recognised on acquisition, which include fair value adjustments to the assets and liabilities acquired, are £49m of intangibles recognised, a £16m upward adjustment to property, plant & equipment, a £5m upward adjustment to biological assets, a £13m revaluation of inventories (including £12m in respect of the Azucarera acquisition) and a £14m adjustment to deferred tax.

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

The acquisitions in aggregate contributed revenue of £136m and adjusted profit before tax of £1m for the period between the dates of acquisition and 12 September 2009. Aggregate contributions to revenue and profit before tax had the acquisitions occurred at the beginning of the period have not been disclosed, as appropriately consolidated financial information prepared under Adopted IFRS is not available.

The net cash of £249m in the acquisition table above differs from the cash flow on purchase of subsidiaries, joint ventures and associates shown in the cash flow statement by £17m. The difference relates to amounts paid for investments in joint ventures.

The goodwill of £18m in the acquisition table above differs from the amount shown for business combinations in note 8 by £10m. This relates to the loss on disposal of the manufacturing plant in Portugal, included in the disposals table in this note, which has been treated as goodwill arising on the acquisition of the remaining Gilde businesses.

22. Acquisitions and disposals continued

Acquisition of Azucarera Ebro

The acquisition of Azucarera was completed on 30 April 2009. It contributed a net profit of £1m to the consolidated adjusted net profit for the year since acquisition date. The contribution to consolidated revenues and net profit had the acquisition occurred at the beginning of the year has not been disclosed, as it would be impractical to determine these amounts. This is because the entity acquired did not prepare consolidated financial statements and reported to a 31 December year end.

2008

During 2008, the group completed the merger of Ryvita and Jordans and the acquisition of certain of the European assets of Gilde Bakery Ingredients, 11 beet sugar factories in north east China and the KR Castlemaine meat and smallgoods business in Australia. The group also completed a number of other small acquisitions.

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

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

The differences between pre-acquisition carrying amounts and amounts recognised on acquisition, which include fair value adjustments to the assets and liabilities acquired, were £81m of intangibles recognised, a £34m downward adjustment to property, plant & equipment, a £20m adjustment to deferred tax and a £2m revaluation of inventories.

Notes forming part of the financial statements continued

for the year ended 12 September 2009

22. Acquisitions and disposals continued

Disposals and closure of business

During the year, the group disposed of its US packaged oils business to a newly formed joint venture with Archer Daniels Midland Company Inc, Stratas Foods. The group also sold the former Gilde Bakery Ingredients business in Iberia together with our manufacturing plant in Portugal and the Pongola mill in South Africa. Costs associated with these disposals are included within cash and deferred consideration.

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

	2009 carrying values £m	2008 carrying values £m
NET ASSETS		
Intangible assets	–	15
Property, plant & equipment	28	17
Other non-current receivables	16	–
Inventories	5	3
Trade and other receivables	7	5
Trade and other payables	(8)	(3)
Intercompany receivables	–	1
Taxation	(1)	(5)
Employee benefits	–	(1)
Net identifiable assets and liabilities	47	32
Goodwill	–	21
Recycle of effect of movements in foreign exchange	–	1
(Loss)/profit on sale and closure of business	(65)	5
Total consideration	(18)	59
SATISFIED BY		
Cash consideration	22	59
Deferred consideration	11	–
Provisions made	(65)	–
Interest in joint venture	14	–
NET CASH		
Cash consideration	22	59

Provisions made on sale and closure of businesses of £65m comprise £37m of PP&E impairment (see note 9), £6m of operating intangible impairment (see note 8) and £22m of other rationalisation costs.

In August 2009, agreement was reached to sell the Polish sugar business, completion of which is subject to competition clearance. Assets and liabilities of this business have been included in the consolidated balance sheet as 'held for sale' pending competition clearance.

The net cash of £22m in the disposal table above differs from the cash flow on sale of subsidiaries, joint ventures and associates shown in the cash flow statement by £123m. Of this difference, £122m relates to advance consideration received in respect of the agreement to dispose of the Polish sugar business, as described above. The remaining £1m was received in respect of a reduction in stake in a joint venture.

23. Share-based payments

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

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

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

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

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

23. Share-based payments continued

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 43 to 46 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
2009							
the 1994 Scheme	180,000	–	–	–	–	180,000	180,000
the 2000 Scheme	177,500	–	–	–	–	177,500	177,500
the Share Incentive Plan	3,591,785	2,249,486	–	(195,376)	(503,814)	5,142,081	N/a
2008							
the 1994 Scheme	512,110	–	(317,110)	–	(15,000)	180,000	180,000
the 2000 Scheme	187,500	–	(10,000)	–	–	177,500	177,500
the Share Incentive Plan	1,895,475	1,828,504	–	–	(132,194)	3,591,785	N/a

	Weighted average exercise price of options							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
	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		
2009									
the 1994 Scheme	530.50	–	–	–	–	530.50	530.50	497–564	2.7
the 2000 Scheme	484.00	–	–	–	–	484.00	484.00	484.00	1.3
2008									
the 1994 Scheme	538.01	–	541.16	–	561.50	530.50	530.50	497–564	3.8
the 2000 Scheme	484.00	–	484.00	–	–	484.00	484.00	484.00	2.3

No share options were exercised during the year.

The weighted average market price for share options exercised during 2008 was 876 pence.

Ordinary shares already issued and subject to option under the 1994 Scheme and the 2000 Scheme, or subject to allocation under the Share Incentive Plan, are held in a separate trust. The trust is funded by the Company. At 12 September 2009 the trust held 3,906,757 (2008 – 2,102,133) 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 610 pence (2008 – 837 pence) and the weighted average share price was 656 pence (2008 – 900 pence). The dividend yield used was 2.5%.

No options were granted under the 1994 Scheme or the 2000 Scheme in either 2008 or 2009.

In accordance with the transitional provisions of IFRS 1, the group has recognised an expense in respect of all grants under these plans made after 7 November 2002 and unvested at 18 September 2004. The group recognised a total equity-settled share-based payment expense of £5m (2008 – £5m).

Notes forming part of the financial statements continued

for the year ended 12 September 2009

24. Analysis of net debt

	At 13 September 2008 £m	Cash flow £m	Acquisitions/ disposals £m	Exchange adjustments £m	**At 12 September 2009 £m**
Cash at bank and in hand, cash equivalents and overdrafts	210	137	–	14	**361**
Short-term borrowings	(140)	(283)	(119)	(12)	**(554)**
Other current investments	9	(12)	2	1	**–**
Loans over one year	(870)	100	(2)	(34)	**(806)**
	(791)	(58)	(119)	(31)	**(999)**

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.

£8m of cash at bank and in hand disclosed above is included within assets held for sale (see note 15).

25. Financial instruments

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

	2009		2008	
	Carrying amount £m	**Fair value £m**	Carrying amount £m	Fair value £m
FINANCIAL ASSETS				
Cash and cash equivalents	**391**	**391**	348	348
LOANS AND RECEIVABLES:				
Trade and other receivables	**1,021**	**1,021**	992	992
Other non-current receivables	**140**	**140**	75	75
AT FAIR VALUE THROUGH PROFIT OR LOSS:				
Other current investments	**–**	**–**	9	9
Derivative financial assets not designated in a cash flow hedging relationship:				
– currency derivatives	**2**	**2**	2	2
– commodity derivatives	**3**	**3**	1	1
DESIGNATED CASH FLOW HEDGING RELATIONSHIPS:				
Derivative financial assets designated and effective as cash flow hedging instruments:				
– currency derivatives	**6**	**6**	33	33
– commodity derivatives	**1**	**1**	18	18
TOTAL FINANCIAL ASSETS	**1,564**	**1,564**	1,478	1,478
FINANCIAL LIABILITIES				
FINANCIAL LIABILITIES AT AMORTISED COST:				
Trade and other payables	**(1,248)**	**(1,248)**	(1,234)	(1,234)
Secured redeemable debenture stock	**(150)**	**(184)**	(150)	(176)
Secured bank loans	**(144)**	**(142)**	(137)	(141)
Unsecured bank loans and overdrafts	**(1,083)**	**(1,130)**	(847)	(847)
Finance leases	**(13)**	**(12)**	(14)	(12)
Provisions	**(421)**	**(421)**	(174)	(174)
AT FAIR VALUE THROUGH PROFIT OR LOSS:				
Derivative financial liabilities not designated in a cash flow hedging relationship:				
– currency derivatives	**(22)**	**(22)**	–	–
– commodity derivatives	**(2)**	**(2)**	(1)	(1)
– interest rate derivatives	**(1)**	**(1)**	(1)	(1)
DESIGNATED CASH FLOW HEDGING RELATIONSHIPS:				
Derivative financial liabilities designated and effective as cash flow hedging instruments:				
– currency derivatives	**(34)**	**(34)**	(10)	(10)
– commodity derivatives	**(17)**	**(17)**	(13)	(13)
TOTAL FINANCIAL LIABILITIES	**(3,135)**	**(3,213)**	(2,581)	(2,609)
NET FINANCIAL LIABILITIES	**(1,571)**	**(1,649)**	(1,103)	(1,131)

25. Financial instruments continued

The financial instruments shown above include £17m trade and other receivables (2008 – £nil), £8m cash and cash equivalents and £21m trade and other payables (2008 – £nil) that are classified as held for sale at year end.

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

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

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

b) Derivative financial instruments

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

	2009			2008		
	Contractual/ notional amounts £m	Assets £m	Liabilities £m	Contractual/ notional amounts £m	Assets £m	Liabilities £m
Currency derivatives	1,159	8	(56)	957	35	(10)
Commodity derivatives	180	4	(19)	181	19	(14)
Interest rate derivatives	109	–	(1)	97	–	(1)
		12	(76)		54	(25)

c) Cash flow hedging reserve movements

The following table indicates the cash flow hedging reserve balance at 12 September 2009 and the periods in which the cash flows are expected to occur. The periods in which the cash flows are expected to impact profit or loss are materially the same.

	2009			2008		
	Currency derivatives £m	Commodity derivatives £m	Total £m	Currency derivatives £m	Commodity derivatives £m	Total £m
Within six months	13	4	17	(23)	1	(22)
Between six months and one year	6	9	15	–	(2)	(2)
Between one and two years	–	–	–	(1)	–	(1)
Unrecognised losses/(gains)	19	13	32	(24)	(1)	(25)

Notes forming part of the financial statements continued

for the year ended 12 September 2009

25. Financial instruments continued

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

	2009			2008		
	Currency derivatives £m	Commodity derivatives £m	Total £m	Currency derivatives £m	Commodity derivatives £m	Total £m
Opening balance	(24)	(1)	(25)	3	(2)	1
Gains/(losses) recognised in the hedging reserve	33	46	79	(1)	(9)	(10)
Gains/(losses) arising in previous years that reversed	–	–	–	(1)	1	–
Amount removed from the hedging reserve and included within the income statement due to settlement of contracts – recognised in:						
– revenue	(34)	(1)	(35)	(26)	1	(25)
– cost of sales	5	(11)	(6)	3	–	3
Amount removed from the hedging reserve and included within a non-financial asset due to settlement of contracts – recognised in:						
– inventory	54	(17)	37	(7)	5	(2)
Deferred tax associated with movement in the hedging reserve	(15)	(3)	(18)	7	–	7
Effect of movements in foreign exchange	–	–	–	(2)	3	1
Closing balance	19	13	32	(24)	(1)	(25)

d) Financial risk identification and management

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

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

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

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

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

25. Financial instruments continued

e) Foreign currency translation

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

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

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

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

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

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

	2009 £m	2008 £m
Euro	**229**	285
US dollar	**279**	190
	508	475

The foreign exchange loss of £27m (2008 – £58m loss) on retranslation of these loans has been taken to the translation reserve on consolidation.

f) Market risk

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

(i) Commodity price risk

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

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

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

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

Notes forming part of the financial statements continued

for the year ended 12 September 2009

25. Financial instruments continued

Sensitivity analysis

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

The sensitivity chosen is a 20% increase in the forward curves for various commodity prices as if they had occurred on 12 September 2009. For as long as the group continues to make limited use of options, a 20% decrease in forward prices would produce a broadly equal and opposite impact on profit and equity to that shown. The movement of forward price curves by 20% is considered to be a reasonable approximation of how much markets might typically move, on average, over any given year, notwithstanding that the increases in some commodity prices during the past year have been significantly greater than this.

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

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

- all qualifying cash flow hedges at 12 September 2009 will continue to be fully effective in achieving cash flow hedge accounting; and
- commodity contracts that qualify for the 'own use' treatment continue to do so. This sensitivity therefore has no impact for these contracts.

	2009 impact on profit for the year +/- £m	**2009 impact on total equity +/- £m**	2008 impact on profit for the year +/- £m	2008 impact on total equity +/- £m
20% increase in commodity prices	**1**	**(8)**	4	20

(ii) Interest rate risk

Interest rate risk comprises two primary elements:

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

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

At 12 September 2009, £592m (43%) (2008 – £222m and 19%) of total debt was subject to fixed rates of interest. The group's fixed rate debt includes the US Private Placement loan of £378m (2008 – £nil) and the £150m $10^3/_4$% secured redeemable debenture stock 2013 (2008 – £150m).

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

Sensitivity analysis

Applying a 100 basis point parallel increase in the interest rate yield curve as if it had occurred on 12 September 2009 results in no impact on profit for the year or total equity (2008 – no impact on profit or total equity). The following assumptions have been applied in the calculation of this sensitivity, which is presented before taxation and minority interests:

- the impact of this sensitivity has only been recorded for changes in the fair value of derivative financial instruments which have their fair value gains and losses recorded within the financial statements, assets available for sale, and other current investments, as the group does not designate any other financial asset at fair value through profit or loss and these are the only significant financial instruments whose carrying amounts change as a result of changes in interest rates. All other financial instruments are carried at amortised cost;
- no impact is recorded in respect of changes in interest rates on employee benefits (including pensions), or discount rates applied to financial instruments to record them at present value; and
- all qualifying cash flow hedges at 12 September 2009 will continue to be fully effective in achieving cash flow hedge accounting.

25. Financial instruments continued

A second sensitivity analysis calculates the impact on profitability of a 100 basis point increase in interest rates on floating rate interest-bearing loans and overdrafts, and on cash and cash equivalents balances on which variable rates of interest are earned. The year end cash balance is deducted from the year end floating rate loans and overdrafts balance. This net floating rate borrowing figure is multiplied by 1%. In 2009, this equated to an interest expense of £4m before taxation and minority interests (2008 – £6m).

(iii) Foreign currency risk

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

Translation risk is discussed in section e) above.

Transaction risk

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

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

Economic (forecast) risk

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

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

The group's most significant currency transaction exposures are:

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

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

Notes forming part of the financial statements continued

for the year ended 12 September 2009

25. Financial instruments continued

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

2009	Sterling £m	US dollar £m	Euro £m	Other £m	Total £m
FINANCIAL ASSETS					
Cash and cash equivalents	**5**	**48**	**13**	**8**	**74**
Trade and other receivables	**2**	**21**	**45**	**6**	**74**
Non-currency derivatives	**–**	**1**	**–**	**–**	**1**
	7	**70**	**58**	**14**	**149**
FINANCIAL LIABILITIES					
Trade and other payables	**(2)**	**(28)**	**(10)**	**(7)**	**(47)**
Secured bank loans	**–**	**(3)**	**(1)**	**(34)**	**(38)**
Unsecured bank loans and overdrafts	**(2)**	**(284)**	**(232)**	**(1)**	**(519)**
Provisions	**–**	**–**	**(1)**	**–**	**(1)**
Non-currency derivatives	**–**	**(1)**	**–**	**–**	**(1)**
	(4)	**(316)**	**(244)**	**(42)**	**(606)**
CURRENCY DERIVATIVES					
Gross amounts receivable	**17**	**500**	**92**	**55**	**664**
Gross amounts payable	**(9)**	**(14)**	**(455)**	**(19)**	**(497)**
	8	**486**	**(363)**	**36**	**167**
	11	**240**	**(549)**	**8**	**(290)**

2008	Sterling £m	US dollar £m	Euro £m	Other £m	Total £m
FINANCIAL ASSETS					
Cash and cash equivalents	3	24	17	8	52
Trade and other receivables	1	15	85	8	109
Other non-current receivables	–	1	52	–	53
Non-currency derivatives	–	1	–	–	1
	4	41	154	16	215
FINANCIAL LIABILITIES					
Trade and other payables	(1)	(77)	(179)	(5)	(262)
Secured bank loans	–	–	(1)	(44)	(45)
Unsecured bank loans and overdrafts	–	(190)	(287)	–	(477)
Provisions	–	–	(1)	–	(1)
Non-currency derivatives	–	(1)	–	–	(1)
	(1)	(268)	(468)	(49)	(786)
CURRENCY DERIVATIVES					
Gross amounts receivable	22	448	51	28	549
Gross amounts payable	–	(10)	(344)	(16)	(370)
	22	438	(293)	12	179
	25	211	(607)	(21)	(392)

25. Financial instruments continued

The following significant exchange rates applied during the year:

	Average rate		Closing rate	
	2009	2008	**2009**	2008
US dollar	**1.56**	1.98	**1.67**	1.79
Euro	**1.15**	1.32	**1.14**	1.26
Rand	**14.09**	14.67	**12.39**	14.34
Renminbi	**10.66**	14.13	**11.38**	12.28
Australian dollar	**2.15**	2.18	**1.93**	2.18

Sensitivity analysis

The following sensitivity analysis illustrates the impact that a 10% strengthening of the group's operating currencies against local functional currencies would have had on profit and equity. The analysis covers currency translation exposures at year end on businesses' financial assets and liabilities that are not denominated in the functional currencies of those businesses. A similar but opposite impact would be felt on both profit and equity if the group's main operating currencies weakened against local functional currencies by a similar amount.

The following assumption has been applied in the calculation of this sensitivity, which is presented before taxation and minority interests:

- the exposure to foreign exchange gains and losses on translating the financial statements of subsidiaries into sterling is not included in this sensitivity analysis, as there is no impact on the income statement, and the gains and losses are recorded directly in the translation reserve in equity (see below for a separate sensitivity).

10% STRENGTHENING AGAINST OTHER CURRENCIES OF	**2009 impact on profit for the year +/- £m**	**2009 impact on total equity +/- £m**	2008 impact on profit for the year +/- £m	2008 impact on total equity +/- £m
Sterling	**–**	**1**	–	(2)
US dollar	**10**	**(54)**	(4)	(55)
Euro	**5**	**16**	1	(6)
Other	**(3)**	**(4)**	(3)	(3)

A second sensitivity analysis calculates the impact on the group's profit before tax if the average rates used to translate the results of the group's foreign operations into sterling were adjusted to show a 10% strengthening of sterling. A similar but opposite impact would be felt on profit before tax if sterling weakened against the other currencies by a similar amount.

10% STRENGTHENING OF STERLING AGAINST	**2009 impact on profit for the year +/- £m**	2008 impact on profit for the year +/- £m
US dollar	**4**	(3)
Euro	**(3)**	(7)
Rand	**(7)**	(5)
Renminbi	**3**	(2)
Australian dollar	**(4)**	2

Notes forming part of the financial statements continued

for the year ended 12 September 2009

25. Financial instruments continued

g) Credit risk

Credit risk is the risk that counterparties to financial instruments do not perform according to the terms of the contract or instrument. The group's businesses are exposed to counterparty credit risk when dealing with customers, and from certain financing activities.

The immediate credit exposure of financial instruments is represented by those financial instruments that have a net positive fair value by counterparty at 12 September 2009. The group considers its maximum exposure to credit risk to be:

	2009 £m	2008 £m
Cash and cash equivalents	**391**	348
Loans and receivables (refer to note 25a)	**1,161**	1,067
Financial assets at fair value through profit and loss		
– other current investments	**–**	9
– derivative financial assets	**5**	3
Designated cash flow hedging relationships		
– derivative financial assets	**7**	51
	1,564	1,478

The majority of cash balances and short-term deposits are held with strong investment-grade banks or financial institutions.

As at 12 September 2009, there were no significant financial guarantees or third-party obligations that increased the credit risk of the financial assets set out above.

Although the group has seen no direct evidence of changes to the credit risk of its counterparties, the current focus on financial liquidity in all international markets has introduced increased financial volatility. The group uses market knowledge, changes in credit ratings and other techniques to identify significant changes to the financial profile of its counterparties.

Trade and other receivables

Concentrations of credit risk are limited as a result of the group's large and diverse customer base. The group has established a credit policy applied by each business under which the credit status of each new customer is reviewed before credit is advanced. This includes external credit evaluations where possible and in some cases bank references. Credit limits are established for all significant or high-risk customers, which represent the maximum amount permitted to be outstanding without requiring additional approval from the appropriate level of management. Outstanding debts are continually monitored by each business. Credit limits are reviewed on a regular basis, and at least annually. Customers that fail to meet the group's benchmark creditworthiness may only transact with the group on a prepayment basis. Aggregate exposures are monitored at group level.

Many of the group's customers have been transacting with the group for many years and the incidence of bad debts has been low. Where appropriate, goods are sold subject to retention of title so that, in the event of non-payment, the group may have a secured claim. The group does not typically require collateral in respect of trade and other receivables.

The group provides for impairment of financial assets including trade and other receivables based on known events, and makes a collective provision for losses yet to be identified, based on historical data. The majority of the provision comprises specific amounts.

25. Financial instruments continued

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

	2009 £m	2008 £m
UK	**330**	407
Europe & Africa	**251**	181
The Americas	**141**	169
Asia Pacific	**299**	235
	1,021	992

Trade receivables can be analysed as follows:

	2009 gross £m	2008 gross £m
Not overdue	**638**	659
Up to 1 month past due	**186**	122
Between 1 and 2 months past due	**31**	34
Between 2 and 3 months past due	**8**	18
More than 3 months past due	**31**	37
Provision for doubtful debts	**(38)**	(43)
At 12 September 2009	**856**	827

The trade receivables shown above include £9m trade receivables that are classified as held for sale at year end.

Based on past experience, the group believes that no impairment allowance is necessary in respect of trade receivables that are not past due.

Trade and other receivables are stated net of the following provision for irrecoverable amounts:

	2009 £m	2008 £m
Opening balance	**43**	34
Amounts provided for during the year	**8**	11
Amounts released during the year	**(2)**	(1)
Amounts utilised during the year	**(12)**	(3)
Acquisitions/(disposals)	**1**	1
Effect of movements in foreign exchange	**–**	1
Closing balance	**38**	43

No trade and other receivables (2008 – none) were written off directly to the income statement in the year.

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

Cash, cash equivalents and other current investments

Banking relationships are generally limited to those banks that are members of the core relationship group. These banks are selected for their credit status, global reach and their ability to meet the businesses' day-to-day banking requirements. The credit ratings of these institutions are monitored on a continuing basis. In locations where the core relationship banking group cannot be used, operating procedures including choice of bank, opening of bank accounts and repatriation of funds must be agreed with group Treasury. The group has not recorded impairments against cash, cash equivalents or other current investments, nor have any recoverability issues been identified with such balances. Such items are typically recoverable on demand or in line with normal banking arrangements.

Other financial assets

Other non-current investments are typically equity investments with no fixed maturity or recoverability date. No impairment issues have been identified with respect to other non-current investments.

Since derivative assets are recorded at fair value, either through profit and loss, for those not in a designated cash flow hedging relationship, or otherwise through the hedging reserve, no impairment issues have been identified.

Notes forming part of the financial statements continued

for the year ended 12 September 2009

25. Financial instruments continued

h) Liquidity risk

Liquidity risk is the risk that the group will encounter difficulty in meeting its obligations associated with its financial liabilities as they fall due. Group Treasury is responsible for monitoring and managing liquidity and ensures that the group has sufficient headroom in its committed facilities to meet unforeseen or abnormal requirements. The group also has access to uncommitted facilities to assist with short-term funding requirements.

Available headroom is monitored via the use of detailed cash flow forecasts prepared by each business, which are reviewed at least quarterly, or more often, as required. Actual results are compared to budget and forecast each period, and variances investigated and explained. Particular focus is given to management of working capital.

Details of the group's borrowing facilities are given in section i).

The following table analyses the contractual undiscounted cash flows relating to financial liabilities at the balance sheet date and compares them to carrying amounts:

		2009						
	Note	**Due within 6 months £m**	**Due between 6 months and 1 year £m**	**Due between 1 and 2 years £m**	**Due between 2 and 5 years £m**	**Due after 5 years £m**	**Contracted amount £m**	**Carrying amount £m**
NON-DERIVATIVE FINANCIAL LIABILITIES								
Trade and other payables	19	**(1,224)**	**(24)**	**–**	**–**	**–**	**(1,248)**	**(1,248)**
Secured redeemable debenture stock	18	**(8)**	**(8)**	**(16)**	**(182)**	**–**	**(214)**	**(150)**
Secured bank loans	18	**(24)**	**(25)**	**(63)**	**(42)**	**–**	**(154)**	**(144)**
Unsecured bank loans and overdrafts	18	**(503)**	**(62)**	**(37)**	**(345)**	**(314)**	**(1,261)**	**(1,083)**
Finance lease liabilities	26	**(1)**	**–**	**(1)**	**(2)**	**(41)**	**(45)**	**(13)**
Provisions	20	**(198)**	**(50)**	**(33)**	**(108)**	**(52)**	**(441)**	**(421)**
DERIVATIVE FINANCIAL LIABILITIES								
– Currency derivatives (net payments)		**(95)**	**(9)**	**–**	**–**	**–**	**(104)**	**(56)**
– Commodity derivatives (net payments)		**23**	**50**	**(1)**	**–**	**–**	**72**	**(19)**
– Interest rate derivatives (net payments)		**(1)**	**–**	**–**	**–**	**–**	**(1)**	**(1)**
TOTAL FINANCIAL LIABILITIES		**(2,031)**	**(128)**	**(151)**	**(679)**	**(407)**	**(3,396)**	**(3,135)**

		2008						
	Note	Due within 6 months £m	Due between 6 months and 1 year £m	Due between 1 and 2 years £m	Due between 2 and 5 years £m	Due after 5 years £m	Contracted amount £m	Carrying amount £m
NON-DERIVATIVE FINANCIAL LIABILITIES								
Trade and other payables	19	(1,181)	(53)	–	–	–	(1,234)	(1,234)
Secured redeemable debenture stock	18	(8)	(8)	(16)	(198)	–	(230)	(150)
Secured bank loans	18	(17)	(7)	(60)	(53)	–	(137)	(137)
Unsecured bank loans and overdrafts	18	(243)	(10)	(3)	(470)	(121)	(847)	(847)
Finance lease liabilities	26	(1)	–	(1)	(3)	(42)	(47)	(14)
Provisions	20	(32)	(43)	(14)	(84)	(1)	(174)	(174)
DERIVATIVE FINANCIAL LIABILITIES								
– Currency derivatives (net payments)		(3)	(9)	(1)	–	–	(13)	(10)
– Commodity derivatives (net payments)		7	14	7	–	–	28	(14)
– Interest rate derivatives (net payments)		(3)	(3)	1	–	–	(5)	(1)
TOTAL FINANCIAL LIABILITIES		(1,481)	(119)	(87)	(808)	(164)	(2,659)	(2,581)

The above tables do not include forecast data for liabilities which may be incurred in the future but which were not contracted at 12 September 2009.

The principal reasons for differences between carrying values and contractual undiscounted cash flows are coupon payments on the secured redeemable debenture stock and other fixed rate debt to which the group is already committed, future interest payments on the group's finance leases, and cash flows on derivative financial instruments which are not aligned with their fair value.

25. Financial instruments continued

i) Borrowing facilities

The group has substantial borrowing facilities available to it. The undrawn committed facilities available at 12 September 2009 in respect of which all conditions precedent have been met amounted to £840m (2008 – £219m):

	2009			2008		
	Facility £m	**Drawn £m**	**Undrawn £m**	Facility £m	Drawn £m	Undrawn £m
US$1.2bn syndicated facility	**719**	**211**	**508**	671	469	202
US private placement	**378**	**378**	**–**	–	–	–
£320m syndicated facility	**320**	**–**	**320**	–	–	–
British Sugar secured redeemable debenture stock	**150**	**150**	**–**	150	150	–
European Investment Bank	**120**	**120**	**–**	120	120	–
Zambia sugar facilities	**77**	**77**	**–**	101	101	–
Other	**83**	**71**	**12**	65	48	17
	1,847	**1,007**	**840**	1,107	888	219

Uncommitted facilities available at 12 September 2009 were:

	2009			2008		
	Facility £m	**Drawn £m**	**Undrawn £m**	Facility £m	Drawn £m	Undrawn £m
Money market lines	**80**	**–**	**80**	160	28	132
Illovo facilities	**203**	**113**	**90**	186	63	123
China banking facilities	**295**	**138**	**157**	–	–	–
Other	**275**	**119**	**156**	238	155	83
	853	**370**	**483**	584	246	338

In addition to the above facilities there are also £67m (2008 – £93m) of undrawn and available credit lines for the purposes of issuing letters of credit and guarantees in the normal course of business.

The group also has £13m (2008 – £14m) of finance lease liabilities which are not included in the tables above, but which are included in the group's interest-bearing loans and overdrafts in note 18.

In October 2008, the Company negotiated a three-year £320m committed facility with its existing banking group that when added to the existing US$1.2bn of committed bank facilities provide £1,039m of bank finance. Both these facilities mature in October 2011. In addition to the bank debt, in March 2009 the Company issued £378m of private placement notes to institutional investors in the US and Europe. At 12 September 2009, these have an average remaining duration of 6.2 years and an average fixed coupon of 7.1%. The other significant core committed debt facilities comprise a £150m debenture loan and a £120m EIB loan which mature in 2013 and 2015 respectively.

Uncommitted bank borrowing facilities are normally reaffirmed by the banks annually, although they can theoretically be withdrawn at any time.

Refer to note 9 for details of the group's capital commitments and to note 27 for a summary of the group's guarantees. An assessment of the group's current liquidity position is given in the 'Financial review' section of the annual report on page 25. The uncommitted total facility of £853m in the table above differs from the uncommitted credit lines referred to in the Financial review by £12m. This relates to the net amount of uncleared receipts, recognised in bank overdrafts.

Notes forming part of the financial statements continued

for the year ended 12 September 2009

25. Financial instruments continued

j) Capital management

The capital structure of the group is presented in the balance sheet. Note 21 provides details on equity and note 18 on loans and overdrafts. Short and medium-term funding requirements are provided by a variety of loan and overdraft facilities, both committed and uncommitted, with a range of counterparties and maturities. Longer term funding is sourced from a combination of these facilities, the private placement notes and committed syndicated loan facilities.

The board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to enable successful future development of the business. The board monitors return on capital by division and determines the overall level of dividends payable to shareholders.

From time to time the group purchases its own shares in the market. The shares are purchased to satisfy awards under the group's share option scheme and long-term incentive plan. Once purchased, shares are not sold back into the market. The group does not have a defined share buy-back plan.

There were no changes to the group's approach to capital management during the year. Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

26. Lease commitments

Operating leases

The group acts as a lessee, lessor and sub-lessor both for land and buildings and plant & machinery under operating leases.

Sublease receipts of £2m (2008 – £3m) were recognised in the income statement in the period, the majority relating to operating leases. The total of future minimum sublease receipts expected to be received is £34m (2008 – £29m).

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

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

	2009 £m	2008 £m
Within one year	**100**	87
Between one and five years	**333**	308
After five years	**1,224**	1,130
	1,657	1,525

Finance leases

Finance lease liabilities are payable as follows:

	2009 minimum lease payments £m	**2009 interest £m**	**2009 principal £m**	2008 minimum lease payments £m	2008 interest £m	2008 principal £m
Within one year	**1**	**1**	**–**	1	–	1
Between one and five years	**3**	**2**	**1**	4	3	1
After five years	**41**	**29**	**12**	42	30	12
	45	**32**	**13**	47	33	14

27. Contingencies

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

The group has not adopted the amendments to IAS 39 in relation to financial guarantee contracts which apply for periods commencing on or after 1 January 2006. Where group companies enter into financial guarantee contracts to guarantee the indebtedness of other group companies, the group considers these to be insurance arrangements and accounts for them as such in accordance with IFRS 4. In this respect, the guarantee contract is treated as a contingent liability until such time as it becomes probable that the relevant group company issuing the guarantee will be required to make a payment under the guarantee.

As at 12 September 2009, group companies have provided guarantees in the ordinary course of business amounting to £597m (2008 – £196m).

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 30) 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	2009 £000	2008 £000
Charges to Wittington Investments Limited in respect of services provided by the Company and its subsidiary undertakings		**201**	271
Dividends paid by ABF and received in a beneficial capacity by:			
(i) trustees of the Garfield Weston Foundation	1	**6,142**	6,063
(ii) directors of Wittington Investments Limited who are not trustees of the Foundation		**806**	780
(iii) directors of the Company who are not trustees of the Foundation and are not directors of Wittington Investments Limited	2	**12**	15
(iv) a member of the Weston family employed within the ABF group	3	**596**	576
Sales to fellow subsidiary undertakings on normal trading terms	4	**2,246**	2,438
Sales to a company with common key management personnel	5	**4,448**	3,551
Amounts due from fellow subsidiary undertakings on normal trading terms	4	**193**	872
Amounts due from a company with common key management personnel	5	**508**	332
Sales to joint ventures and associates on normal trading terms	6	**328,915**	25,087
Purchases from joint ventures and associates on normal trading terms	6	**221,774**	78,929
Amounts due from joint ventures and associates	6	**95,068**	13,270
Amounts due to joint ventures and associates	6	**23,321**	4,438

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 12 September 2009 was the beneficial owner of 683,073 shares (2008 – 683,073 shares) in Wittington Investments Limited representing 79.2% (2008 – 79.2%) of that company's issued share capital and is, therefore, the Company's ultimate controlling party. At 12 September 2009 trustees of the Foundation comprised two children and two grandchildren of the late W Garfield Weston and five children of the late Garry H Weston.
2. Details of the directors are given on pages 28 and 29. Their beneficial interests, including family interests, in the Company and its subsidiary undertakings are given on page 47. Key management personnel are considered to be the directors, and their remuneration is disclosed within the Remuneration report on page 44.
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.

Amounts due from joint ventures and associates comprise £19m of finance lease receivables due from a joint venture (see note 14) and £50m of loan receivables due from joint ventures. The remainder of the balance is trading balances. The loan receivables are all non-current, and all but £1m of the finance lease receivables are non-current.

29. Subsequent events

On 14 September 2009, Illovo concluded a ZAR 3bn rights issue to fund further expansion projects in Africa. The issue was 99.4% subscribed. ABF took up its 51% entitlement at a cost of £126m. The rights issue reduces the group's consolidated net debt by £119m.

On 2 November 2009, Twinings announced that it was entering a period of consultation with employees over a proposed reorganisation of its tea manufacturing operations. The charge for this reorganisation is expected to be £19m and will be included in the income statement for the 2009/10 financial year.

Notes forming part of the financial statements continued

for the year ended 12 September 2009

30. Group entities

Control of the group

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

At 12 September 2009 Wittington Investments Limited together with its subsidiary, Howard Investments Limited, held 431,515,108 ordinary shares (2008 – 431,515,108) representing in aggregate 54.5% (2008 – 54.5%) of the total issued ordinary share capital of Associated British Foods plc.

Significant subsidiaries

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

MANUFACTURING ACTIVITIES	COUNTRY OF INCORPORATION
AB Agri Limited	UK
AB Brasil Industria e comercio de Alimentos LTDA	Brazil
AB Enzymes GmbH	Germany
AB Enzymes Oy	Finland
ABF Grain Products Limited	UK
AB Food & Beverages Australia Pty Ltd	Australia
AB Food & Beverages Philippines, Inc.	Philippines
AB Food & Beverages (Thailand) Limited	Thailand
AB Mauri Food, S.A.	Spain
AB Mauri India (Private) Limited	India
Abitec Corporation	US
ABNA (Shanghai) Feed Co., Ltd	China
AB World Foods Limited	UK
ACH Food Companies, Inc.	US
Alimentos Capullo.S.de R.L.de C.V.	Mexico
Anzchem Pty Limited	Australia
Azucarera Ebro, S.L.U.	Spain
Bo Tian Sugar Industry Company Limited (65%)	China
British Sugar (Overseas) Limited	UK
British Sugar plc	UK
BSO Polska S.A. (98%)	Poland
Calsa de Colombia S.A.S.	Colombia
Cereform Limited	UK
Compania Argentina de Levaduras S.A.I.C	Argentina
Food Investments Limited	UK
Foods International S.A.S.	France
G. Costa and Company Limited	UK
George Weston Foods Limited	Australia
George Weston Foods (NZ) Limited	New Zealand
Germain's (Ireland) Limited	Republic of Ireland
Germain's Technology Group NA Inc.	US
Germain's Technology Group Polska Sp. z.o.o.	Poland
Guangxi Bo Hua Food Co., Ltd (71%)	China
Guangxi Boqing Food Co., Ltd (60%)	China
Guangxi Boxuan Food Co., Ltd (70%)	China
Harbin Mauri Yeast Co., Ltd (85%)	China
Hebei Mauri Food Co., Ltd	China
Illovo Sugar Limited (51%)	South Africa
Illovo Sugar (Malawi) Limited (39%)	Malawi
Innovative Cereal Systems LLC.	US
Jacksons of Piccadilly Limited	UK
Kilombero Sugar Company Limited (28%)	Tanzania
Liaoning Liaohe Aimin Feed Co., Ltd	China
Liaoning Liaohe Yingpeng Feed Co., Ltd	China
Maragra Acucar SARL (38%)	Mozambique
Mauri Fermentos II, SA (96%)	Portugal
Mauri La-Nga Fermentation Co., Ltd (66%)	Vietnam
Mauri Lanka (Private) Limited	Sri Lanka
Mauri Maya Sanayi A.S.	Turkey
Mauri Products Limited	UK
Patak's Breads Limited	UK
Patak's Foods Limited	UK
Premier Nutrition Products Limited	UK
R. Twining & Co., Ltd	US
R. Twining and Company Limited	UK
Serrol Ingredients Pty Limited	Australia
Shanghai AB Food & Beverages Co., Ltd	China
SPI Pharma Inc.	US
SPI Pharma S.A.S.	France
The Billington Food Group Limited	UK
The Jordans & Ryvita Company Limited (62%)	UK
Twinings North America Inc.	US
Ubombo Sugar Limited (31%)	Swaziland
Wander AG	Switzerland
Yeast Products Company	Republic of Ireland
Zambia Sugar plc (46%)	Zambia
RETAILING ACTIVITIES	
Lojas Primark Portugal-Exploracao, Gastao e Administracao de Espacos Comerciais S.A.	Portugal
Primark	Republic of Ireland
Primark Deutschland GmbH	Germany
Primark Netherlands NV	Netherlands
Primark NV	Belgium
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$2	50
C. Czarnikow Limited	UK	£1,000,000	43
Chiltern Bakeries Limited	UK	£100	44
Compania de Melazas	Spain	€10,000	50
Frontier Agriculture Limited	UK	£36,000,104	50
Harper-Love Adhesives Corporation	US	US$13,200	50
Levaduras Collico S.A.	Chile	CLP1,834,390,000	50
Murray Bridge Bacon Pty Ltd	Australia	A$12,000,000	20
New Food Coatings Pty Ltd	Australia	A$150,000	50
Qingdao Xinghua Cereal Oil & Foodstuff Co., Ltd	China	CNY24,844,000	25
Roal Oy	Finland	€3,196,000	50
Stratas Foods LLC	US	US$2	50
Uniferm Verwaltungs GmbH	Germany	€2	50
Vivergo Fuels Limited	UK	£60,800,000	45

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

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

31. Accounting estimates and judgements

Key sources of estimation uncertainty

In applying the accounting policies detailed on pages 58 to 63, management has made appropriate estimates in many areas and the actual outcome may differ from those calculated. The key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing material adjustment to the carrying value of assets and liabilities within the next financial year are:

Forecasts and discount rates

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

- the carrying value of goodwill must be assessed for impairment at least annually and also when there is an indication that it may be impaired. This assessment involves comparing the book value of goodwill with its recoverable amount (being the higher of its value in use and its fair value less costs to sell). Value in use is determined with reference to projected future cash flows discounted at an appropriate rate. Both the projected future cash flows and the discount rate applied involve a significant degree of estimation uncertainty; and
- 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 £16m and a liability of £122m being recognised as at 12 September 2009. The size of these assets and liabilities is sensitive to the market value of the assets held by the schemes, to the discount rate used in assessing actuarial liabilities, to the actuarial assumptions which include price inflation, rates of pension and salary increases, mortality and other demographic assumptions and to the level of contributions. Further details are included in note 12.

Provisions

As described in the accounting policies on pages 58 to 63, 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.

Notes forming part of the financial statements continued

for the year ended 12 September 2009

31. Accounting estimates and judgements continued

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

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

Growing cane valuation – growing cane is valued using the estimated sucrose content at the estimated sucrose price for the following season, less the estimated costs for harvesting and transport. The estimated sucrose content requires management to assess the expected cane and sucrose yields for the following season considering weather conditions and harvesting programmes. In assessing the estimated sucrose price, management is required to assess into which markets the forthcoming crop will be sold and assess domestic and export prices as well as the related foreign currency exchange rates. The carrying value of growing cane is disclosed in note 10.

Cash flow hedge accounting
The group enters into various types of hedging or forward contracts for the buying and selling of currencies and commodities. The contracts often fall within the scope of IAS 39 and accordingly have to be marked to market. Where appropriate, these contracts are accounted for as cash flow hedges, which allows, to the extent the hedges are effective, the change in values of the derivatives to be deferred in equity. In order to achieve and maintain cash flow hedge accounting, it is necessary for the group to determine, at inception and on an ongoing basis, whether a forecast transaction is highly probable and whether the hedge is effective. This requires both subjective and objective measures of determination.

Exceptional items
The directors consider that items of income or expense which are material by virtue of their nature and amount should be disclosed separately if the financial statements are to fairly present the financial position and financial performance of the entity. The directors label these items collectively as ‘exceptional items’. Determining which transactions are to be considered exceptional in nature is often a subjective matter. However, circumstances that the directors believe would give rise to exceptional items for separate disclosure might include major business restructurings, impairments and reversals of impairments.

All exceptional items are included in the appropriate income statement line item to which they relate. In addition, for clarity, separate disclosure is made of all exceptional items in one column on the face of the income statement, with additional explanation in the notes.

Taxation
The income tax expense recorded in the income statement is dependent on the tax rates in effect at the balance sheet date, unless new tax rates have been enacted or substantively enacted.

The level of current and deferred tax recognised is also dependent on subjective judgements as to the outcome of decisions to be made by the tax authorities in the various tax jurisdictions around the world in which the group operates. It is necessary to consider the extent to which deferred tax assets should be recognised based on an assessment of the extent to which they are regarded as recoverable.

Fair values on acquisition
The group is required to bring acquired assets and liabilities on to the consolidated balance sheet at their fair value. Items of plant and equipment and the associated property interests often have long operating lives, hence determination of the fair values can require a significant degree of judgement. Acquisitions often also result in significant intangible benefits being brought into the group, some of which qualify for recognition as intangible assets. Other such benefits do not meet the recognition requirements of accounting standards and form part of goodwill. Significant judgement can be required in the assessment and valuation of these intangible assets, often with reference to internal data and models. Professional valuers are engaged where it is deemed appropriate to do so. Fair values on major acquisitions are disclosed in note 22.

Company balance sheet

at 12 September 2009

	Note	2009 £m	2008 £m
FIXED ASSETS			
Intangible assets	1	**39**	44
Investments in subsidiaries	2	**626**	444
		665	488
CURRENT ASSETS			
Debtors			
– due within one year	3	**2,478**	2,239
– due after one year	3	**1,432**	1,372
Cash at bank and in hand		**29**	4
		3,939	3,615
CREDITORS: amounts falling due within one year			
Bank loans and overdrafts – unsecured		**(216)**	(34)
Other creditors	4	**(1,136)**	(1,067)
Provisions	5	**(122)**	(2)
		(1,474)	(1,103)
NET CURRENT ASSETS		**2,465**	2,512
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,130**	3,000
CREDITORS: amounts falling due after one year			
Bank loans – unsecured		**(496)**	(589)
Amounts owed to subsidiaries	4	**(2,421)**	(2,119)
		(2,917)	(2,708)
NET ASSETS EXCLUDING PENSION LIABILITY		**213**	292
Net pension liability		**(8)**	(6)
NET ASSETS		**205**	286
CAPITAL AND RESERVES			
Issued share capital	6	**47**	47
Profit and loss reserve including pension reserve	6	**158**	239
EQUITY SHAREHOLDERS' FUNDS		**205**	286

The financial statements on pages 107 to 111 were approved by the board of directors on 3 November 2009 and were signed on its behalf by:
Charles Sinclair, *Chairman* and **John Bason**, *Director*.

Reconciliation of movements in equity shareholders' funds

for the year ended 12 September 2009

	2009 £m	2008 £m
Profit for the financial year	**91**	118
Net movement in own shares held	**(10)**	8
Actuarial losses on defined benefit pension scheme	**(1)**	–
Dividends	**(161)**	(156)
NET REDUCTION IN EQUITY SHAREHOLDERS' FUNDS	**(81)**	(30)
Opening equity shareholders' funds	**286**	316
CLOSING EQUITY SHAREHOLDERS' FUNDS	**205**	286

Accounting policies

for the year ended 12 September 2009

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 2006.

As permitted by s408(4) of the Companies Act 2006, 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 in respect of transactions with wholly owned subsidiaries 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 businesses over the fair value of net assets acquired. Goodwill is capitalised in accordance with FRS 10 and amortised over its useful life, not exceeding 20 years. Goodwill previously written off against reserves has not been reinstated.

Investments in subsidiaries

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

Financial instruments

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

Pensions and other post-employment benefits

The Company operates defined contribution and defined benefit pension schemes. Contributions to the defined contribution scheme are charged to the profit and loss account as they become payable. The principal defined benefit scheme is a multi-employer scheme and the Company is unable to identify its share of underlying assets and liabilities on a consistent and reasonable basis. Hence, contributions to this scheme are accounted for as if they were contributions to a defined contribution scheme. The Company has one small unfunded defined benefit scheme which it accounts for in accordance with FRS 17 using the advice of professional actuaries. The amount charged to the profit and loss account is the cost of benefits accruing to employees over the year, plus any benefit improvements granted to members during the year. It also includes a charge equal to the expected interest on plan liabilities over the year. The present value of plan liabilities is disclosed as a liability on the balance sheet net of any related deferred tax.

Share-based payments

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

Where the Company grants allocations of shares to employees of its subsidiaries, these are accounted for on the same basis as for allocations to employees of the Company, except that the fair value is recognised as an increase to investment in subsidiaries with a corresponding increase in reserves.

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

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

New accounting policies

Amendment to FRS 8 – *Related party disclosures* (effective for accounting periods beginning on or after 6 April 2008).

The amendment to FRS 8 eliminates the disclosure exemption for transactions with subsidiaries that are 90% owned or more. The disclosure exemption is still applicable to wholly owned subsidiaries. The amendment requires the disclosure of corresponding amounts, where applicable.

Notes to the Company financial statements

for the year ended 12 September 2009

1. Intangible assets – goodwill

	£m
COST	
At 13 September 2008 and 12 September 2009	**71**
AMORTISATION	
At 13 September 2008	27
Provided during the year	5
AT 12 SEPTEMBER 2009	**32**
NET BOOK VALUE	
Net book value at 13 September 2008	44
NET BOOK VALUE AT 12 SEPTEMBER 2009	**39**

2. Investments in subsidiaries

	£m
At 13 September 2008	444
Additions	182
AT 12 SEPTEMBER 2009	**626**

The additions relate to an increase in the investment of the Company's wholly owned subsidiary, ABF Investments plc, and the allocation of shares under the Share Incentive Plan to employees of the Company's subsidiaries.

There were no provisions for impairment in either year.

3. Debtors

	2009 £m	2008 £m
AMOUNTS FALLING DUE WITHIN ONE YEAR		
Amounts owed by subsidiaries	**2,430**	2,208
Other debtors	**3**	5
Corporation tax recoverable	**45**	26
	2,478	2,239
AMOUNTS FALLING DUE AFTER ONE YEAR		
Amounts owed by subsidiaries	**1,406**	1,372
Amounts owed by joint ventures	**26**	–
	1,432	1,372

The amount owed by joint ventures comprises a loan and accrued interest owed by Vivergo Fuels Limited.

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

4. Other creditors

	2009 £m	2008 £m
AMOUNTS FALLING DUE WITHIN ONE YEAR		
Other taxation and social security	**1**	1
Accruals and deferred income	**17**	16
Amounts owed to subsidiaries	**1,118**	1,050
	1,136	1,067
AMOUNTS FALLING DUE AFTER ONE YEAR		
Amounts owed to subsidiaries	**2,421**	2,119

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

Notes to the Company financial statements continued

for the year ended 12 September 2009

5. Provisions

	£m
At 13 September 2008	2
Created	122
Utilised	(2)
AT 12 SEPTEMBER 2009	**122**

Provisions comprise deferred consideration of £122m received in August 2009 in respect of the proposed disposal of the group's Polish sugar business.

6. Capital and reserves

	Deferred shares of £1 each 000	Ordinary shares of $5^{15}/_{22}$p each 000	Nominal value £m
AUTHORISED			
At 13 September 2008 and 12 September 2009	2,000	1,054,950	62
ISSUED AND FULLY PAID			
At 13 September 2008 and 12 September 2009	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 13 September 2008	47	239	286
Net movement in own shares held	–	(10)	(10)
Actuarial losses on defined benefit pension scheme	–	(1)	(1)
Profit for the year	–	91	91
Dividends	–	(161)	(161)
AT 12 SEPTEMBER 2009	**47**	**158**	**205**

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 plc 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 12 September 2009, the trust held 3,906,757 (2008 – 2,102,133) ordinary shares of the Company. The market value of these shares at the year end was £33m (2008 – £17m). The trust has waived its right to dividends. Refer to note 23 of the consolidated financial statements for further information on the group and Company's share-based payment plans.

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 provided £283m of guarantees in the ordinary course of business as at 12 September 2009 (2008 – £nil). These relate primarily to insurance payment obligations, the deferred consideration received described in note 5, and the fulfilment of obligations to the Rural Payments Agency in respect of income received by a subsidiary under the Sugar Restructuring Aid Scheme. The guarantee relating to deferred consideration expires in March 2010. The guarantee to the Rural Payments Agency is expected to be required until June 2010, when the Company expects the subsidiary to have fulfilled its obligations under the Scheme.

8. Related parties

The Company has a controlling related party relationship with its parent company, Wittington Investments Limited, which is also its ultimate parent company. The Company also has a related party relationship with its subsidiaries, associates and joint ventures and directors. In the course of normal operations, related party transactions entered into by the Company have been contracted on an arm's length basis.

Material transactions and year end balances with related parties (excluding wholly owned subsidiaries) were as follows:

	Sub note	2009 £000	2008 £000
Charges to Wittington Investments Limited in respect of services provided by the Company		**201**	271
Charges to a fellow subsidiary	1	**1**	1
Dividends paid by the Company and received in a beneficial capacity by:			
(i) trustees of the Garfield Weston Foundation	1	**6,142**	6,063
(ii) directors of Wittington Investments Limited who are not trustees of the Foundation	1	**806**	780
(iii) directors of the Company who are not trustees of the Foundation and are not directors of Wittington Investments Limited	1	**12**	15
(iv) a member of the Weston family employed within the ABF group	1	**596**	576
Sales to non-wholly owned subsidiaries on normal trading terms	2	**19**	523
Interest income earned from non-wholly owned subsidiaries	2	**2,172**	2,725
Amounts due from non-wholly owned subsidiaries	2	**114,891**	67,450
Amounts due to non-wholly owned subsidiaries	2	**10**	13
Other income from joint ventures and associates on normal trading terms	2	**14**	1
Interest income earned from joint ventures	2	**231**	507
Amounts due from joint venture (debtor due after more than one year)	2	**26,331**	–

1. Details of the nature of the relationships with these bodies are set out in notes 28 and 30 of the consolidated financial statements.
2. Details of the Company's subsidiaries, associates and joint ventures are set out in note 30 of the consolidated financial statements.

9. Other information

Emoluments of directors

The remuneration of the directors of the Company is shown in the Remuneration report for the group on page 44.

Employees

The Company had an average of 98 employees in 2009 (2008 – 91).

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 valuation of the Associated British Foods Pension Scheme was carried out as at 5 April 2008. At the valuation date the total market value of the assets of the Scheme was £2,223m and represented 93% of the benefits that had accrued to members after allowing for expected future increases in earnings. Following completion of the actuarial valuation, the Company agreed to make five annual payments of £30m in order to eliminate the deficit at 5 April 2008. The first of these payments was made in March 2009.

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

	2005 £m	2006 £m	2007 £m	2008 £m	**2009 £m**
Revenue	5,622	5,996	6,800	8,235	**9,255**
Adjusted operating profit	555	561	622	664	**720**
Exceptional items	–	(97)	–	(46)	**–**
Amortisation of non-operating intangibles	(25)	(41)	(74)	(74)	**(82)**
Profits less losses on sale of property, plant & equipment	20	10	8	10	**(1)**
Inventory fair value adjustment	–	–	–	–	**(12)**
Profits less losses on sale and closure of businesses	(1)	(4)	(39)	5	**(65)**
Provision for loss on termination of an operation	(47)	(8)	–	–	**–**
Finance income	49	32	20	21	**17**
Finance expense	(34)	(46)	(55)	(74)	**(95)**
Other financial income	10	12	26	21	**13**
Profit before taxation	527	419	508	527	**495**
Income tax expense	(141)	(111)	(108)	(136)	**(112)**
Profit after taxation	386	308	400	391	**383**
Basic and diluted earnings per ordinary share (pence)	48.0	38.1	46.7	45.2	**45.5**
Adjusted earnings per share (pence)	52.5	50.9	52.9	54.9	**57.7**
Dividends per share (pence)	18.0	18.75	19.5	20.25	**21.0**

This report contains forward-looking statements. These have been made by the directors in good faith based on the information available to them up to the time of their approval of this report. The directors can give no assurance that these expectations will prove to have been correct. Due to the inherent uncertainties, including both economic and business risk factors underlying such forward-looking information, actual results may differ materially from those expressed or implied by these forward-looking statements. The directors undertake no obligation to update any forward-looking statements whether as a result of new information, future events or otherwise.

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Timetable
Interim dividend paid 3 July 2009
Final dividend to be paid 8 January 2010
Annual general meeting 4 December 2009
Interim results to be announced 20 April 2010

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