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Associated British Foods plc

Annual Report and Accounts 2002

Garfield Howard Weston
Born 28 April 1927; Died 15 February 2002

'... the quality, both in skill and integrity, of a nation's business community is of paramount importance to the aspirations, well-being and standard of living of its people.' *Garry Weston 1991*

Associated British Foods is an international food, ingredients and retail group with annual sales of £4.5 billion and 35,000 employees. The group is one of Europe's largest food companies and has significant businesses in Australia, New Zealand, Asia and the US.

Operating profit up 13% to	£395 million*
Group sales up 3% to	£4,545 million
Investment income down from £66 million to	£57 million
Profit before tax up 9% to	£430 million**
Adjusted earnings per share up 14% to	38.7p**
Dividends per share up 12% to	13.25p
Cash flow from operating activities up £96 million to	£523 million
Net cash funds	£1,050 million

* before exceptional items and amortisation of goodwill

** before exceptional items, profit on the sale of fixed assets and amortisation of goodwill

Group at a glance

Associated British Foods is grouped into five segments. These are grocery, ingredients & oils, primary food & agriculture, retail & packaging and the Australian & New Zealand operations, George Weston Foods. The group has sales worldwide and manufacturing operations across Europe, Australia, New Zealand, Asia and the US.

Grocery

Associated British Foods is a major manufacturer of both branded and private label grocery products, many of which are household names.

Bread & crispbreads

Flour, rice & noodles

Speciality teas

Sugar & sweeteners

	2002	2001
Sales £m	**902**	858
Operating profit £m	**50**	37
Profit margin %	**5.5**	4.3
Return on capital employed %	**15.8**	11.6

Ingredients & oils

The group has an increasing focus on high added value ingredients and vegetable oils. It produces functional ingredients from natural products for use in the food, foodservice, pharmaceutical and personal care sectors.

Baking & confectionery ingredients, enzymes & yeasts

Polyols & antacid ingredients

Vegetable oils, emulsifiers, sterols & esters

	2002	2001
Sales £m	**800**	711
Operating profit £m	**53**	42
Profit margin %	**6.6**	5.9
Return on capital employed %	**19.8**	15.8

Primary food & agriculture

Associated British Foods is UK agriculture's biggest customer. The group buys more primary products from British farmers than any other, adding value within the food chain through its sophisticated and efficient processing facilities to produce high quality, staple food ingredients such as flour and sugar.

Animal feeds

Flour milling

Seed processing

Sugar

	2002	2001
Sales £m	**1,761**	1,867
Operating profit £m	**195**	172
Profit margin %	**11.1**	9.2
Return on capital employed %	**24.7**	22.4

Retail & packaging

Primark has a winning formula of providing quality merchandise at affordable prices. Allied Glass Containers is one of Europe's leading producers of premium glass packaging.

Fashion retail

Glass packaging

	2002	2001
Sales £m	**712**	574
Operating profit £m	**77**	63
Profit margin %	**10.8**	11.0
Return on capital employed %	**22.4**	18.6

Australia & New Zealand

George Weston Foods is a major processor and producer of primary and branded food products in Australia and New Zealand.

Biscuits & cakes

Bread

Flour milling

Meat & dairy

	2002	2001
Sales £m	**580**	548
Operating profit £m	**12**	21
Profit margin %	**2.1**	3.8
Return on capital employed %	**5.8**	9.7

Chairman's statement

'These results, achieved against a background of increasing global uncertainty and decreasing investor confidence, demonstrate not only the strength and resilience inherent in our core businesses but their capacity for producing further growth.'

In my interim statement I referred to the solid progress which had been achieved in the first six months of the year and I am delighted to report that our operational performance in the second half has maintained that rate of growth. Operating profit, before exceptional items and amortisation of goodwill, increased by £44 million, or 13%, to £395 million. It is particularly noteworthy that this performance has been achieved against the background of a global market characterised by excess capacity and declining consumer confidence.

All divisions, with the exception of Australia, achieved double-digit profit increases maintaining the trend established in the first half. Primary food & agriculture again produced strong profit growth. Despite a smaller UK beet crop, British Sugar achieved a satisfactory increase in profit. This could not have been achieved without the ongoing rationalisation and cost reduction programme which has been a constant focus in recent years. Despite an improved operational performance, our overseas sugar business in Poland was hit by adverse market prices resulting in a fall in profit. Although faced with a poor wheat harvest, Allied Mills and our arable business achieved strong gains in profitability. Here again restructuring and cost reduction has been a constant theme. In agriculture, traditionally the most volatile sector of our operations, we were able to overcome the trailing impact of disease and adverse weather conditions to record strong gains in our animal feeds business. Given the continuing problems of pricing, financial instability and over capacity in the farming industry, the achievement of double-digit growth in a shrinking sector of the UK economy is a remarkable result.

With one exception, the ingredients & oils businesses put in an outstanding performance. ACH significantly increased its profit and this is particularly pleasing because it was achieved before including any contribution from the Mazola oils acquisition, which was only purchased towards the end of the financial year. The integration of Mazola is going according to plan and it is expected to make a substantial contribution to the profit growth of ACH in the coming year. SPI, our polyols business, has made a recovery from the operational problems experienced last year and achieved a significantly improved profit. It is disappointing to report that our Abitec ingredients business faced problems in reorganising and integrating its existing and newly acquired bakery ingredients businesses in the UK and the US. The result was a decline in profit but, despite this setback, we are confident that growth will be resumed in the current year.

Our grocery businesses again produced an excellent result. Allied Bakeries continued to grow branded volume in the multiple retail sector. With contributions from a bread price increase, cost reductions and operational efficiency improvements, Allied Bakeries achieved a significant improvement in its results. Twinings maintained its strong performance in worldwide sales, market share and profit growth. A strong feature in this growth story in recent years has been the successful development of its product range into the herbal and fruit infusion markets both in the UK and overseas.

Primark has again achieved outstanding growth in both sales and profit. We continue to acquire and develop stores in new city centre locations and we are confident that the growth of this business can be maintained in an increasingly competitive sector.

The poor performance of George Weston Foods in Australia continued into the second half of the financial year. Despite a highly successful performance by the milling and baking businesses, our meat and biscuit operations continued to underperform. During the year we sold, at a profit, our loss-making starch manufacturing operation. Since the financial year end we have completed the buyout of the minority shareholders in the company. We are now in a position to take positive action to best position this business for growth. This will be a major focus in the coming year.

The disposal of redundant properties continued resulting in a profit of £8 million in the year.

Despite an increased level of expenditure on fixed assets and acquisitions at over £450 million, the strong cash flow from our operating activities ensured that at the year end our net liquid funds were in excess of £1 billion, a level virtually unchanged from the previous year. Improved returns on these invested funds in the second half of the year enabled us to restrict the decline in the level of investment income as a result of lower interest rates. At £57 million this was £9 million, or 14%, below last year.

Chairman's statement continued

Adjusting for exceptional items, profits on the sale of fixed assets and amortisation of goodwill, group profit before tax increased by 9% to £430 million. Adjusted earnings per share were 14% ahead of last year at 38.7p.

Your company is renowned for its defensive strengths and its cash generating capability. These results, achieved against a background of increasing global uncertainty and decreasing investor confidence, demonstrate not only the strength and resilience inherent in our core businesses but their capacity for producing further growth.

Management effort continues to be focused on improving the efficiency of our businesses. This is not only a process of reducing our cost base but of improving the level of performance by our operating management both by developing the best of our existing executives and targeted recruitment of stronger managers where required.

Spending on acquisitions in the year totalled £268 million including £235 million for the purchase of Mazola in the US. This bottled corn oil business is an ideal fit with ACH oils and enables us to broaden our product offering into the branded retail segment of the market as well as to rationalise production and distribution costs. This acquisition will have a positive impact on earnings in our 2003 financial year.

Since the end of the financial year we completed the purchase of the minority shareholdings in George Weston Foods in Australia at a cost of £58 million. In early October we announced the purchase of Ovaltine, the branded malted drinks business, from Novartis of Switzerland for a consideration of £171 million. The acquisition includes Ovaltine and associated brands throughout the world except the US. The addition of this internationally known brand to our product portfolio will enhance our presence in the international consumer market for hot beverages. This acquisition is forecast to be earnings enhancing in its first year under our ownership.

In my last annual report I stated that the outlook for the year ahead was one of escalating uncertainty and of reduction in consumer confidence. Financial markets throughout the world over the past year have reflected that in moving consistently lower. I believe that the coming months will bring little in the way of relief from these pressures as the global economy faces up to the possibility of war in the Middle East, a seemingly unending financial crisis in Japan and low to zero growth in the US and Europe. No company as large and widespread in its activities as ours can be totally immune from these influences.

Despite this gloomy outlook I believe that this company can face the coming year with the confidence that it will maintain its positive growth in sales and operating profit. In the past year, we have invested over £450 million on acquisitions and capital expenditure in our existing businesses. Such is the strength of our cash flow that we have financed all this without any significant reduction in the level of our net liquid funds. These investments and the further acquisitions since our year end will have a positive effect on our operating performance in the coming year.

The growth of your company has been financed from its own resources. The value of this long-held and important discipline is clearly demonstrated in today's hostile financial environment where the very existence of many companies is threatened by their inability to service debt taken on in more expansionary times. Our objective is to grow at a steady and sustainable pace funding our development from cash flow and a strong balance sheet.

The base of our business has been significantly reshaped in the past three years. We have sought to eliminate areas of weakness or irrelevance to our planned growth but at the same time we have sought to strengthen and expand those sectors which can act as the framework for our future development. I am confident that your company can maintain its current momentum.

Board changes

The appointment of Mike Alexander as an additional non-executive director was announced in January this year. Mr Alexander is executive director and chief operating officer of Centrica plc, having previously held a number of management positions with BP and latterly with British Gas. He brings a wealth of operational management experience and will make a strong contribution to our activities.

Dividends

The directors have declared a second interim dividend of 9.00p (2001 – 7.55p) which will be paid on 18 February 2003 to shareholders registered at the close of business on 17 January 2003.

'The growth of your company has been financed from its own resources... Our objective is to grow at a steady and sustainable pace funding our development from cash flow and a strong balance sheet.'

This makes a total dividend for the year of 13.25p, an increase of 12% on the previous year.

Employees

The pace of change in our organisation owes much to our employees around the world who have not only risen to the challenges this poses but have made major contributions in taking us forward. The successes we are recording in this report are a testament to their efforts and I take this opportunity to thank them all.

Chairman

Your company is well placed to achieve further growth. It has an excellent management team and a solid financial base.

Having served as a director for the last 23 years I feel that it is the appropriate time to step down and I have notified the board that I intend to retire immediately following the annual general meeting. My successor as Chairman will be Martin Adamson, a fellow board member who will bring to the role a wealth of business experience and a breadth of knowledge of your company's activities. I wish him and my colleagues every success in the years ahead.

Harry Bailey
Chairman

Chief Executive's review

'Good market positions have been strengthened, strong management teams have been reinforced and a more international ABF is emerging with the first rate new businesses acquired in North America, Europe and Asia.'

Businesses across the group again delivered excellent results, increasing operating profit, before exceptional items and amortisation of goodwill, by 13% to £395 million and increasing group sales by 3% to £4,545 million. Adjusted earnings per share rose by 14% to 38.7p.

A particularly pleasing aspect of these results is that, for the second year running, four out of five of the business categories outlined in our segmental analysis delivered operating profit increases in excess of 10%, a clear indication of the breadth of progress being made across the group.

Delivering sustained growth is however only one of our goals. The other major goal is the generation of strong cash flow, the means by which we will ensure our ongoing ability to invest heavily in the capital projects and acquisitions necessary to underpin future earnings growth. The cash flow generated by the group over the last year, after capital expenditure but before acquisitions and disposals, was £229 million. This result demonstrates the strong cash generating ability of the group.

Although our shareholders and our employees should take some satisfaction from these financial results there have also been other signs of progress. Good market positions have been strengthened, strong management teams have been reinforced and a more international company is emerging with the first rate new businesses acquired in North America, Europe and Asia.

There is however much still to do in order to bring the company closer to achieving its full potential. We need to do even more to develop our management teams and we must further increase the focus we place on the marketing of our products. We must also continue to review the performance and plans of all our businesses to determine those where we can achieve the best returns on our investment.

A key element of our future is the further development, either organically or by acquisition, of very strong market positions that have the scale, cost base and breadth and depth of product offering necessary to make a major impact on their markets. We still have a place for efficient, smaller businesses with the potential to grow, but the development of larger scale positions will strengthen the base of our business and provide the platform for significant subsequent growth.

One example of our ability to develop businesses is at ACH. Here the business has moved, in a two year period, from being a medium size refiner, bottler and marketer of private label cooking oils to becoming a leading player in the bottling and marketing of oil based food products in North America. In making this transition we outsourced the inefficient elements of our manufacturing operations and, with the acquisition of strong brands in both foodservice and retailing, created strong market positions with the scale necessary to optimise our distribution and buying efficiencies. In time this strength will inevitably provide further opportunities for significant growth.

In a similar way we are looking to the recent acquisition of the Ovaltine brands from Novartis to work alongside our already successful Twinings business to give the scale, expertise and international market presence necessary to have a much stronger impact on the speciality beverages market. This will again provide a base for further growth.

Many of our businesses can however achieve the necessary strength and scale in their markets without major acquisition but by organic growth supported by capital investment. During the past year £186 million was invested in capital projects including £51 million on new stores and refits in support of the remarkable growth of our Primark retailing operation. The skill of Primark's staff, their clarity of focus and their understanding of the customer have all contributed to a further strengthening of Primark's position in its chosen market.

This last year has seen good performances from a range of businesses across the group. Many of these will be referred to later in the report. Examples of marketing successes include brand extensions at Ryvita and Twinings and innovative product launches at our SPI Pharma business. Amongst the many examples of effective cost reduction was a very strong performance in improving supply chain and distribution efficiencies at our UK bakery business. However, this business continues to trade in a tough market and much work is still needed before we achieve a satisfactory level of return from this investment.

References to tough market conditions become repetitive and should now be seen as the norm for most industries. Many of our businesses have shown that success can be achieved in the toughest of markets.

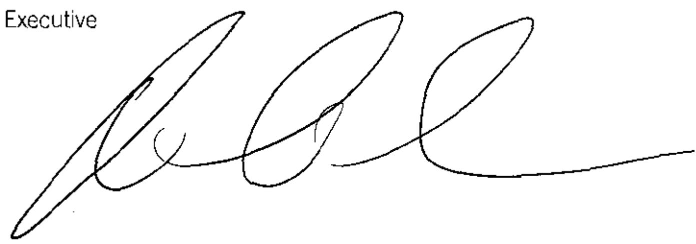
Since the end of the financial year we have acquired the minority shareholdings in George Weston Foods, our Australian business. Much has been said about the disappointing levels of performance from this business in recent times. The problems have centred on our meat and biscuit operations and should not detract from the qualities of the rest of the company which include a first rate milling and baking operation, some very good brands and some very good people. The change in ownership structure will allow us to simplify the business and should lead to an early improvement in results.

Any overview of our performance would not be complete without a reference to sugar. British Sugar's results were impacted by a low crop, poor performance at the Wissington factory and, to a lesser extent, by low world sugar prices. Despite this we delivered a strong result which, although still a major part of our earnings, is becoming a smaller proportion of the whole as other parts of the business continue to grow. This reduces the group's exposure to the EU sugar regime which is a trend we expect to continue.

I mentioned above the fluctuations in world sugar prices. Although they do not have a major direct effect on British Sugar, they have a major indirect effect on the profitability of our businesses in Poland and China. Lower sugar prices have impacted profits from these two businesses during the last year and I do not expect to see any improvement in the coming year.

Across the board our businesses can face the future with confidence, aware that there is still much to do, but knowing from their achievements this year that they have both the ability and resources to continue on a very firm growth path.

Peter Jackson
Chief Executive



Sales £m

1998	1999	2000	2001	2002
4,195	4,299	4,406	4,418	

Adjusted operating profit £m
before exceptional items
and amortisation of goodwill

1998	1999	2000	2001	2002
316	326	340	351	

Adjusted earnings per share p
before exceptional items, profit on the sale
of fixed assets and amortisation of goodwill

1998	1999	2000	2001	2002
32.0	31.3	33.1	33.8	

everyone's cup of tea

Our teas include Jacksons of Piccadilly, Nambarrie and the world's leading speciality brand Twinings.
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Grocery

Associated British Foods is a major manufacturer of both branded and private label grocery products, many of which are household names.

	2002	2001
Sales £m	**902**	858
Operating profit £m	**50**	37
Profit margin %	**5.5**	4.3
Return on capital employed %	**15.8**	11.6

Strong growth was achieved by our grocery businesses with sales up 5% to £902 million and profit up 35% to £50 million. This represented a good performance by all businesses except for a lower profit at Speedibake.

Allied Bakeries made good progress in the year. Sales increased with continued volume growth by the Kingsmill brand and a sales price increase last autumn to recover increases in flour prices. Kingsmill growth was supported by the launch of Whole & White Rolls early in the year and increased marketing support. Profitability improved and was supported by a continuing programme of cost reductions, including the closure of the Sheffield bakery, and improved production efficiencies.

Cost reductions at Allied Bakeries were achieved in distribution, systems and administration. A much strengthened management team was responsible for increased investment in the business. This investment was made in improvements to product quality, sales force effectiveness, distribution and systems, all of which are expected to yield further benefits in the future.

Competitive pressure and increased input costs reduced profitability at Speedibake. Progress was made in streamlining the business. The Northampton factory was closed during the year and production was transferred to the other factories at Wakefield and Bradford. The business has been restructured to provide a greater focus on innovation and market development for its five core product streams: French bread, speciality bread, filled products, muffins and doughnuts. A new innovation centre opened in Wakefield, and has already made an important contribution to the flow of new products. Partnerships with our main customers have worked to stimulate consumer demand for in-store bakery products.

Dating back to 1706, Twinings is one of the oldest tea brands, and is popular in more than 100 countries. It continued to make strong progress with increases in sales and profit. In the UK, the flagship black and gold speciality tea range was successfully relaunched in the autumn. There was continued good growth in the herbal and infusions sectors, and Twinings brands are also now leaders in green tea. Sales of iced tea grew strongly, supported by major sampling initiatives and in-store promotions. Export and international sales now represent nearly 80% of Twinings sales. The US operation performed particularly well and, in France, the La Tisanière 'Bien Etre' range of herbal products grew substantially.

The acquisition of Ovaltine and associated brands from Novartis was announced in October 2002. Ovaltine, or Ovomaltine outside the UK, is a large, growing international brand with leading market positions in Europe and Asia. The brand comprises a range of nutritional malt based beverages, snacks and confectionery. In addition to Ovaltine, the acquisition includes a number of strong national brands including positions in coffee and hot chocolate. Ovaltine provides sustained energy

Grocery continued

Our market leading brand Silver Spoon continued to add to its wide range of products with Crusha, a syrup based milk shake mix. The brand adds to our existing range of sweeteners and ice cream toppings.
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The launch of organic rice cakes by Ryvita is the latest product development from a brand established in 1925.
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and nutrition benefits which are especially appealing to mothers, young children and teenagers. The combination of Ovaltine and Twinings will create a strong speciality hot beverage business with international scale. Both businesses will be strengthened with wider geographic opportunities, stronger distribution within markets and an enhanced international management team.

Ryvita had another record year. It maintained its volumes and benefited from television advertising in the UK to support its brand leading position. Ryvita rice cakes were successfully launched in the year and have quickly become a brand leader.

Silver Spoon is the UK's leading sugar brand, selling nearly one million 1kg packs of sugar a day. Market share was gained in the retail sugar market. Good progress in artificial sweeteners continued with 'Nothing Comes Closer to Sugar' which achieved significant sales growth and it now has a 10% share of its market. The Crusha milk shake syrup business, acquired in December last year, has now been fully integrated. Skilled marketing and strong trade relationships have resulted in increased listings and effective promotions. Its performance has exceeded all expectations, showing major volume growth despite the poor summer weather.

Westmill Foods is a major supplier of rice and flours to supermarkets and specialist ethnic food stores. Good progress was made this year and its profit increased. Rice performed particularly well in the face of strong competition, by regaining lost sales from last year and launching Asli basmati rice, which is aimed at the premium ethnic sector. In retail, branded rice sales increased following the launch by Patak of their dry rice. A range of microwaveable rices for the branded and private label sectors was launched in the spring and early reaction has been extremely favourable. There was further significant growth in the Allinsons breadmaking range.

The refreshing way to a modern lifestyle...

Tea, like Twinings, has been around a long time, but the choice of flavours and variations is greater now than ever before. People's tastes are as different today as the lives they lead. Increasing interest in healthier living is driving our product development programme. Decaffeinated and organic teas, and herbal and fruit infusions, are rapidly becoming just as popular as our traditional flavours. Green teas are a fast growing market and ready to drink iced teas have taken us in a new direction again, providing instant refreshment straight from a carton. It all goes to show that even after 300 years, we can still rise to the challenge of satisfying – and anticipating – changing preferences.

a recipe for success

Our vegetable oils business is a leader in the North American branded oil sector. The recent acquisition from Unilever of Mazola and its associated brands moves us into the leading position in the US corn oil market.
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Ingredients & oils

The group has an increasing focus on high added value ingredients and vegetable oils. It produces functional ingredients from natural products for use in the food, foodservice, pharmaceutical and personal care sectors.

Strong growth this year, with sales up 13% to £800 million and profit up 26% to £53 million, was driven by ACH and SPI which more than offset a decline in Abitec.

ACH Food Companies, our US oils business, made significant progress in the year. The sale of the loss-making Greenville, Mississippi rice milling operation was completed at the end of last year and the business benefited from lower manufacturing costs following the exit from commodity oil processing at Champaign, Illinois and the rationalisation of production following the closure of Columbus, Ohio.

The branded foodservice and oils business acquired from Procter & Gamble in January 2001 has been fully and successfully integrated. Despite the initial negative effect on the foodservice market after the events of 11 September 2001, this business achieved higher volumes and profit with new business gained and new product offerings introduced.

	2002	2001
Sales £m	**800**	711
Operating profit £m	**53**	42
Profit margin %	**6.6**	5.9
Return on capital employed %	**19.8**	15.8

The purchase of the Mazola branded cooking oil and corn products business in the US, Canada and Puerto Rico from Unilever was completed in July. The main brands acquired were Mazola cooking oil, Argo and Kingsford's cornflour, Karo and Golden Griddle syrups. This acquisition is expected to be fully integrated with ACH's existing oil business by December 2002.

Mazola is a premium brand with a strong loyalty in the trade and with the consumer and strengthens the retail position of ACH by adding the leading corn oil brand. The profit in the next financial year will reflect the significant cost savings arising from the integration and the benefits of creating stronger channels to market for Mazola. The profit contribution from the acquisition in this financial year has been offset by the one-time charges for the integration.

There was a strong recovery at SPI, our US-based polyols business. Polyols are sugar-free sweeteners derived from carbohydrates which are used in a variety of applications in the food, confectionery, oral care, cosmetic and industrial markets. Sales growth, improvements in product mix towards higher value added products and cost reductions all contributed to this improvement. In addition, the organisation and operating processes were strengthened, which will provide further benefit in the future.

In Food, sales rose sharply for the proprietary products based on maltitol which are targeted at the high growth sugar-free confectionery market in North America. These products function and taste like sucrose and allow the development of sugar-free versions of existing products without compromising taste.

In Pharma, following its launch last year, Pharmagum™ is meeting expectations and has been joined this year by Pharmaburst™ – a quick-dissolve drug delivery system. Several pharmaceutical companies have filed for regulatory approvals employing this novel

A recent development from Abitec provides the paper industry with an environmentally friendly alternative to chlorine in the bleaching process.
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method of administration. The business continues to extend its technology base through partnerships with other suppliers to the pharmaceutical industry.

Abitec is focused on three business areas: bakery ingredients, lipid technologies and enzymes. Operational problems were encountered in the reorganisation and integration of its bakery ingredients businesses, Cereform, in the UK and US and resulted in a reduction in profit in addition to the charge taken for the rationalisation. The rationalisation of the acquired SPP business in the UK with our existing business is now complete and has created the UK leader in the supply of technical bakery ingredients. In the US the concentration of mixes, icings and fruit fillings activities in Denver has also been completed. The management focus is now to overcome the operational difficulties and increase the margins and profit of this business.

Lipid technologies delivered a good performance from its sales to the personal care and pharmaceutical markets. Following a slowing in the first half, the enzymes business continued its strong progress in the second half to deliver a year of profit growth. It continues its focus of developing innovative solutions for customers in sectors as diverse as animal feeds, beverages and textiles. Environmental applications have also been devised for paper manufacturers, who use enzymes to reduce the viscosity of pulp, thus saving energy, and to remove bleach from the whitening process.

A leader in food oils...

Our policy has always been to invest in areas where we have substantial strength and expertise. The successful integration of the former Procter & Gamble branded foodservice oils business last year showed how we can quickly absorb, and add value to, the businesses we buy.

In July we bought Unilever's North American branded corn oil and corn products business, which significantly strengthened our competitive position in the food oils industry. We are now a leader in the branded retail sector, with the number one corn oil brand Mazola. Mazola has exceptionally strong customer loyalty – both from trade and consumers alike. We have also acquired other market leading names such as Argo and Kingsford's cornflour, Karo corn syrup and Golden Griddle table syrup.

We were already a leader in own label and branded foodservice oils, as well as own label retail oils. This new business, with its premium branded retail products, is a superb fit with our existing portfolio. With our extensive knowledge of the industry and strong trade relationships, we are confident of being able to exploit the full potential of these brands. We now have the strong presence required in the market to make the most of our sourcing and distribution activities. In turn, this strength will almost certainly open up avenues for growth.

Creating stronger routes to market, making cost savings and providing a greater sales and marketing focus will ensure that Mazola – and its sister brands – develop in the future.

a taste for life

We are the UK's leading sugar supplier.

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Primary food & agriculture

Associated British Foods is UK agriculture's biggest customer. The group buys more primary products from British farmers than any other, adding value within the food chain through its sophisticated and efficient processing facilities to produce high quality, staple food ingredients such as flour and sugar.

Good progress was made by British Sugar, Allied Mills and ABNA. However, profit in the Polish sugar business was impacted by a poor crop and lower market prices.

British Sugar benefited in the year from lower costs arising from the rationalisation of its factories, better yields from processing and the strengthening of the euro. Following the closure of two factories in 2001, there was further rationalisation with Kidderminster being closed in February 2002 and Allscott being successfully upgraded. These benefits more than offset the impact of the lower sugar beet crop of only 1.22 million tonnes, compared to 1.325 million tonnes for the prior year, the processing problems at the Wissington factory and a fall in world sugar prices which affect the value of sugar exports. The profit this year included the release of a £7 million provision established some years ago for a potential fine which is no longer needed following a favourable judgement by the European Court of Justice.

	2002	2001
Sales £m	**1,761**	1,867
Operating profit £m	**195**	172
Profit margin %	**11.1**	9.2
Return on capital employed %	**24.7**	22.4

The £25 million resin separation plant at Wissington was successfully commissioned in the spring. This provides an important new revenue stream from the production of other beet-derived high value products.

Our Chinese sugar business had a good year with sales volumes doubling, benefiting from the acquisition of a fourth factory at Wuxuan in October 2001. However, prices were lower than the previous year. Political uncertainty, oversupply in the market and a poor crop contributed to a disappointing performance by the Polish sugar business. The process of rationalising the company's ten factories is well underway, and the objective of becoming the lowest cost producer of quality sugar remains on track. Lower sugar prices in Poland and China are expected to continue in the short-term.

The Germain's Technology Group is a leader in the market for seed treatment and coatings. The UK and continental European operations delivered good results, but the North American business experienced difficult conditions with pressures on volumes and markets. The US sugar beet seed coating business has been restructured, and production is now focused at the plant in Fargo, North Dakota, following the closure of the Longmont, Colorado facility.

Allied Mills had a good year as it benefited from reduced costs. Overheads were lower following the closure of two mills last year and the successful centralisation of administration. Poor weather resulted in the smallest UK wheat harvest since 1988 which in turn triggered increased wheat prices and the first flour price increase in five years. A new semolina packaging plant and warehouse opened at Tilbury in March.

ABNA is the group's agriculture business, comprising grain marketing, animal feeds and 'identity-preserved' speciality crop production. Across all sectors, UK agriculture remains under severe economic and price pressures, compounded by the legacy of the foot and mouth and BSE crises. Against this difficult background, the business continued to outperform in its sector.

Primary food & agriculture continued

Wheat germ oil is one of the richest natural sources of Vitamin E and has a wide range of different applications in health food, aromatherapy and cosmetic products. We are involved in the complete supply chain – from the purchasing of wheat through Allied Grain, to the milling of wheat by Allied Mills and, finally, to the extraction of the oil by Kings.
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In the arable sector, low prices have put pressure on farmers who are buying less seed. However, ABNA's arable business grew its share of the seed, fertiliser and grain markets, despite a significantly smaller cereal crop. This success is a direct result of delivering added value services to farmers and the establishment of long-term marketing contracts with end-users, farming groups and co-operatives.

The animal feeds business has also grown its market share. Crucial to this has been the continuing development of supply chain partnerships, and the implementation of a new feed grain procurement policy in partnership with the arable business. New products introduced during the year included organic sugar beet pulp and pressed apple pulp, as well as a new feed for enhanced milk production.

ABNA is now looking to benefit from the integration of its arable and animal feeds businesses with improved logistics and new systems. When implemented, these are expected to result in an enhanced service offering to both customers and suppliers.

Kings is a specialist business devoted to plant-derived oils, which have a wide and expanding range of applications. These include pharmaceuticals, dietary supplements, personal care and industrial chemicals. During the year, a new base was established in North Carolina, taking advantage of the southern state's climate to grow specific, high value crops for pharmaceutical companies. An increasing number of customers are looking for absolute integrity of crops, and with the business focused on identity preserved production and processing, it has significant potential for growth.

Far Eastern ventures...

Our involvement with China's sugar industry began with a joint venture in 1995. Within eighteen months the plant's cane crushing rate had doubled, thanks to substantial investment in factory technology and new working practices. We now have majority control of four cane factories in Guangxi province, producing over 350,000 tonnes of sugar a year. Along with plant upgrades, an agricultural improvement programme has doubled the cane growing area and greatly increased sugar yields.

Western style financial controls and comprehensive training for management and employees have greatly enhanced efficiencies in this business. The benefits of this extend beyond the factories themselves and into the local economy. Examples of this include our commitment to supporting projects such as new employee housing, educational and nursery facilities.

value for money

Targeted at fashion conscious under 35s, Primark offers stylish, quality merchandise at very competitive prices.
▼

Retail & packaging

Primark has a winning formula of providing quality merchandise at affordable prices. Allied Glass Containers is one of Europe's leading producers of premium glass packaging.

	2002	2001
Sales £m	**712**	574
Operating profit £m	**77**	63
Profit margin %	**10.8**	11.0
Return on capital employed %	**22.4**	18.6

Primark

Very strong growth continued at Primark driven by new store openings, particularly in the second half of last year, and like-for-like sales growth of 4% over last year. Sales increased by 27% to £654 million and profit was up by 20% to £72 million. As mentioned in the interim report, operating profit margins were reduced, mainly as a result of the overheads arising from the substantial increase in capacity following the opening of our warehousing facility at Magna Park last year.

Primark is now a major retail group employing nearly 10,000 people and operating 114 stores in the UK and Ireland (where it trades as Penneys). Targeted at fashion conscious under 35s, Primark offers stylish, quality merchandise at very competitive prices in a pleasant shopping environment. The ranges on offer are constantly updated, and buyers work directly with suppliers to develop and source exclusive products and negotiate the best prices on high volumes of merchandise. Computerised customs clearance and dedicated warehousing and distribution services allow stores to maintain complete control of their stock to support sales.

Selling price deflation is now a factor in many departments in retail textiles reflecting market competition and lower input costs. Primark's like-for-like sales value increase of 4% in this environment demonstrates the strength of its offering.

Six new stores were opened during the year, including the company's flagship store in Manchester in October. In a prime city centre location, it occupies 70,000 square feet and is the company's largest store to date. Other stores were opened in Lewisham, Glasgow, Torquay, Bromley and in Blanchardstown, near Dublin. The existing store in Wandsworth was relocated. Primark is now trading from almost 2 million square feet of retail selling space.

Major refits were started in 11 existing stores, to update the format and to increase selling space at certain stores. The first of these, at Stevenage, has expanded into space upstairs and has reopened very successfully with sales double those of last year.

Primark is continuing actively to seek additional locations for new stores. Contracts have already been signed for new stores in Birmingham, due to open in December, East Kilbride and, in the Republic of Ireland, at Dundrum.

Allied Glass Containers

The UK market for glass packaging showed moderate growth with a significant increase in the premium packaged spirits sector but a substantial decrease in food. The continued overcapacity in the market resulted in price pressure during the year. Although volumes at Allied Glass Containers declined in this competitive environment, cost reductions and an increase in added value sales contributed to an increase in profit.

▲
Primark's branded ranges such as 'Early Days', 'Denim Co' and 'Rebel' target a variety of age ranges and tastes.

The reorganisation of production facilities started last year was completed, resulting in increased use of three larger, more efficient furnaces at Leeds and Knottingley and a significant reduction in operating cost. Capital investment during the year focused on this reorganisation, and included a replacement bottle forming machine which increased output.

Allied Glass Containers remains focused on short run, high quality packaging. Its design innovation skills have been recognised through winning the food and spirits sections of the national Shine Awards, which showcase excellence in glass packaging, with the spirits winner taking the overall prize. Development work is continuing to produce lighter bottles, with a 15% lighter standard whisky bottle now being offered to the market.

A store is born...

Once the best location for a new Primark store is identified, an opening date is set. Construction, shopfitting, staffing, merchandising and point of sale technology are all precisely co-ordinated to meet the deadline.

Primark's name and reputation as a great place to work provides the profile for selecting the best people for our progressive retail environment. All new employees take part in a comprehensive induction and training programme before the opening to forge a strong team spirit. Specially selected high performers from all functions and levels across the company join the team to inspire the new staff and pass on their know-how.

The timing of the opening is communicated through press, radio and leaflet campaigns. Once the doors are open, customers are enthused by the Primark proposition – quality merchandise at very competitive prices in a pleasant shopping environment.

australia's favourite foods

In Australia and New Zealand our brands are leaders in the bakery market.

Australia & New Zealand

George Weston Foods is a major processor and producer of primary and branded food products in Australia and New Zealand.

	2002	2001
Sales £m	**580**	548
Operating profit £m	**12**	21
Profit margin %	**2.1**	3.8
Return on capital employed %	**5.8**	9.7

Sales for the continuing business increased 6% to £580 million. However, cost and competitive pressures continued to affect the business, particularly the meat and biscuit operations. As a result, the underlying profit declined from £21 million to £18 million. In addition, the poor performance of the meat business has resulted in a fixed asset impairment provision of £6 million which reduced the profit for the financial year to £12 million.

Baking performed very strongly with increases in sales and profit. New products, volume growth and cost savings more than offset the effects of a competitive market and increased flour costs. The launch of Noble Rise Crunchy Toast, White and Fruit varieties, the relaunch of the Bergen range and the launch of the Holsom range were all successful during the year. Sales of Noble Rise increased again to strengthen its position as a leader in the premium bread segment. In August, a new addition to the Tip Top range was launched, Tip Top-Up, which is enriched with omega-3 oils aimed at the increasing number of health conscious families. Early indications are very promising.

In June, fire destroyed our largest bakery in Australia at Fairfield in Sydney. Restoration of very high levels of customer service within days is a testament to the professionalism and speed with which our employees reacted to the problems. The loss is insured and plans are well advanced for a replacement bakery.

In milling, significant cost savings were achieved and margins improved. There was a focus on increasing market share in the 'low cost to serve' industrial markets. The New Zealand operation benefited from a new warehouse and distribution centre in Auckland and the commissioning of a blending facility to produce locally, higher value bakery mixes.

Sales were maintained in the biscuit and cake business but profitability was affected by higher input costs and a competitive market. The product range was strengthened with a number of new product launches including extensions to the popular Wagon Wheels and Ryvita brands. A new range of products featuring Winnie the Pooh and Toy Story characters was launched. George Weston Foods is the leading cake manufacturer in Australia with its Top Taste brand.

The meat and dairy business produces some of Australia's best known brands including Don, Watsonia, Melosi and Chapmans. However, substantially higher meat prices, continuing distribution and operational problems combined with reduced volumes had a significant impact in reducing its profitability. A new senior management team is focused on resolving the problems and improving margins and profitability.

Australia & New Zealand continued

Our meat & dairy business is a major producer of meat products, including hams, salamis and sausages.
▼

Elsewhere, Jasol enhanced its presence in the Australian speciality chemical manufacturing and service market. Several new products were launched during the year, including a range of oxygen-based sanitising and bleaching products. The underperforming starch business was sold in March 2002.

On 20 September 2002, George Weston Foods became a wholly-owned subsidiary and its shares were delisted from the Australian Stock Exchange on 27 September.

Australia's favourite brands...

For over 50 years George Weston Foods' products have had a special place in the hearts and homes of Australians. Our brands feature some of the best-loved and most famous names in Australia and New Zealand, including Tip Top and Noble Rise breads, Wagon Wheels, Quatro, Ryvita and Don.

The changing tastes of our consumers, coupled with their expectation of the highest quality ensures we are constantly adding exciting products to our family of brands. From healthy additions to our bread range to indulgent cake and biscuit treats there is always something new on the shelves from George Weston Foods.

'Net cash funds... were virtually level with last year at £1,050 million with the cash generated by the group in the year being almost sufficient to fund an acquisition spend, net of disposals, of £234 million...'

Group performance
Group sales increased by 3% to £4,545 million, and operating profit, before exceptional items and amortisation of goodwill, increased by 13% to £395 million.

Operating profit included the benefit of the release of a £7 million provision established by British Sugar some years ago for a potential fine which is no longer needed following a favourable judgement by the European Court of Justice. In the light of the poor performance by the meat & dairy business in George Weston Foods, a fixed asset impairment provision of £6 million has been made in arriving at the results of the Australian business.

On 2 July 2002, ACH completed the acquisition of Unilever's branded corn oil and corn products business in the US, Canada and Puerto Rico. We also acquired two ingredients businesses, the Crusha milk shake syrup business and the Wuxuan cane sugar mill in China. The total acquisition spend in the year was £268 million.

Proceeds from the disposal of businesses were £34 million which related to the completion of the sale of Nelsons of Aintree and the ACH rice processing business at Greenville, Mississippi, both of which were accounted for last year, and £16 million for the sale of the Australian starch business in March 2002.

We continued to dispose of properties that are no longer required by the group, although not at the same rate as last year, resulting in a reduction in the profit on disposal of fixed assets from £20 million to £8 million.

Investment income fell from £66 million to £57 million this year mainly reflecting lower interest rates. Interest payable reduced from £24 million to £22 million as a result of lower average overseas borrowings and the repayment of the unsecured loan stock.

Profit before tax increased from £369 million to £420 million. Adjusted to exclude exceptional items, profits on the sale of fixed assets and the amortisation of goodwill, profit before tax increased 9% from £393 million to £430 million.

Taxation
The tax charge of £95 million included an underlying charge of £122 million, which is an effective tax rate of 28.4% on the adjusted profit before tax and compares to 30.0% in 2001. FRS 19 'Deferred Taxation' has been adopted in these accounts for the first time. This has had the effect of increasing the underlying tax charge by £11 million in the current year and by £12 million, an additional 3 percentage points on the tax rate, last year.

Accumulated tax losses in the US have been recognised this year in a deferred tax credit of £23 million. The acquisition of Mazola and the improved performance of our US businesses now provides the necessary assurance that these losses will be utilised. In addition, the tax charge for the year benefited from a £4 million credit for tax relief on the amortisation of goodwill arising on asset acquisitions in the US. Both of these credits have been excluded from the calculation of adjusted earnings per share.

Earnings and dividends
Earnings increased by £79 million to £322 million and the weighted average number of shares in issue remained constant at 789 million. Earnings per ordinary share increased from 30.8p to 40.8p. A more consistent measure of performance is provided by adjusting earnings per share to exclude exceptional items, profits on the sale of fixed assets and amortisation of goodwill net of the tax benefit. Adjusted earnings per share on this basis increased by 14% from 33.8p to 38.7p.

The first interim dividend was maintained at 4.25p and a second interim dividend has been declared at 9.00p representing an overall increase of 12% for the year. Dividends will cost a total of £105 million. Dividend cover, on an adjusted basis, is 2.9 times (2001 – 2.9 times). £217 million will be transferred to reserves.

Accounting for pension costs
The charge for pension costs in the accounts has been calculated in accordance with SSAP 24 based on the most recent actuarial valuations. In the case of the group's main UK scheme, the last formal valuation was undertaken at April 1999 since when the market value of investments has deteriorated. A new valuation was undertaken as at April 2002 but has yet to be finalised. The draft report indicates that the scheme remains in surplus and there would have been no change to the SSAP 24 charge were this valuation to have been adopted for the preparation of these accounts. However, in light of the changes in market conditions since April 2002, an informal valuation was conducted as at

Finance Director's report continued

September 2002 by the scheme's actuaries. Although the informal September valuation revealed a further reduction in the surplus, there still remains a modest surplus. If current financial market conditions prevail, the company will recommence some level of contribution to the main UK scheme.

Balance sheet

Fixed assets increased by £228 million to £1,804 million principally due to the additional goodwill arising on acquisitions in the year. Net cash funds, being current asset investments and cash at bank less short-term borrowings and loans, were virtually level with last year at £1,050 million with the cash generated by the group in the year being almost sufficient to fund an acquisition spend, net of disposals, of £234 million and capital expenditure of £186 million. The acquisition of Mazola was financed by a medium term US dollar floating rate bank facility which accounts for the increase in loans falling due after one year.

Working capital, including tax and dividend accruals, reduced by £34 million mainly as a result of higher tax and trade accruals. The group's net assets increased by £201 million to £3,066 million.

A currency loss of £16 million, net of tax relief, arose on the translation into sterling of the group's non-sterling net assets principally in the US.

Return on capital employed, defined as the operating profit before exceptional items and amortisation of goodwill expressed as a percentage of year end capital employed, improved from 18.8% to 21.0% for the continuing businesses of the group. Strong profit and margin improvements were made in primary food & agriculture, ingredients & oils and grocery. Although margins declined at Primark, the return on capital employed improved as a full year profit was realised on the large number of stores opened towards the end of the last financial year. The difficulties at George Weston Foods were reflected in declines in profit and return on capital employed.

Cash flow

Net cash flow from operating activities was £523 million, £96 million higher than last year, as a result of the strong increase in profit before depreciation and amortisation of goodwill and a lower increase in working capital, compared to last year.

Capital expenditure during the year was £186 million of which £51 million was spent on the acquisition or refitting of Primark stores and the balance was used principally to upgrade, modernise and expand existing manufacturing facilities.

The net expenditure on acquisitions less proceeds from disposals amounted to £234 million.

Treasury policy and controls

The group's cash and current asset investments totalled £1,501 million at the year end including some £942 million placed with professional investment managers who have full discretion to act within closely monitored and agreed guidelines.

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

The group's UK cash balances are managed by a central treasury department operating under strictly controlled guidelines, which also arranges term bank finance, as and when necessary, to finance short-term working capital requirements particularly for the sugar beet and wheat harvests.

Futures contracts used as hedges in commodity trading operations are tightly controlled within set limits and transactions of a speculative nature are not undertaken.

Foreign currency

The businesses operate mainly in their local currency and as a result the group's transaction exposure to exchange rate movements is minimal. Significant cross-border transactions are covered by forward purchases and sales of foreign currency, or foreign currency options as appropriate.

‘Return on capital employed... improved from 18.8% to 21.0% for the continuing businesses of the group.’

The group does not hedge the translation effect of exchange rate movements on the profit and loss account. Although the Mazola acquisition was financed by a five year US dollar loan, generally the group regards its interest in its overseas subsidiary undertakings as long-term investments and does not hedge the translation effect of exchange rate movements on them.

Post balance sheet events

On 20 September 2002, the minority shareholdings in George Weston Foods in Australia were acquired at a cost of £58 million. The company was subsequently delisted from the Australian Stock Exchange on 27 September 2002.

On 8 October 2002, we announced the acquisition of the food and beverage business, comprising Ovaltine and associated brands, from Novartis for £171 million. Net tangible assets are estimated to be £45 million at completion. Completion will follow the grant of appropriate regulatory approvals.

Financial reporting standards and accounting policies

No new financial reporting standards have been issued during the year.

FRS 17 ‘Retirement Benefits’, requires additional disclosures to be made this year and these have been included in the notes to the accounts. The Accounting Standards Board is currently reviewing the date for full adoption of the standard.

FRS 19 ‘Deferred Taxation’, has been adopted in the accounts for the year ended 14 September 2002.

With the exception of the adoption of FRS 19, there have been no changes to the group's accounting policies from the previous year.

John Bason
Finance Director

Board of directors

Executive directors

1 Harold W Bailey (age 66)
A director since 1979, he was appointed Chairman in May 2000. He is a member of the Institute of Chartered Accountants of Scotland and is a director of Wittington Investments Limited.

2 George G Weston (age 38)
Appointed to the board on 19 April 1999, he was appointed Deputy Chairman in May 2000. He first joined the company in 1988 as manager of the group's flour milling operations in Melbourne, Australia. He is Chief Executive of Allied Bakeries and is a director of Wittington Investments Limited.

3 Peter J Jackson (age 55)
A director since 1992, he was appointed Chief Executive on 1 June 1999. He was previously Chief Executive of British Sugar plc.

4 John G Bason (age 45)
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.

†Independent non-executive director

Professor Sir Roland Smith is the Senior Independent Director.

Harold W Bailey, Professor Sir Roland Smith, Lord MacGregor and Martin G Adamson are members of the Remuneration and Nomination committees.

Professor Sir Roland Smith, Lord MacGregor and Martin G Adamson are members of the Audit committee.

Non-executive directors

5 WG Galen Weston OC (age 61)
A director since 1964, he is Chairman and President of George Weston Limited, Canada, a director of Canadian Imperial Bank of Commerce and Chairman of Holt, Renfrew & Co and of Brown Thomas, Ireland. He is a director of Wittington Investments Limited.

6 Martin G Adamson (age 63)†
Appointed a director on 11 October 1999, he was a senior partner of KPMG and a member of that firm's board until 1996. He is a member of the Institute of Chartered Accountants of Scotland and is Chairman of Compass Group Pension Trustee Company Limited.

7 Professor Sir Roland Smith (age 73)†
A director since 1994, he is Emeritus Professor of Management Science in the University of Manchester.

8 Michael R Alexander (age 54)†
Appointed a director on 16 January 2002, he spent his earlier career with BP plc where he held a number of management positions. He is a director and chief operating officer of Centrica plc.

9 Rt. Hon. Lord MacGregor of Pulham Market, OBE (age 65)†
A director since 1994, he was a Member of Parliament from 1974 to 2001, with 15 years in government including nine years in the Cabinet. He is a director of Slough Estates plc, Uniq plc, Friends Provident plc, and a member of the supervisory board of DAF Trucks N.V.

Directors' report

The directors submit to the members their sixty-seventh annual report together with the financial statements of the company for the 52 weeks ended 14 September 2002.

The corporate citizenship, corporate governance and remuneration reports on pages 38 to 45 form part of this directors' report.

Profits and dividends

The group profit and loss account is on page 48. Profit for the financial year amounted to £322 million and the dividends to £105 million. Dividends are detailed in note 8 on page 61.

Review of activities

The activities of the group principally concern the processing and manufacture of food in Europe, Australia, New Zealand, Asia and the US, and textile retailing in the UK and the Republic of Ireland. Comments on the development of the business during the period under review and on the future outlook are contained within the Chairman's statement, the Chief Executive's review and the Finance Director's report on pages 4 to 33.

Tangible fixed assets

The group's tangible fixed assets are included in the financial statements at cost. The properties are employed in the business and many of them were acquired when market values were substantially lower than at present. The directors consider that a surplus over book value exists, but are unable to quantify the excess.

Substantial shareholdings

Details of a controlling interest in the shares of the company are given in note 30 on page 72.

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

Power to issue shares

At the last annual general meeting held on 7 December 2001, authority was given to the directors to allot unissued relevant securities in the company up to a maximum of an amount equivalent to one third of the shares in issue at any time up to 6 December 2006. No such shares have been issued. The directors propose to renew this authority at the annual general meeting to be held on 5 December 2002 for a further period of five years.

A further special resolution passed at that meeting granted authority to the directors to allot equity securities in the company for cash, without regard to the pre-emption provisions of the Companies Act 1985. This authority expires on the date of the annual general meeting to be held on 5 December 2002 and the directors will seek to renew this authority for a further period of one year.

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

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

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

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

Auditors

In accordance with Section 384 of the Companies Act 1985, 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 as at 5 November 2002 appear on pages 34 and 35.

In accordance with the Articles of Association, GG Weston, JG Bason and MG Adamson retire from the board by rotation and, being eligible, offer themselves for re-election. HW Bailey will retire from the board at the conclusion of the annual general meeting.

In accordance with the Articles of Association, MR Alexander, having been appointed since the date of the last annual general meeting and, being eligible, offers himself for election.

Controlling interest
The ultimate holding company of Associated British Foods plc is Wittington Investments Limited, which together with its subsidiary undertaking, Howard Investments Limited, held 54.5% of the total issued ordinary share capital.

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

1 WG Galen Weston and George G Weston are trustees of a trust, in which they have no beneficial interest, which at 14 September 2002 held 683,073 ordinary shares of 50p (2001 – 683,073) in Wittington Investments Limited.

2 Harold W Bailey is a trustee of a trust, in which he has no beneficial interest, which at 14 September 2002 held 38,665 ordinary shares of $5^{15}/_{22}$p (2001 – 38,665) in Associated British Foods plc.

Subsequent changes
The interests shown above remained the same at 5 November 2002.

By order of the board
Paul Lister
Secretary
5 November 2002

Corporate citizenship

Business principles

The group's organisational structure is decentralised and based on short lines of communication. Management responsibilities for the major businesses are devolved to their chief executives who report directly to the Chief Executive.

As such our businesses devise procedures appropriate to and compliant with local laws, culture and operating conditions but within the overall context of the following overriding principles.

Employment

General principles

Managers of our businesses continue to evolve procedures appropriate to the size and organisation of their businesses. These procedures take account of the core International Labour Organisation conventions and, in addition, are designed to keep employees and their representatives briefed on all relevant matters.

The group is committed to offering equal opportunities to all persons in their recruitment, training and career development, having regard for their particular aptitudes and abilities. Full and fair consideration is given to applicants with disabilities and every effort is made to give employees who become disabled whilst employed by the company an opportunity for retraining.

Health and safety

We consider health and safety as equal in importance to that of any other function of the company and its business objectives.

Within the overall context of complying with all relevant legislation, the responsibility for health and safety within each of our businesses rests with its chief executive or managing director.

The aims of the health and safety policy

The purpose of this health and safety policy is to establish, as far as possible, requisite standards across our UK businesses. We will take such steps as are reasonably practicable, to ensure that they meet their health and safety objectives. These are:

- to provide and maintain safe and healthy working places and systems of work in order to protect all employees and others, including visitors and the public, in so far as they come into contact with foreseeable work hazards;
- to provide and maintain a safe and healthy working environment for all employees, taking into account individuals' needs and abilities; and
- to develop safety awareness amongst all employees to enable them to take reasonable care for their own health and safety and that of other people who may be affected by their acts or omissions.

Ethical procurement

We seek to develop relationships with supplier companies consistent with the basic principles as set out above, and specifically with respect to human rights and conditions of employment. Where supplier audits show shortcomings in any of these areas we will strive to encourage a programme of improvement leading to compliance. Responsibility for specific supplier codes and agreements rests with individual companies.

Environment

The purpose of our environmental policy is to establish, as far as possible, uniform standards across our businesses. In the UK, we will take such steps as are necessary to ensure that:

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

- accidents are prevented so far as is reasonably practical; and

- effective emergency response procedures are in place to minimise the impact of foreseeable incidents.

The nominated officer with responsibility for environmental affairs is Paul Lister, Company Secretary.

Human rights

We strive to observe, in all our operations, the principles and spirit of the UN Charter (Chapter IX Article 55) and in particular as stated below:

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

Stakeholder relationships

Suppliers

In the conduct of our business, we do not have a formal code that we follow with regard to payments to suppliers but will deal openly and fairly with suppliers, adhere to contract terms and avoid the exercise of undue pressure. We agree payment terms with suppliers at the time we enter into binding purchasing contracts for the supply of goods and services. Our suppliers are in that way made aware of these terms. We seek to abide by these payment terms whenever we are satisfied that the supplier has provided the goods or services in accordance with the agreed terms and conditions.

Associated British Foods plc has no trade creditors.

Shareholders

Apart from the annual general meeting, which is considered to be an important forum for communicating with private shareholders, the company communicates with its shareholders by way of the annual report and accounts, the half-yearly interim report and at www.abf.co.uk, the company's website. Significant matters relating to the trading or development of the business are disseminated to the market by way of Stock Exchange announcements. The company also holds meetings with its major institutional shareholders to discuss the company's operations.

The community

We encourage our businesses to engage with the local community in their areas of operation. Examples of this include cultural and community sponsorship in Australia through George Weston Foods (see www.georgewestonfoods.com for details) and the community activities of British Sugar through the British Sugar Foundation (Policy and Guidelines reproduced in full at www.britishsugar.co.uk).

The Garfield Weston Foundation was set up by our founder, the late W Garfield Weston, in 1958. It is one of the UK's foremost philanthropic organisations.

Contributions to charitable organisations by the group during the year totalled £0.2 million (2001 – £0.2 million). Political donations were made during the year by Food Investments Pty in Australia to the Liberal Party of Australia £54,900 (2001 - £30,819) and to the Australian Labour Party £4,766 (2001 - £7,609).

Customers

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

Research and development

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

We have major technical centres in the UK at the Allied Technical Centre and the animal feed Central Laboratories. Facilities also exist at ACH Food Companies in the US, Weston Technologies in Australia and AB Enzymes in Germany. These centres support the technical resources of the trading divisions in the search for new technology and in monitoring and maintaining high standards of quality and food safety.

Corporate governance

Corporate governance has been and remains the responsibility of the whole board which is committed to the highest standards. This statement describes how the company applies the principles and complies with the provisions of the Combined Code – Principles of Good Governance and Code of Best Practice ('the Combined Code').

Statement of compliance

The board considers that it is in full compliance with the provisions set out in Section 1 of the Combined Code with the exception of the recommendation that the Remuneration committee should only comprise non-executive directors. The board of Associated British Foods plc does not accept this recommendation as it considers that Harold W Bailey, Executive Chairman, should serve on the committee in view of his unique knowledge of the business and its people.

The statement of directors' responsibilities for preparing the financial statements is set out on page 46.

The board of directors

The board is made up of the Chairman, Harold W Bailey, the Chief Executive Peter J Jackson, two other executive directors and five non-executive directors. Details of the full board are set out on pages 34 and 35. For the purposes of the Combined Code, WG Galen Weston is not regarded as independent, but the board considers that he, together with the other non-executive directors, provides a good balance for the proper governance of the company. The board meets formally at least eight times each year, with other meetings as appropriate and has a formal schedule of matters reserved to it for decision. It also delegates specific responsibilities to board committees, notably the Audit, Remuneration and Nomination committees. Directors receive board and committee papers in advance of meetings and also have access to the advice and services of the Company Secretary. The board has adopted a procedure whereby directors may, in the furtherance of their duties, take independent professional advice on any matter at the company's expense.

The roles of the Chairman and the Chief Executive are separately held and are so defined as to ensure a clear division of responsibilities. Professor Sir Roland Smith is the recognised Senior Independent Director.

The Articles of Association require that one third of directors retire by rotation at the annual general meeting in each year subject to the requirement that each director seeks re-election every three years.

Board committees

Remuneration committee

During the year the Remuneration committee comprised three independent non-executive directors and Harold W Bailey. The Remuneration committee sets the remuneration and other terms of employment of executive directors, and the company's policy on remuneration of the senior executives, within terms of reference agreed by the board.

The remuneration of the non-executive directors is determined by the board. The remuneration report on pages 42 to 45 gives full details of the company's policy and of directors' remuneration packages.

Nomination committee

The Nomination committee reviews the composition of the board and recommends to the board appointments of new executive and non-executive directors of the company. It comprises one executive director and three independent non-executive directors and is chaired by the Chairman.

Audit committee

The Audit committee has terms of reference modelled closely upon those recommended in the Combined Code. It comprises three independent non-executive directors and is chaired by Professor Sir Roland Smith. It meets regularly to receive and review reports from the external auditors and from management. The Audit committee is responsible for reviewing the company's internal controls, risk management procedures and the audit process and seeks to ensure that the financial and non-financial information supplied to shareholders is complete and accurate and presents a balanced assessment of the company's position. The committee reviews the objectivity and independence of the external auditors and also considers the scope of their work and their fees.

Internal controls

The directors acknowledge their responsibilities for the group's system of internal controls, financial and otherwise. This involves ensuring that the assets have been protected against unauthorised use, that proper accounting records have been maintained and that the financial information which is produced is reliable. However such a system is designed to manage rather than eliminate the risk of assets being unprotected against unauthorised use and of failure to achieve business objectives. The system can provide only reasonable and not absolute assurance against material mis-statement or loss.

The directors recognise that they are responsible for providing a return to shareholders which is consistent with the responsible assessment and mitigation of risks.

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

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

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

  A significant part of the group's cash reserves is managed by independent fund managers operating within detailed guidelines specified by the group relating to, inter alia, permitted investments and counter parties, currency exposures and approved instruments. The balance of the group's cash reserves is managed by its treasury function in accordance with guidelines referred to in the Finance Director's report.

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

- Risk management review
  The detailed policies and internal control procedures established at operational level are reviewed by group personnel. Each business is responsible for regularly assessing its risk management activities to ensure good practice in all areas. These assessments are reviewed by group personnel twice a year. The Audit committee receives reports on internal control issues from management and from the external auditors.

Going concern
After making due enquiries, the directors have a reasonable expectation that the group has adequate resources to continue in operation for the foreseeable future. For this reason they continue to adopt the going concern basis for preparing the financial statements on pages 48 to 74.

Remuneration report

Remuneration levels are set by reference to individual performance, experience and market conditions with a view to providing a package which is appropriate for the responsibilities involved. Under the terms of the group's existing arrangements:

i) performance related bonuses are payable to executive directors. Payment of such bonuses is dependent upon the achievement of demanding preset targets relating to operating profit and return on capital employed. Performance related bonuses are not pensionable other than in the case of Peter J Jackson for whom there is a contractual obligation.

ii) subject to the rules of the company's share option schemes, Peter J Jackson and John G Bason are both entitled under their service contracts to receive an allocation of share options for each of five years and three years respectively, commencing December 1999.

The company operates an executive pension scheme for senior executives, which is incorporated in the main group scheme. The scheme is a defined benefit scheme whereby retirement benefits based on final remuneration and length of service are funded through a trustee administered scheme. The company pays contributions to the scheme on behalf of executives, based on the recommendations of the independent actuary who carries out a valuation of the scheme every three years.

No director has a contract of service with the company which is determinable after one year.

The remuneration of the directors was as follows:

	Salary or fees £'000	Bonus £'000	Benefits £'000	**2002 Total £'000**	2001 Total £'000
Harold W Bailey	168	–	12	**180**	173
George G Weston	198	35	12	**245**	204
Peter J Jackson	449	135	17	**601**	568
John G Bason	340	101	17	**458**	415
WG Galen Weston	–	–	–	**–**	–
Lord MacGregor	29	–	–	**29**	28
Professor Sir Roland Smith	31	–	–	**31**	28
Martin G Adamson	29	–	–	**29**	28
Michael R Alexander	20	–	–	**20**	–
	1,264	271	58	**1,593**	1,444

Benefits include the value attributed to benefits such as company cars, fuel and medical insurance.

Pension benefits earned by the directors (1):

	Age at year end	Normal retirement age	Directors' contributions in the year (2) 2002 £'000	2001 £'000	Increase in accrued pension entitlement during the year (3) 2002 £'000	2001 £'000	Accumulated total accrued pension at year end 2002 £'000	2001 £'000
George G Weston	38	65	**10**	9	**10**	9	**40**	30
Peter J Jackson	55	60	**–**	–	**57**	32	**249**	189
John G Bason	45	62	**14**	14	**8**	15	**23**	15

(1) The pension entitlement shown is that which would be paid annually on retirement based on service to the end of the year, or date of retirement if earlier.

(2) Contributions paid or payable in the year by the directors under the terms of the scheme.

(3) The increase in accrued pension during the year excludes any increase for inflation.

(4) John Bason and George Weston accrue pensions in the Associated British Foods Pension Scheme on their earnings up to the Earnings Cap. In order to provide a pension on their earnings above this level, the company has established an unfunded unapproved retirements benefits scheme.

The company has also established a funded unapproved life assurance scheme to provide cover for the excess over that provided by the Pension Scheme.

(5) The company paid a pension to a former director of £nil (2001 – £6,000).

Dependants' pensions – A 50% spouse's pension is payable on death, before or after retirement. In respect of Peter J Jackson, the spouse's pension is 66.66%.

Early retirement rights – The directors may retire before their normal retirement age, subject to a reduction for early payment.

Pension increases – Pensions are guaranteed to increase in line with the increases in RPI, restricted each year to 5%. Additional discretionary increases have been granted in the past.

At 14 September 2002, the following directors had outstanding options to acquire ordinary shares of Associated British Foods plc.

	At 15.9.01 Number	Granted	At 14.9.02 Number	Exercise price	Date from which exercisable	Expiry date
Peter J Jackson	100,000	–	100,000	561.50p	28.4.2003	27.4.2008
	100,000	–	100,000	345.25p	10.12.2004	9.12.2009
	100,000	–	100,000	484.00p	17.1.2004	16.1.2011
	–	100,000	100,000	497.00p	7.12.2006	6.12.2011
George G Weston	15,000	–	15,000	561.50p	28.4.2003	27.4.2008
	45,000	–	45,000	484.00p	17.1.2004	16.1.2011
John G Bason	100,000	–	100,000	467.00p	11.5.2004	10.5.2009
	50,000	–	50,000	484.00p	17.1.2004	16.1.2011
	–	50,000	50,000	497.00p	7.12.2006	6.12.2011

No other directors had any options during the year and no options lapsed or were exercised during the year.

The mid-market price of the shares at 14 September 2002 was 590p. The highest mid-market price during the year was 631p and the lowest mid-market price was 436p.

Directors' beneficial interests

The directors of the company at the year end had the following beneficial interests, including family interests, in the shares and debentures of the company, its holding company and fellow subsidiary undertakings.

	14 September 2002	15 September 2001
Harold W Bailey		
Associated British Foods plc, ordinary shares of $5\frac{15}{22}$p	**140,800**	140,800
Fortnum & Mason PLC, ordinary shares of 5p	**–**	1,000
George G Weston		
Wittington Investments Limited, ordinary shares of 50p	**5,862**	5,862
Associated British Foods plc, ordinary shares of $5\frac{15}{22}$p	**3,146,761**	3,146,761
Peter J Jackson		
Associated British Foods plc, ordinary shares of $5\frac{15}{22}$p	**17,600**	17,600
John G Bason		
Associated British Foods plc, ordinary shares of $5\frac{15}{22}$p	**6,000**	1,500
WG Galen Weston		
Wittington Investments Limited, ordinary shares of 50p	**37,953**	37,953
Associated British Foods plc, ordinary shares of $5\frac{15}{22}$p	**5,672,560**	5,672,560
Lord MacGregor		
Associated British Foods plc, ordinary shares of $5\frac{15}{22}$p	**2,045**	2,045
Martin G Adamson		
Associated British Foods plc, ordinary shares of $5\frac{15}{22}$p	**20,000**	10,000

Directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the group and of the profit or loss for that period. In preparing those 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;

- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and

- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business.

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

Independent auditor's report to the members of Associated British Foods plc

We have audited the financial statements on pages 48 to 74.

Respective responsibilities of directors and auditors
The directors are responsible for preparing the annual report and accounts. As described on page 46 this includes responsibility for preparing the financial statements in accordance with applicable UK law and accounting standards. Our responsibilities, as independent auditors, are established in the UK by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority, and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions with the group is not disclosed.

We review whether the statement on pages 40 and 41 reflects the company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the annual report, including the corporate governance statement, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent mis-statements or material inconsistencies with the financial statements.

Basis of audit opinion
We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

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

Opinion
In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group as at 14 September 2002 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

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

KPMG Audit Plc

5 November 2002

Consolidated profit and loss account

for the year ended 14 September 2002

	Note	2002 £m	Before exceptional items (restated) £m	Exceptional items (restated) £m	Total 2001 (restated) £m
Turnover of the group including its share of joint ventures		**4,567**	4,434	–	4,434
Less share of turnover of joint ventures		**(22)**	(16)	–	(16)
Group turnover	1	**4,545**	4,418	–	4,418
Operating costs	2	**(4,175)**	(4,085)	(62)	(4,147)
Group operating profit		**370**	333	(62)	271
Share of operating results of – joint ventures		**3**	3	–	3
– associates		**4**	4	–	4
Total operating profit	1	**377**	340	(62)	278
Operating profit before exceptional items and amortisation of goodwill		**395**	351	–	351
Amortisation of goodwill		**(18)**	(11)	(62)	(73)
Profits less losses on sale of fixed assets		**8**	20	–	20
Profits less losses on sale of businesses		**–**	–	29	29
Investment income	5	**57**	66	–	66
Profit on ordinary activities before interest		**442**	426	(33)	393
Interest payable	6	**(22)**	(24)	–	(24)
Profit on ordinary activities before taxation		**420**	402	(33)	369
Adjusted profit before taxation		**430**	393	–	393
Profits less losses on sale of fixed assets		**8**	20	–	20
Exceptional items		**–**	–	29	29
Amortisation of goodwill		**(18)**	(11)	(62)	(73)
Tax on profit on ordinary activities	7	**(95)**	(118)	–	(118)
Profit on ordinary activities after taxation		**325**	284	(33)	251
Minority interests – equity		**(3)**	(8)	–	(8)
Profit for the financial year		**322**	276	(33)	243
Dividends – interim	8	**(105)**	(93)	–	(93)
Transfer to/(from) reserves	21	**217**	183	(33)	150
Basic and diluted earnings per ordinary share	9	**40.8p**			30.8p
Adjusted earnings per ordinary share	9	**38.7p**			33.8p

The group has made no material acquisitions nor discontinued any operations within the meaning of the Financial Reporting Standards during either 2002 or 2001.

The results for the year ended 15 September 2001 have been restated to reflect the adoption of FRS 19 'Deferred Taxation'. The impact of this change is detailed in the accounting policies on page 54.

Consolidated balance sheet

at 14 September 2002

	Note	**2002** £m	2001 (restated) £m
Fixed assets			
Intangible assets – goodwill	10	**383**	179
Tangible assets	11	**1,421**	1,397
		1,804	1,576
Interest in net assets of – joint ventures	13	**9**	9
– associates	13	**12**	9
Other investments	13	**11**	12
Total fixed asset investments		**32**	30
		1,836	1,606
Current assets			
Stocks	14	**498**	469
Debtors	15	**552**	551
Investments	16	**1,362**	1,195
Cash at bank and in hand		**139**	95
		2,551	2,310
Creditors amounts falling due within one year			
Short-term borrowings	17	**(64)**	(82)
Other creditors	18	**(736)**	(672)
		(800)	(754)
Net current assets		**1,751**	1,556
Total assets less current liabilities		**3,587**	3,162
Creditors amounts falling due after one year			
Loans	17	**(387)**	(157)
Other creditors	18	**(8)**	(10)
		(395)	(167)
Provision for liabilities and charges	19	**(126)**	(130)
		3,066	2,865
Capital and reserves			
Called up share capital	20	**47**	47
Revaluation reserve	21	**3**	3
Other reserves	21	**173**	173
Profit and loss account	21	**2,768**	2,567
Equity shareholders' funds		**2,991**	2,790
Minority interests in subsidiary undertakings – equity		**75**	75
		3,066	2,865

These financial statements were approved by the board of directors on 5 November 2002 and were signed on its behalf by:

Harry Bailey Director
John Bason Director

Consolidated cash flow statement

for the year ended 14 September 2002

	Note	2002 £m	2001 £m
Cash flow from operating activities	25	**523**	427
Dividends from joint ventures		**3**	3
Dividends from associates		**1**	1
Return on investments and servicing of finance			
Investment income		**60**	66
Interest paid		**(22)**	(24)
Dividends paid to minorities		**(4)**	(10)
		34	32
Taxation		**(97)**	(127)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		**(186)**	(212)
Sale of tangible fixed assets		**40**	39
Purchase of equity investments		**–**	(1)
Sale of equity investments		**4**	7
		(142)	(167)
Acquisitions and disposals			
Purchase of new subsidiary undertakings	26	**(267)**	(121)
Purchase of joint ventures and associates		**(1)**	–
Sale of subsidiary undertakings	26	**34**	142
		(234)	21
Equity dividends paid		**(93)**	(88)
Net cash (outflow)/inflow before use of liquid funds and financing		**(5)**	102
Management of liquid resources	28	**(164)**	(76)
Financing			
Borrowings due within one year – repayment of loans		**(102)**	(28)
– increase in loans		**103**	42
Borrowings due after one year – repayment of loans		**(7)**	(13)
– increase in loans		**238**	5
Increase in bank borrowings		**(16)**	–
Increase in cash		**47**	32

Consolidated statement of total recognised gains and losses

for the year ended 14 September 2002

	2002 £m	2001 £m
Profit for the financial year	**322**	243
Currency translation differences on foreign currency net assets	**(21)**	(44)
Tax on currency translation differences	**5**	7
Total recognised gains and losses relating to the period	**306**	206
Prior year adjustment	**(91)**	
Total recognised gains and losses since previous year end	**215**	

Consolidated statement of historical cost profits

for the year ended 14 September 2002

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

Reconciliation of movements in shareholders' funds

for the year ended 14 September 2002

	Company		Group	
	2002	2001	2002	2001 (restated)
	£m	£m	£m	£m
Opening shareholders' funds as previously reported	**232**	215	**2,881**	2,763
Prior year adjustment	**–**	–	**(91)**	(91)
Opening shareholders' funds restated	**232**	215	**2,790**	2,672
Profit for the financial year	**94**	110	**322**	243
Dividends	**(105)**	(93)	**(105)**	(93)
Goodwill written back	**–**	–	**–**	5
Other recognised gains and losses relating to the year	**–**	–	**(16)**	(37)
Closing shareholders' funds	**221**	232	**2,991**	2,790

Company balance sheet

at 14 September 2002

	Note	2002 £m	2001 £m
Fixed assets			
Investment in own shares	13	**10**	10
Shares in subsidiary undertakings	24	**145**	145
		155	155
Current assets			
Debtors	15	**1,743**	1,657
Investments	16	**323**	227
Cash at bank and in hand		**24**	19
		2,090	1,903
Creditors amounts falling due within one year			
Short-term borrowings	17	**–**	(5)
Other creditors	18	**(1,793)**	(1,821)
		(1,793)	(1,826)
Net current assets		**297**	77
Total assets less current liabilities		**452**	232
Creditors amounts falling due after one year			
Loans	17	**(231)**	–
		221	232
Capital and reserves			
Called up share capital	20	**47**	47
Profit and loss account	21	**174**	185
Equity shareholders' funds		**221**	232

These financial statements were approved by the board of directors on 5 November 2002 and were signed on its behalf by:

Harry Bailey Director
John Bason Director

Accounting policies

Basis of preparation

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

Basis of consolidation

The group accounts comprise a consolidation of the accounts of the company and its subsidiary undertakings, together with the group's share of the results and net assets of its joint ventures and associates. The financial statements of the company and its subsidiary undertakings are made up for the 52 weeks ended 14 September 2002, except that, to avoid delay in the preparation of the consolidated financial statements, those of the Australian and New Zealand group and China and Poland are made up to 31 July 2002, and those of the North American subsidiary undertakings are made up to 31 August 2002.

Acquisitions

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

Disposals

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

Intangible fixed assets

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

Tangible fixed assets

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

Depreciation

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

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

Fixed asset investments

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

Accounting policies continued

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

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

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

Group turnover
Turnover represents the net invoiced value of goods and services delivered to customers excluding value added tax.

Pensions
The group has established separately funded pension schemes for the benefit of permanent staff, which vary with employment conditions in the countries concerned. Net pension costs are charged to income over the expected average remaining service lives of employees. Any differences between the charge for pensions and total contributions are included within pension provisions or debtors as appropriate.

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

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

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

Deferred tax
The group has adopted FRS 19 'Deferred Taxation', whereby provision for deferred tax is made on all timing differences that have originated, but not reversed at the balance sheet date. A deferred tax asset is regarded as recoverable and therefore recognised only when it is regarded as more likely than not that there will be sufficient future taxable profits. Deferred tax is not discounted.

Adoption of FRS 19 has the effect of increasing the underlying tax charge on profits by £11 million for the year ended 14 September 2002 (2001 – £12 million). It also increases the profit on disposal of businesses in the year ended 15 September 2001 by £12 million. Shareholders' funds at 15 September 2001 have been reduced by £91 million. A prior year adjustment has been made and comparative figures have been restated.

Notes forming part of the financial statements

for the year ended 14 September 2002

1. Segmental analysis

	Group turnover		Operating profit		Capital employed	
	2002	2001	**2002**	2001	**2002**	2001
	£m	£m	**£m**	£m	**£m**	£m
Analysis by business						
Primary food and agriculture	**1,761**	1,867	**195**	172	**788**	769
Ingredients and oils	**800**	711	**53**	42	**268**	265
Grocery	**902**	858	**50**	37	**317**	319
Retail and packaging	**712**	574	**77**	63	**344**	339
Australia and New Zealand	**580**	548	**12**	21	**207**	217
Inter company sales	**(232)**	(255)	**–**	–	**–**	–
Central costs/capital employed	**–**	–	**(15)**	(10)	**(32)**	(33)
Pension credit	**–**	–	**25**	27	**–**	–
	4,523	4,303	**397**	352	**1,892**	1,876
Businesses disposed:						
Grocery	**–**	33	**–**	2	**–**	–
Ingredients and oils	**–**	47	**–**	(1)	**–**	–
Australia and New Zealand	**22**	35	**(2)**	(2)	**–**	13
Amortisation of goodwill	**–**	–	**(18)**	(73)	**–**	–
	4,545	4,418	**377**	278	**1,892**	1,889
Analysis by geography (by origin and destination)						
European Union (mainly UK and Ireland)	**2,998**	2,911	**301**	246	**1,328**	1,320
Australia and New Zealand	**580**	548	**12**	21	**207**	217
North America	**735**	659	**42**	33	**231**	234
Elsewhere	**233**	204	**17**	25	**126**	105
Inter company sales	**(23)**	(19)	**–**	–	**–**	–
Pension credit	**–**	–	**25**	27	**–**	–
	4,523	4,303	**397**	352	**1,892**	1,876
Businesses disposed:						
European Union	**–**	50	**–**	3	**–**	–
North America	**–**	30	**–**	(2)	**–**	–
Australia and New Zealand	**22**	35	**(2)**	(2)	**–**	13
Amortisation of goodwill	**–**	–	**(18)**	(73)	**–**	–
	4,545	4,418	**377**	278	**1,892**	1,889

Business segment operating profits include a pension charge that reflects the regular cost. The difference between this charge and that required under SSAP 24 is shown as a credit held centrally. Virtually all of the credit arises in the European Union.

The amortisation of goodwill arises in primary food and agriculture £2 million (2001 – £1 million), ingredients and oils £15 million (2001 – £71 million including an exceptional charge of £62 million), and grocery £1 million (2001 – £1 million). By geography, the charge arises in the European Union £3 million (2001 – £1 million), North America £13 million (2001 – £71 million) and elsewhere £2 million (2001 – £1 million).

The exceptional write down of goodwill in the year ended 15 September 2001 related to an FRS 11 impairment charge based on the projected cash flows of the food business of SPI in the US, discounted at 12.5%.

Capital employed comprises tangible fixed assets, interests in joint ventures and associates, current assets (excluding deferred taxation, cash and investments), creditors (excluding borrowings, tax and dividends) and provisions for liabilities and charges excluding deferred taxation.

2. Operating costs

	2002 £m	2001 £m
Cost of sales (including exceptional items and amortisation of goodwill)	**3,420**	3,428
Distribution costs	**456**	423
Administration expenses	**299**	296
Operating costs	**4,175**	4,147
Operating costs are stated after charging:		
Staff costs	**598**	562
Impairment of intangible fixed assets	**–**	62
Amortisation of intangible fixed assets	**18**	11
Depreciation of tangible fixed assets	**149**	149
Hire of plant and machinery	**7**	8
Rentals payable under property leases	**24**	21
Research and development	**6**	7

The remuneration of the auditors in respect of audit services provided to the group during the year was £2.3 million (2001 – £2.2 million) and £0.2 million (2001 – £0.2 million) in respect of audit services provided to the company. The remuneration of the auditors and their associates in respect of non-audit services to the company and its UK subsidiaries was £1.4 million (2001 - £3.0 million), including tax – £0.6 million, transaction due diligence – £0.2 million and project support – £0.3 million.

3. Employees

	2002	2001
Average number of employees:		
European Union, mainly UK and Ireland	**20,952**	20,557
Australia and New Zealand	**6,913**	7,045
North America	**2,033**	2,154
Elsewhere	**5,059**	4,233
	34,957	33,989

	£m	£m
Staff costs – wages and salaries	**548**	520
– social security costs	**38**	29
– other pension costs	**12**	13
	598	562

Details of directors' remuneration, share options and pension entitlements are shown in the remuneration report on pages 42 to 44.

4. Pension costs

The group has continued to account for pensions in accordance with SSAP 24 and the disclosures given in (a) are those required by that standard. FRS 17 'Retirement Benefits' was issued in November 2000 but will not be mandatory for the group until the year ended 13 September 2003. Prior to this, phased transitional disclosures are required and are set out in (b).

(a) Associated British Foods pension schemes

The group operates pension schemes, the majority of which are of the defined benefit type. The pension cost charge for the year was £12 million (2001 – £13 million). The two main UK schemes provide benefits based on final pensionable earnings. The pension costs in the UK are assessed in accordance with the advice of independent qualified actuaries using the projected unit method.

4. Pension costs continued

The last actuarial valuations of the British Sugar Pension Scheme and the Associated British Foods Pension Scheme were carried out as at 1 October 2001 and 5 April 1999 respectively. Both valuations used a market related approach under which the actuarial values of the assets were taken as their market value at the valuation date. For the British Sugar Pension Scheme, it was assumed that the investment return would exceed price inflation by 3.25% per annum. For the Associated British Foods Pension Scheme, the investment return assumption prior to retirement exceeded the price inflation assumption by 2.5% per annum and post retirement by 2% per annum. In both valuations salary increases were assumed to exceed price inflation by 2% per annum.

At the valuation dates the total market value of the two major schemes' assets was £1,859 million and the value of these assets for actuarial valuation purposes represented 126% of the benefits that had accrued to members after allowing for expected future increases in earnings.

The SSAP 24 charge in respect of the Associated British Foods Pension Scheme in the year ended 14 September 2002 is based on the last formal actuarial valuation undertaken in April 1999. Since then the market value of investments has deteriorated. A new valuation was undertaken as at April 2002, but has yet to be finalised. The draft report indicates that the scheme remains in surplus and there would have been no change to the SSAP 24 charge were this valuation to have been adopted for the preparation of these accounts. However, in light of the changes in market conditions since April 2002, an informal valuation was conducted as at September 2002 by the scheme's actuaries. Although the informal September valuation revealed a further reduction in the surplus there still remains a modest surplus. If current market conditions prevail, the company will recommence some level of contribution to the main UK scheme.

The group also operates pension schemes in Australia and New Zealand, the US and the Republic of Ireland. The charge for the year is based on recommendations by qualified local actuaries.

(b) FRS 17 'Retirement Benefits'

For the purposes of FRS 17 disclosures, the most recent actuarial valuations referred to above have been updated to 14 September 2002 by an independent qualified actuary.

The financial assumptions used to calculate scheme liabilities under FRS 17 are:

	2002		2001	
	UK	**Overseas**	UK	Overseas
	%	**%**	%	%
Rate of general increase in salaries	**4.25**	**4.25**	4.50	4.50
Rate of increase in pensions in payment	**2.25**	**2.25**	2.50	2.50
Rate of increase of deferred pensions	**2.25**	**2.25**	2.50	2.50
Discount rate of scheme liabilities	**5.50**	**5.50**	6.00	6.00
Inflation	**2.25**	**2.25**	2.50	2.50

On 30 September 2002 the group's principal UK defined benefit schemes were closed to new members. As a result, these schemes have an ageing population. In accordance with FRS 17, the valuation of the schemes' liabilities has been determined using the projected unit method. In these circumstances the use of this method can lead to the contribution rate implicit in the current service cost increasing in future years.

4. Pension costs continued

The expected rate of return and market values of the assets of the principal schemes at 14 September 2002 were as follows:

	UK		Overseas	
	Expected long-term rate of return %	Market value £m	Expected long-term rate of return %	Market value £m
Market value of assets				
Equities	6.75	504	6.75	41
Government bonds	4.50	564	4.50	11
Non-government bonds	5.50	496	5.50	–
Property	6.00	62	6.00	2
Other	4.00	35	4.00	1
		1,661		55
Present value of scheme liabilities		(1,520)		(52)
Surplus in the scheme		141		3
Deferred tax		(42)		(1)
Net pension assets		99		2

The expected rate of return and market values of the assets of the principal schemes at 15 September 2001 were as follows:

	UK		Overseas	
	Expected long-term rate of return %	Market value £m	Expected long-term rate of return %	Market value £m
Market value of assets				
Equities	7.25	1,150	7.25	35
Government bonds	5.00	66	5.00	10
Non-government bonds	6.00	343	6.00	–
Property	6.50	105	6.50	4
Other	5.00	18	5.00	–
		1,682		49
Present value of scheme liabilities		(1,326)		(40)
Surplus in the scheme		356		9
Deferred tax		(107)		(2)
Net pension assets		249		7

The group's net assets and profit and loss account reserve under FRS 17 would have been analysed as follows:

	Net assets £m	Profit and loss reserve £m
Excluding pension assets	**3,066**	**2,768**
Pension assets	**101**	**101**
Including pension assets	**3,167**	**2,869**

4. Pension costs continued

Had FRS 17 been adopted, the amounts that would have been included in the performance statements would have been as follows:

	2002 £m
Current service cost of defined benefit schemes	(34)
Past service cost	(1)
Total operating charge	(35)

An additional current service cost of £4 million arose in connection with the group's defined contribution pension schemes.

	2002 £m
Expected return on pension scheme assets	111
Interest on pension scheme liabilities	(80)
Net return included in other financial income	31
Actual return less expected return on pension scheme assets	(39)
Experience gains and losses arising on the scheme liabilities	(53)
Changes in assumptions underlying the present value of the scheme liabilities	(130)
Actuarial loss included in the statement of total recognised gains and losses	(222)

The movement in the surplus during the year arose as follows:

	UK 2002 £m	Overseas 2002 £m
Surplus at start of year	356	9
Current service cost	(30)	(4)
Contributions	3	2
Past service costs	(1)	–
Other financial income	30	1
Actuarial loss	(217)	(5)
Surplus at end of year	141	3

The experience gains and losses were as follows:

	2002
Difference between the expected and actual return on scheme assets	
– amount (£m)	(39)
– percentage of scheme assets	2.3%
Experience gains and losses on scheme liabilities	
– amount (£m)	(53)
– percentage of the present value of scheme liabilities	3.4%
Total amount included in statement of total recognised gains and losses	
– amount (£m)	(222)
– percentage of the present value of scheme liabilities	14.1%

5. Investment income

	2002 £m	2001 £m
Dividends from current asset equity investments	–	1
Interest from other current asset investments	54	59
Profit on sale of current asset equity investments	3	6
	57	66

6. Interest payable

	2002 £m	2001 £m
Bank loans and overdrafts	–	1
Other loans	22	23
	22	24

7. Tax on profit on ordinary activities

	2002 £m	2001 £m
The charge for the year comprises:		
UK – corporation tax at 30% (2001 – 30%)	81	76
Overseas – income and corporation tax	24	28
Joint ventures and associates	2	2
Current tax charge	107	106
UK deferred taxation	10	12
Overseas deferred taxation	(22)	–
Total tax charge	95	118
Add back:		
Tax credit on goodwill amortisation	4	–
Exceptional credit on US deferred tax	23	–
Underlying tax charge	122	118
Tax reconciliation		
Profit on ordinary activities before taxation	420	369
Nominal tax charge at UK corporation tax rate 30% (2001 – 30%)	126	111
Lower tax rates on overseas earnings	(7)	(5)
Expenses not deductible for tax purposes (primarily goodwill)	3	25
Unrelieved overseas losses	–	5
Utilisation of losses	(2)	(18)
Timing differences	(11)	(12)
Adjustments to tax charge in respect of previous periods	(2)	–
Current tax charge	107	106

For the purposes of this reconciliation, the tax on profits of joint ventures and associates has been assumed to be entirely current. In the absence of any unforeseen circumstances the underlying tax rate is expected to be close to 30%, although this may be affected by changes in the proportion of profit earned in different tax jurisdictions.

8. Dividends

	2002 £m	2001 £m
First interim dividend of 4.25p per share (2001 – 4.25p)	**34**	34
Second interim dividend of 9.00p per share (2001 – 7.55p)	**71**	59
	105	93

The first interim dividend was paid on 30 August 2002. The second interim dividend will be paid on 18 February 2003.

9. Earnings per ordinary share

	2002 £m	2001 £m
Adjusted profit for the financial year	**305**	267
Profits less losses on sale of fixed assets	**8**	20
Exceptional items	**23**	(33)
Amortisation of goodwill	**(18)**	(11)
Tax credit on goodwill amortisation	**4**	–
Profit for the financial year attributable to shareholders	**322**	243
Adjusted earnings per ordinary share	**38.7p**	33.8p
Earnings per ordinary share on:		
sale of fixed assets	**1.0p**	2.5p
exceptional items	**2.9p**	(4.1)p
amortisation of goodwill	**(2.3)p**	(1.4)p
tax credit on goodwill amortisation	**0.5p**	–
Earnings per ordinary share	**40.8p**	30.8p

The weighted average number of ordinary shares in issue during the year was 789 million (2001 – 789 million). The calculation of the weighted average number of shares excludes the shares held by the Employee Share Option Scheme on which the dividends are being waived.

Adjusted earnings per ordinary share, which exclude the impact of profits less losses on the disposal of fixed assets, exceptional items, goodwill amortisation and the associated tax credit, is shown to provide clarity to the underlying performance of the group. The diluted earnings per share calculation takes into account the dilutive effect of share options. The diluted, weighted average number of shares is 789 million (2001 – 789 million).

10. Intangible fixed assets – goodwill

	£m
Cost at 15 September 2001	263
Effect of currency changes	(15)
Goodwill arising on acquisitions	236
Disposals	–
Cost at 14 September 2002	**484**
Amortisation at 15 September 2001	84
Effect of currency changes	(1)
Provided during year	18
Amortisation at 14 September 2002	**101**
Net book value at 14 September 2002	**383**
Net book value at 15 September 2001	179

Notes forming part of the financial statements continued

11. Tangible fixed assets

	Land and buildings £m	Plant and machinery £m	Fixtures and fittings £m	Payments on account £m	Total £m
Cost at 15 September 2001	711	1,565	240	36	2,552
Effect of currency changes	(5)	(13)	(1)	–	(19)
Businesses acquired	9	19	–	–	28
Businesses disposed	(3)	(20)	–	–	(23)
Additions	39	123	47	(13)	196
Disposals	(25)	(101)	(11)	(1)	(138)
Cost at 14 September 2002	**726**	**1,573**	**275**	**22**	**2,596**
Depreciation at 15 September 2001	165	874	116	–	1,155
Effect of currency changes	(2)	(7)	–	–	(9)
Provided during year	18	110	21	–	149
Businesses disposed	–	(14)	–	–	(14)
On disposals	(5)	(90)	(11)	–	(106)
Depreciation at 14 September 2002	**176**	**873**	**126**	–	**1,175**
Net book value at 14 September 2002	**550**	**700**	**149**	**22**	**1,421**
Net book value at 15 September 2001	546	691	124	36	1,397

	2002 £m	2001 £m
Analysis of land and buildings at net book value		
Freehold	**458**	460
Long leasehold	**56**	46
Short leasehold	**36**	40
	550	546

The book value of land not amortised in the financial statements was £54 million (2001 – £64 million).

12. Capital commitments

There are commitments for capital expenditure by the group of approximately £28 million (2001 – £37 million) for which no provision has been made in these financial statements.

13. Fixed asset investments

	Joint ventures £m	Associates £m	Other investments £m	Own shares £m	Total £m
At 15 September 2001 as previously reported	10	9	2	10	31
Prior year adjustment	(1)	–	–	–	(1)
At 15 September 2001 as restated	9	9	2	10	30
Effect of currency changes	–	1	–	–	1
Additions	–	1	–	–	1
Disposals	–	–	(1)	–	(1)
Share of profit for the year	–	1	–	–	1
At 14 September 2002	**9**	**12**	**1**	**10**	**32**

13. Fixed asset investments continued

Details of the principal joint ventures, associates and other investments are given on page 74. Interests in the net assets of joint ventures include the group's share of their gross assets of £17 million (2001 – £18 million) and the group's share of their gross liabilities of £8 million (2001 – £9 million).

Other investments are stated at cost.

Ordinary shares already issued and subject to option under the Associated British Foods plc 1994 Share Option Scheme are held in a separate trust. The trust is funded by an interest free loan from the company, repayable from the proceeds of the exercise of options granted.

At 14 September 2002 the Scheme held 2,765,753 (2001 – 2,765,753) ordinary shares of the company. The cost of these shares has been included within fixed asset investments. The market value of the shares at the year end was £16 million (2001 – £12 million). The Scheme has waived its right to dividends.

At 14 September 2002 there were options outstanding over 2,400,000 (2001 – 2,459,788) ordinary shares under the 1994 Share Option Scheme and over 985,000 (2001 – 947,000) ordinary shares under the Executive Share Option Scheme.

All revenue costs relating to the Schemes have been charged against operating profit.

14. Stocks

	2002	2001
	£m	£m
Raw materials and consumables	**185**	174
Finished goods and goods for resale	**313**	295
	498	469

15. Debtors

	Company		Group	
	2002	2001	**2002**	2001 (restated)
	£m	£m	**£m**	£m
Trade debtors	**–**	–	**426**	423
Amounts owed by subsidiary undertakings	**1,740**	1,643	**–**	–
Other debtors	**2**	13	**59**	71
Prepayments and accrued income	**1**	1	**46**	55
Deferred tax	**–**	–	**21**	2
	1,743	1,657	**552**	551

Other debtors of the group at 14 September 2002 include £6 million (2001 – £6 million) receivable after more than one year.

Notes forming part of the financial statements continued

16. Current asset investments

	Company		Group	
	2002	2001	**2002**	2001
	£m	£m	**£m**	£m
Listed on a recognised stock exchange				
– equity investments	**–**	–	**–**	4
– other listed investments	**–**	–	**23**	41
Unlisted investments	**323**	227	**1,339**	1,150
	323	227	**1,362**	1,195

The market value of the group's listed equity investments was £nil (2001 – £4 million). Other listed and unlisted investments comprise interest bearing instruments and deposits. Listed investments include £15 million (2001 – £17 million) quoted on overseas stock exchanges.

17. Loans and short-term borrowings

	Company		Group	
	2002	2001	**2002**	2001
	£m	£m	**£m**	£m
Bank loans and overdrafts	**–**	5	**15**	32
Other loans				
Wholly repayable within five years				
5½% unsecured loan stock 1987/2002	**–**	–	**–**	2
7½% unsecured loan stock 1987/2002	**–**	–	**–**	5
Other unsecured loans	**231**	–	**251**	4
Secured loans	**–**	–	**35**	46
Wholly or partly repayable after five years				
10¾% redeemable debenture stock 2013 (secured)	**–**	–	**150**	150
	231	5	**451**	239
Creditor analysis				
Repayable:				
in one year or less – bank loans and overdrafts	**–**	5	**15**	32
– other loans	**–**	–	**49**	50
	–	5	**64**	82
beyond one year – between one and two years	**–**	–	**4**	2
– between two and five years	**231**	–	**233**	5
– in more than five years	**–**	–	**150**	150
	231	–	**387**	157

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

18. Creditors

	Company		Group	
	2002	2001	**2002**	2001
	£m	£m	**£m**	£m
Amounts falling due within one year				
Trade creditors	**–**	–	**271**	255
Taxation on profits	**4**	4	**112**	108
Other taxation and social security	**–**	–	**21**	14
Accruals and deferred income	**5**	1	**260**	233
Dividends	**71**	59	**71**	59
Amounts owed to subsidiary undertakings	**1,712**	1,754	**–**	–
Amounts owed to joint ventures	**1**	3	**1**	3
	1,793	1,821	**736**	672
Amounts falling due after one year				
Taxation on profits	**–**	–	**8**	10

19. Provisions for liabilities and charges

	Deferred tax	Restructuring	Other	Total
	£m	£m	£m	£m
At 15 September 2001 as previously reported	–	12	27	39
Prior year adjustment	91	–	–	91
At 15 September 2001 as restated	91	12	27	130
Profit and loss account – charged/(released)	9	5	(5)	9
Utilised	–	(9)	(4)	(13)
At 14 September 2002	**100**	**8**	**18**	**126**

The group's overall deferred tax position is as follows:

	2002	2001 (restated)
	£m	£m
Fixed asset timing differences	**119**	93
Other timing differences	**(40)**	(4)
	79	89
Included in:		
Provisions	**(100)**	(91)
Debtors	**21**	2
	(79)	(89)

The recoverability of deferred tax assets is supported by the expected level of future profits in the countries concerned. There are other deferred tax assets totalling £8 million (2001 – £35 million) that have not been recognised on the basis that their future economic benefit is uncertain.

No deferred tax provision has been made in these financial statements for the additional tax which may be payable on the remittance to this country of the group's share of profits retained by overseas subsidiary undertakings since there is no intention to repatriate these reserves to the UK in the foreseeable future.

Restructuring provisions relate to the cash costs, including redundancy, associated with the group's announced reorganisation plans. Other provisions mainly comprise potential warranty claims arising from the disposal of businesses.

Notes forming part of the financial statements continued

20. Share capital

	Deferred shares of £1 each '000	Ordinary shares of $5\frac{15}{22}$p each '000	Nominal value £m
Authorised			
At 14 September 2002 and 15 September 2001	**2,000**	**1,054,950**	**62**
Issued and fully paid			
At 14 September 2002 and 15 September 2001	**2,000**	**791,674**	**47**

The deferred shares became redeemable on 1 August 1997. The amount payable by the company on redemption is the amount paid up on the deferred shares.

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

21. Reserves

	Group revaluation reserve £m	Group other reserves £m	Group profit and loss account £m	Company profit and loss account £m
At 15 September 2001 as previously reported	3	173	2,658	185
Prior year adjustment	–	–	(91)	–
At 15 September 2001 as restated	3	173	2,567	185
Effect of currency changes	–	–	(21)	–
Tax on effect of currency changes	–	–	5	–
Profit for the year	–	–	217	(11)
At 14 September 2002	**3**	**173**	**2,768**	**174**

As permitted by Section 230(4) of the Companies Act 1985, no profit and loss account has been presented for the company.

The cumulative amount of goodwill written off directly to reserves as a result of acquisitions made in earlier financial periods is £527 million (2001 – £527 million).

22. Contingent liabilities

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

Group companies have provided guarantees in the ordinary course of business amounting to £37 million (2001 – £39 million). The contingent liabilities of the company at 14 September 2002 were £32 million (2001 – £35 million).

23. Leases

The group has minimum annual commitments under non-cancellable operating leases as follows:

Operating leases which expire:	Within one year £m	Two to five years £m	Over five years £m	Total £m
Land and buildings	5	3	20	28
Other	1	4	–	5
At 14 September 2002	**6**	**7**	**20**	**33**
Land and buildings	4	2	19	25
Other	1	4	–	5
At 15 September 2001	5	6	19	30

24. Shares in subsidiary undertakings

	£m
At 14 September 2002 and 15 September 2001	**145**

Investments in subsidiary undertakings are shown at cost less amounts written off. A list of the principal trading subsidiary undertakings is given on page 74. None of the companies shown is a direct subsidiary undertaking of Associated British Foods plc.

The entire share capital of the companies listed is held within the group except where percentages are shown. These percentages give the group's ultimate interest and therefore allow for the position where subsidiary undertakings are owned by partly owned intermediate subsidiary undertakings.

25. Cash flow from operating activities

	2002 £m	2001 £m
Operating profit	**370**	271
Amortisation of goodwill	**18**	73
Depreciation	**149**	149
(Increase)/decrease in working capital		
– stocks	**(18)**	8
– debtors	**(13)**	(31)
– creditors	**27**	(16)
European Commission fine	**–**	(27)
Other provisions	**(10)**	–
Net cash from operating activities	**523**	427

Notes forming part of the financial statements continued

26. Acquisitions and disposals

	Acquisitions		Disposals	
	2002	2001	**2002**	2001
	£m	£m	**£m**	£m
Net assets				
Goodwill	**–**	–	**–**	1
Tangible fixed assets	**28**	17	**9**	93
Joint ventures	**–**	–	**–**	2
Fixed asset investments	**–**	–	**–**	3
Investments	**5**	–	**–**	–
Stocks	**16**	23	**2**	34
Debtors	**1**	8	**–**	38
Cash at bank and in hand	**–**	4	**–**	–
Creditors	**(12)**	(12)	**–**	(31)
Bank overdrafts	**–**	–	**–**	(1)
Loans and finance leases	**(5)**	(17)	**–**	–
Minority interests	**(2)**	(3)	**–**	–
Net assets acquired/disposed	**31**	20	**11**	139
Goodwill on acquisitions/written back	**236**	105	**–**	5
Provisions made	**–**	–	**5**	3
Profit on sale	**–**	–	**–**	17
Total consideration	**267**	125	**16**	164
Satisfied by				
Cash	**267**	125	**16**	141
Debtors/deferred consideration	**–**	–	**–**	23
Net cash				
Cash consideration	**267**	125	**16**	141
Deferred consideration brought forward received in the year	**–**	–	**18**	–
Cash and overdrafts acquired/disposed	**–**	(4)	**–**	1
	267	121	**34**	142

The principal acquisitions in the year were Mazola – £235 million, Crusha – £11 million and SPP Ingredients – £12 million, all of which were asset purchases.

There have been no material fair value adjustments on acquisitions.

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

27. Reconciliation of net cash flow to movement in net funds

	2002	2001
	£m	£m
Increase in cash	**47**	32
Management of liquid resources	**164**	76
Net increase in borrowings	**(216)**	(6)
Change in net funds resulting from cash flows	**(5)**	102
Effect of currency changes	**4**	(5)
On acquisition of subsidiary undertakings	**–**	(17)
Other	**–**	(10)
Movement in net funds	**(1)**	70
Opening net funds	**1,051**	981
Closing net funds	**1,050**	1,051

28. Analysis of net funds

	At 15 September 2001 £m	Cash flow £m	Acquisition of subsidiary undertakings £m	Exchange adjustments £m	**At 14 September 2002 £m**
Cash at bank and in hand	95	47	–	(3)	**139**
Short-term borrowings	(82)	15	–	3	**(64)**
Investments	1,195	164	5	(2)	**1,362**
Loans over one year	(157)	(231)	(5)	6	**(387)**
	1,051	(5)	–	4	**1,050**

29. Financial instruments

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

Interest rate risk profile of financial assets

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

	Financial assets on which no interest is received £m	Floating rate financial assets £m	Fixed rate financial assets £m	Total £m	Fixed rate financial assets: Weighted average interest rate %	Fixed rate financial assets: Weighted average period for which rate is fixed Months
Currency						
Sterling	2	1,251	7	1,260	4.1	38
Australian dollar	–	76	–	76	–	–
US dollar	–	45	–	45	–	–
Euro	1	74	–	75	–	–
Other	–	52	–	52	–	–
At 14 September 2002	**3**	**1,498**	**7**	**1,508**	**4.1**	**38**
Currency						
Sterling	5	1,085	28	1,118	5.2	46
Australian dollar	1	35	–	36	–	–
US dollar	–	23	–	23	–	–
Euro	–	72	9	81	3.7	78
Other	–	34	–	34	–	–
At 15 September 2001	6	1,249	37	1,292	4.8	53

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

29. Financial instruments continued

Interest rate risk profile of financial liabilities

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

	Floating rate financial liabilities £m	Fixed rate financial liabilities £m	Total £m	Fixed rate financial liabilities Weighted average interest rate %	Fixed rate financial liabilities Weighted average period for which rate is fixed Months
Currency					
Sterling	5	150	155	10.8	129
US dollar	232	–	232	–	–
Euro	1	–	1	–	–
Other	63	–	63	–	–
At 14 September 2002	**301**	**150**	**451**	**10.8**	**129**
Currency					
Sterling	18	157	175	10.6	134
Euro	16	–	16	–	–
Other	47	1	48	3.0	15
At 15 September 2001	81	158	239	10.5	134

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

Currency exposure

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

Net foreign currency monetary assets/(liabilities)

	Functional currency of group operation			
	Sterling £m	Euro £m	Other £m	Total £m
Sterling	–	(5)	–	(5)
US dollar	16	–	7	23
Euro	49	–	(4)	45
Other	5	5	–	10
At 14 September 2002	**70**	**–**	**3**	**73**
Sterling	–	(4)	(1)	(5)
US dollar	2	–	12	14
Euro	47	–	–	47
Other	1	(3)	–	(2)
At 15 September 2001	50	(7)	11	54

29. Financial instruments continued

Borrowing facilities

The group has various borrowing facilities available to it. The undrawn committed facilities available at 14 September 2002 in respect of which all conditions precedent have been met, were as follows:

	2002	2001
	£m	£m
Expiring within one year	**9**	20
Expiring between one and two years	**–**	–
Expiring thereafter	**–**	–
	9	20

Fair value

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

	2002		2001	
	Carrying amount	**Estimated fair value**	Carrying amount	Estimated fair value
	£m	**£m**	£m	£m
Primary financial instruments held or issued to finance the group's operations				
Cash	**139**	**139**	95	95
Fixed asset investments	**1**	**1**	2	2
Current asset investments	**1,362**	**1,367**	1,195	1,209
Debtors receivable after one year	**6**	**6**	6	6
Loans due within one year	**(64)**	**(64)**	(82)	(82)
Loans due after one year	**(387)**	**(444)**	(157)	(207)
Derivative financial instruments held to manage currency and commodity exposure				
Forward foreign exchange contracts	**–**	**(4)**	–	–
Currency options	**–**	**–**	–	(2)

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

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

Unrecognised gains and losses on hedges

	Gains	Losses	Net gains/ (losses)
	£m	£m	£m
At 15 September 2001	2	(4)	(2)
Arising in previous years and recognised during the year	(2)	4	2
Arising before 15 September 2001 and not recognised during the year	–	–	–
Arising in the year and not recognised during the year	–	(4)	(4)
At 14 September 2002	**–**	**(4)**	**(4)**
Expected to be recognised			
In one year or less	–	(4)	(4)
In later years	–	–	–
	–	**(4)**	**(4)**

Notes forming part of the financial statements continued

29. Financial instruments continued

Unrecognised gains and losses on hedges

	Gains £m	Losses £m	Net gains/ (losses) £m
At 16 September 2000	11	–	11
Arising in previous years and recognised during the year	(11)	–	(11)
Arising before 16 September 2000 and not recognised during the year	–	–	–
Arising in the year and not recognised during the year	2	(4)	(2)
At 15 September 2001	2	(4)	(2)
Expected to be recognised			
In one year or less	2	(4)	(2)
In later years	–	–	–
	2	(4)	(2)

30. Holding company information

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 and is incorporated in Great Britain and registered in England.

At 14 September 2002 Wittington Investments Limited together with its subsidiary undertaking, Howard Investments Limited, held 431,515,108 ordinary shares (2001 – 431,515,108) representing in aggregate 54.5% (2001 – 54.5%) of the total issued ordinary share capital of Associated British Foods plc.

31. Related party transactions

The group's related parties, as defined by Financial Reporting Standard 8, the nature of the relationship and the extent of the transactions with them, are summarised below:

	Sub note	**2002 £'000**	2001 £'000
Management charge from Wittington Investments Limited, principally in respect of directors and secretarial staff of ABF paid by Wittington	1	**190**	186
Charges to Wittington Investments Limited in respect of services provided by the company and its subsidiary undertakings	1	**(53)**	(59)
Dividends paid by ABF and received in a beneficial capacity by:			
(i) Trustees of The Garfield Weston Foundation	2	**3,593**	3,214
(ii) Directors of Wittington Investments Limited who are not Trustees of the Foundation		**618**	589
(iii) Directors of the company who are not Trustees of the Foundation and are not directors of Wittington Investments Limited	3	**4**	4
(iv) a member of the Weston family employed within the ABF group	4	**344**	328

31. Related party transactions continued

	Sub note	**2002 £'000**	2001 £'000
Sales to fellow subsidiary undertakings on normal trading terms	5	**5**	7
Amounts due from fellow subsidiary undertakings	5	**–**	1
Sales to joint ventures and associates on normal trading terms	6	**33**	55
Purchases from joint ventures and associates on normal trading terms	6	**1**	9
Amounts due from joint ventures and associates	6	**2**	6
Amounts due to joint ventures and associates	6	**3**	3

Sub notes

1. At 14 September 2002 Wittington Investments Limited together with its subsidiary undertaking, Howard Investments, held 431,515,108 ordinary shares (2001 – 431,515,108) representing in aggregate 54.5% (2001 – 54.5%) of the total issued ordinary share capital of the company.

2. 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 14 September 2002 held 683,073 shares in Wittington Investments Limited representing 79.2% of that company's issued share capital and is, therefore, the company's ultimate controlling party. At 14 September 2002, Trustees of the Foundation comprised four of the late W Garfield Weston's children and five of the late Garry H Weston's children.

3. Details of the directors are given on pages 34 and 35. Their beneficial interests, including family interests, in the company and its subsidiary undertakings are given on page 45. Directors' remuneration, including share options, is disclosed on pages 42 to 44.

4. 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.

5. The fellow subsidiary undertaking is Fortnum & Mason PLC.

6. Details of the group's principal joint ventures and associates are set out on page 74.

32. Post balance sheet events

On 20 September 2002, the minority shareholdings in George Weston Foods in Australia were acquired at a cost of £58 million. The company was subsequently delisted from the Australian Stock Exchange on 27 September 2002.

On 8 October 2002, we announced the acquisition of the food and beverage business, comprising Ovaltine and associated brands, from Novartis for £171 million. Net tangible assets are estimated to be £45 million at completion. Completion will follow the grant of appropriate regulatory approvals.

Principal subsidiary undertakings

Manufacturing activities	Country of incorporation
AB Enzymes GmbH	Germany
AB Enzymes Oy	Finland
AB Technology Limited	UK
ABF Grain Products Limited	UK
Abitec Corporation	US
ABNA Limited	UK
ACH Food Companies Inc	US
Allied Foods Co Limited (81%)	New Zealand
Allied Glass Containers Limited	UK
Allied Grain Limited	UK
Allied Technical Centre Limited	UK
British Sugar (Overseas) Limited	UK
British Sugar plc	UK
Cereform Limited (95%)	UK
Cukrownia Glinojeck SA (53%)	Poland
Fishers Agricultural Holdings Limited	UK
Food Investments Limited	UK
Foods International SA	France
George Weston Foods Limited (81%)	Australia
Germains (Ireland) Limited	Republic of Ireland
Germains (Poland) Sp zoo (65%)	Poland
Grosvenor Marketing Limited	US
Guangxi Bo hua Food Company (71%)	China
Guangxi Boqing Food Co. Limited (60%)	China
Haugen Gruppen Denmark AS	Denmark
Henan Lianhua – BSO Pharmaceutical Co. Limited (57%)	China
Jacksons of Piccadilly Limited	UK
Jordan Bros (NI) Limited	UK
Liaoning Liaohe Aimin Feed Company Limited (55%)	China

Manufacturing activities	Country of incorporation
Liaoning Liaohe Yingpeng Feed Company Limited (55%)	China
Nambarrie Tea Company Limited	UK
R Twining & Co. Limited	US
R Twining & Company Limited	UK
Seed Systems Incorporated	US
Shanghai ABN Huinong Feed Company Limited (60%)	China
SPCA Barcroft SA	France
SPI Pharma Inc	US
SPI Polyols Incorporated	US
SugarPol (Torun) Sp. zoo (72%)	Poland
The Ryvita Company Limited	UK

Retailing activities	Country of incorporation
Primark	Republic of Ireland
Primark Stores Limited	UK

Investment and other activities	Country of incorporation
Beauvallet Investments Limited	Jersey, Channel Islands
Eastbow Securities Limited	UK
Serpentine Securities Limited	UK
Soublier Investments Limited	Jersey, Channel Islands
Talisman (Guernsey) Limited	Guernsey, Channel Islands

Group interest is 100% except where indicated.
British Sugar (Overseas) Limited operates subsidiary undertakings and joint ventures in Europe and Asia. Other than this company, each subsidiary undertaking operates mainly in its country of incorporation.

The group's interest in subsidiary undertakings are all equity investments with the exception of a preference share interest in British Sugar plc held by Beauvallet Investments Limited and Soublier Investments Limited.

Investments

		Issued ordinary share capital	
	Country of incorporation	Total	Group %
Principal joint ventures and associates			
C Czarnikow Sugar Limited	UK	£1,000,000	42
Chiltern Bakeries Limited	UK	£100	44
Getec Guanabara Quimica Industrial SA	Brazil	BRR14,254,370	20
Harper-Love Adhesives Corporation	US	US$912,200	50
Mauri Products Limited	UK	£1,375,001	50
Murray Bridge Bacon Pty Limited	Australia	A$11,040,210	20
New Food Coatings Pty Limited	Australia	A$150,000	50
Roal Oy	Finland	€3,195,572	50
WA Country Bakers Pty Limited	Australia	A$1,000,000	50
Yeast Products Company Limited	Republic of Ireland	€1,015,796	30

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.

Progress report

Saturday nearest to 15 September	1998 £m	1999 £m	2000 £m	2001 £m	**2002** **£m**
Turnover	4,195	4,299	4,406	4,418	**4,545**
Operating profit before exceptional items and amortisation of goodwill	316	326	340	351	**395**
Exceptional items	(19)	(84)	(130)	–	**–**
Amortisation of goodwill	–	(5)	(6)	(73)	**(18)**
Profit less losses on sale of properties	(3)	4	8	20	**8**
Profit less losses on sale or termination of businesses	–	–	–	29	**–**
Investment income	119	84	61	66	**57**
Profit on ordinary activities before interest	413	325	273	393	**442**
Interest payable	(22)	(25)	(26)	(24)	**(22)**
Profit on ordinary activities before taxation	391	300	247	369	**420**
Tax on profit on ordinary activities	(124)	(115)	(111)	(118)	**(95)**
Profit on ordinary activities after taxation	267	185	136	251	**325**
Minority interests	(2)	(1)	2	(8)	**(3)**
Profit for the financial year	265	184	138	243	**322**
Earnings per share	29.6p	21.4p	17.5p	30.8p	**40.8p**
Adjusted earnings per share	32.0p	31.3p	33.1p	33.8p	**38.7p**

The figures for 1998 to 2000 have not been restated to reflect the adoption of FRS 19 'Deferred Taxation'.

Notice of meeting

Notice is hereby given that the sixty-seventh annual general meeting of the company will be held at The Royal Garden Hotel, 2-24 Kensington High Street, London W8 4PT on Thursday 5 December 2002 at 11.00 am to transact the following business:

Ordinary business

Resolution 1

To receive the accounts and the reports of the directors and the auditors thereon for the period ended 14 September 2002.

Resolution 2

To re-elect GG Weston as a director.

Resolution 3

To re-elect JG Bason as a director.

Resolution 4

To re-elect MG Adamson as a director.

Resolution 5

To elect MR Alexander as a director.

Resolution 6

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

Special business

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

Resolution 7

That the directors be and they are hereby generally and unconditionally authorised in accordance with Section 80 of the Companies Act 1985 to exercise all the powers of the company to allot relevant securities (as defined in Section 80(2) of that Act) up to a maximum of 263 million ordinary shares of $5\frac{15}{22}$p each provided that this authority shall expire on 4 December 2007, save that the company shall be entitled to make offers or agreements before the expiry of such authority which would or might require relevant securities to be allotted after such expiry and the directors shall be entitled to allot relevant securities pursuant to any such offer or agreement as if this authority had not expired; and all unexercised authorities previously granted to the directors to allot relevant securities be and are hereby revoked.

To propose the following resolution as a special resolution:

Resolution 8
That the directors be and they are hereby empowered pursuant to Section 95 of the Companies Act 1985 to allot equity securities (as defined in Section 94(2) of that Act) for cash pursuant to the authority conferred by Resolution 7 above as if Section 89(1) of that Act did not apply to any such allotment provided that this power shall be limited to:

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

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

and shall expire upon the date of the next annual general meeting of the company after the passing of this resolution or 31 December 2003, whichever is sooner, save that the company shall be entitled to make offers or agreements before the expiry of such power which would or might require equity securities to be allotted after such expiry and the directors shall be entitled to allot equity securities pursuant to any such offer or agreement as if the power conferred hereby had not expired.

By order of the board
Paul Lister
Secretary
Weston Centre, Bowater House,
68 Knightsbridge, London SW1X 7LQ

Registered in England and Wales
Company No. 293262

5 November 2002

Notes

1. Resolutions number 2 to 5
   In accordance with the Articles of Association, all directors who held office at the time of the two preceding annual general meetings, and who did not put themselves forward for re-election should do so. The Combined Code of best practice recommends that all directors should be required to submit themselves for re-election at least once every three years. Mr Bailey will retire with effect from the end of the meeting and will not be putting himself forward for re-election. In accordance with the Articles of Association, MR Alexander having been appointed a director since the last annual general meeting, is required to retire at this meeting and, being eligible, offers himself for election.

2. Resolutions number 7 and 8
   The Companies Act 1985 prevents directors allotting unissued shares without the authority of shareholders in general meeting. At the annual general meeting held in December 2001 shareholders gave the directors a general authority to allot shares up to a limit not exceeding one third of the ordinary shares in issue. The authority is valid for the maximum period of five years as permitted by that Act and expires in December 2006. The directors, however, propose to renew this authority every year asking, on each occasion, for the authority to be granted for a further period of five years. Resolution number 7 will authorise the directors to allot substantially all of the present unissued ordinary share capital, which represents approximately 25% of the company's authorised share capital, and approximately 33% of the company's issued ordinary share capital at 5 November 2002, at any time within the next five years. The proposed renewal of the authority should not be taken as an indication that the directors have any current plans to make an issue of shares.

   Where shares are allotted pursuant to a general authority as provided in resolution number 7 and shareholders are required to pay for them in cash, that allotment is subject to Section 89 of the Companies Act, which requires new shares to be offered first to existing shareholders in proportion to their existing holdings. There may, however, be circumstances where directors wish to allot shares for cash other than by way of rights issue, open offer or other offer of securities and this cannot be done unless shareholders have first waived their pre-emption rights. Resolution number 8 asks shareholders to do this by allowing the directors to allot for cash (i) by way of a rights issue, open offer or other offer of securities to all shareholders (subject to certain exclusions) and (ii) up to 5% of the company's present issued ordinary share capital as at 5 November 2002 to persons other than existing shareholders. By setting the 5% limit, interests of existing shareholders are protected, as their interest in the company cannot, without their consent, be reduced by more than 5% by the issue of new shares for cash to new shareholders.

3. The company, pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, specifies that only those shareholders registered in the register of members of the company at 6.00 pm on Tuesday 3 December 2002 shall be entitled to attend or vote at the annual general meeting in respect of the number of shares registered in their name at that time. Changes to entries on the register after 6.00 pm on Tuesday 3 December 2002 shall be disregarded in determining the rights of any person to attend or vote (and the number of votes they may cast) at the meeting.

4. A member entitled to attend and vote at the meeting may appoint a proxy (who need not be a member of the company) to attend and, on a poll, to vote in his/her place. The instrument appointing a proxy should be deposited at the company's registered office not later than 11.00 am on Tuesday 3 December 2002.

5. No director has a contract of service with the company which is not determinable within one year without payment of compensation or which contains provisions for predetermined compensation on termination of an amount, which equals or exceeds one year's salary and benefits in kind.

6. The register of directors' interests in the ordinary shares of the company will be available for inspection during normal business hours on any weekday (Saturdays excepted) from the date of this notice until the date of the annual general meeting at the registered office of the company and at The Royal Garden Hotel 15 minutes prior to and during the meeting.

Directions to the annual general meeting

Shareholders are asked to use the Palace Suite entrance from the forecourt. Those requiring the lift should descend to the Palace Suite from the main hotel reception.

Company directory

Associated British Foods plc Registered office	Weston Centre Bowater House 68 Knightsbridge London SW1X 7LQ Company registered in England, number 293262	
Secretary	Paul Lister	
Registrars and transfer office	Lloyds TSB Registrars The Causeway Worthing West Sussex BN99 6DA	
Auditors	KPMG Audit Plc Chartered Accountants	
Bankers	Bank of Scotland Barclays Bank plc Lloyds TSB Bank plc The Royal Bank of Scotland plc	
Timetable	First interim dividend	paid 30 August 2002
	Second interim dividend	to be paid 18 February 2003
	Annual general meeting	5 December 2002
	Interim results to be announced	April 2003
Internet site	http://www.abf.co.uk	

Associated British Foods plc Weston Centre, Bowater House, 68 Knightsbridge, London SW1X 7LQ **T** 020 7589 6363 **F** 020 7584 8560 **I** www.abf.co.uk