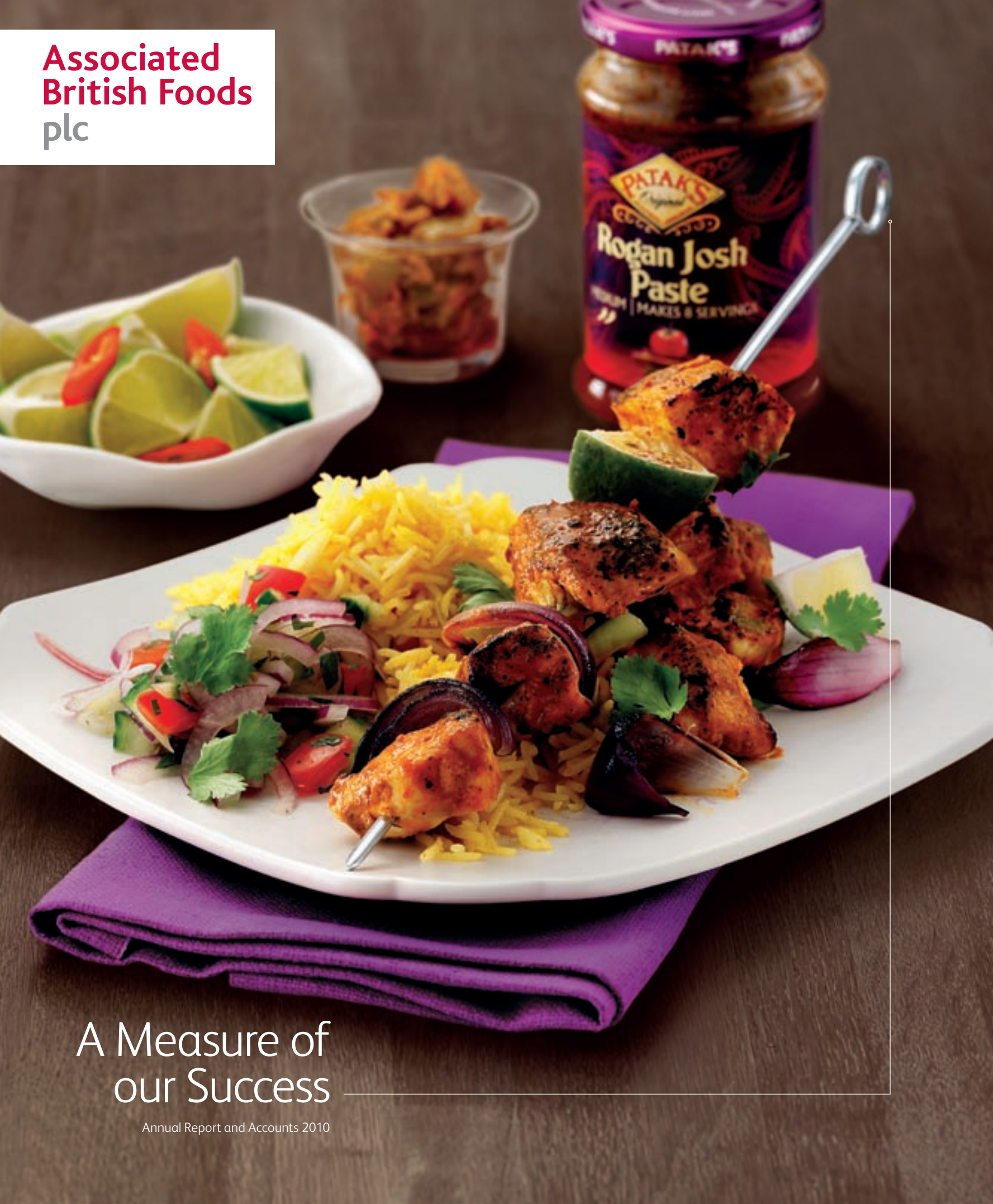


**Associated
British Foods
plc**



A Measure of
our Success

Annual Report and Accounts 2010

The year's highlights

- Group revenue over £10bn for the first time
 - Step change in the scale of Sugar
 - 10% increase in Primark selling space with 13 new stores
 - 25% increase in adjusted earnings
 - Cash generated from operations more than doubled in two years
 - Strong balance sheet and substantial financial resources
- * before amortisation of non-operating intangibles and profits less losses on disposal of non-current assets.
- ** before amortisation of non-operating intangibles, profits less losses on disposal of non-current assets, and profits less losses on the sale and closure of businesses.

<div>Group revenue</div> <div>£10.2bn</div> <div>Up 10%</div> <div>Adjusted profit before tax**</div> <div>£825m</div> <div>Up 26%</div> <div>Dividends per share</div> <div>23.8p</div> <div>Up 13%</div> <div>Net debt</div> <div>£816m</div> <div>Profit before tax</div> <div>£763m</div> <div>Up 54%</div>	<div>Adjusted operating profit*</div> <div>£909m</div> <div>Up 26%</div> <div>Adjusted earnings per share**</div> <div>72.2p</div> <div>Up 25%</div> <div>Net capital investment</div> <div>£699m</div> <div>Operating profit</div> <div>£819m</div> <div>Up 31%</div> <div>Basic earnings per share</div> <div>69.3p</div> <div>Up 52%</div>
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Associated British Foods is a diversified international food, ingredients and retail group with sales of £10.2bn, and 97,000 employees in 44 countries.

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

Our group at a glance



Revenue
£1,941m

Adjusted
operating profit
£240m



Sugar

Sugar, Europe

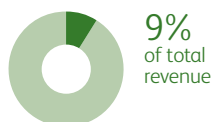
British Sugar's UK beet sugar factories produce over one million tonnes of sugar annually. Its Spanish business, Azucarera, produces around 400,000 tonnes of beet sugar each year and has a cane refining capacity of a further 400,000 tonnes.

Sugar, China

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

Sugar, southern Africa

Illovo is Africa's largest sugar producer with agricultural and production facilities in six countries. Illovo grows 6.1 million tonnes of sugar cane itself and its annual sugar production is 1.9 million tonnes.



Revenue
£954m

Adjusted
operating profit
£33m



Agriculture

Agriculture

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



Revenue
£2,730m

Adjusted
operating profit
£341m



Retail

Primark

Primark is a major retail group employing over 31,500 people. It operates stores in the UK, Republic of Ireland, Spain, the Netherlands, Portugal, Germany and Belgium.

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

Buying and merchandising teams in Dublin (Republic of Ireland) and Reading (UK) travel internationally to source and buy up-to-the-minute fashion items that best reflect each season's key fashion trends. Primark's range of departments includes womenswear, lingerie, childrenswear, menswear, footwear, accessories, hosiery and homeware.

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



Revenue
£3,406m

Adjusted
operating profit
£229m



Grocery

Hot beverages, sugar and sweeteners

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

Vegetable oils

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

Bread, baked goods and cereals

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

World Foods

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

Herbs and spices

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

Meat

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



Revenue
£1,067m

Adjusted
operating profit
£104m



Ingredients

Yeast and bakery ingredients

AB Mauri operates globally in yeast and bakery ingredient production with 49 plants in 25 countries supplying plant and artisanal bakers and the foodservice and wholesale channels. It is a technology leader in bread improvers, dough conditioners and bakery mixes.

Speciality ingredients

ABF Ingredients focuses on high-value ingredients for food and non-food applications. It manufactures and markets enzymes, yeast extracts, speciality proteins and lipids.



Go online for more...

For more information on our year, our approach to corporate responsibility and shareholder information go to www.abfreports.co.uk

Chairman's statement



I am pleased to report a record year for Associated British Foods. Revenue grew across the group by 10% to over £10bn for the first time with strong underlying trading from all of our business segments.

Adjusted operating profit increased by 26%. Grocery margins improved, there was an excellent result for Sugar and an outstanding performance from Primark. Our Chinese sugar operations made a significant recovery from the difficulties reported last year and there was no repeat of the losses incurred on vegetable oil futures in the US. Growth in adjusted earnings of 25%, particularly in the prevailing economic climate, is a fine achievement by the whole group.

A number of capital projects were completed during the year and have begun to yield results. Several projects are still in progress and will continue to drive the group's growth as they come on stream, notably the restructuring of our meat business in Australia, sugar capacity expansions in southern Africa and the building of the Vivergo biofuels plant in the UK. Encouragingly, we have identified a number of further investment opportunities, particularly in the developing markets of China and Africa and in new stores for Primark across Europe. The high level of capital investment is therefore planned to continue.

A major feature of these results is the significant increase in the cash generation capability of the group. Adjusted operating profit before depreciation and amortisation increased by £228m to £1,241m and provided the resources for investment. Even after capital expenditure of £694m during the year, net debt at the end of the year was £183m lower than last year at £816m, although the £115m raised at the beginning of the year from Illovo's rights issue contributed to this reduction. The strength of the group's balance sheet, the reliability of its cash generation and the newly negotiated bank facilities that extend to 2015, provide the financial resources to fund our investment ambitions.

Corporate responsibility

We have always sought to run our business in ways that are socially and environmentally responsible. It is part of our culture and we have been reporting the group's performance on health, safety and the environment for the past seven years. Some of the highlights over the last year are included in the corporate responsibility section of this year's annual report. However the limited space available here does not do justice to the variety of initiatives under way and the progress we have made. We are therefore launching our first corporate responsibility report which details our business principles, explains how we manage our corporate responsibility and contains a comprehensive review of our performance. This report is available for download from our website at www.abf.co.uk/corporate-responsibility.aspx

“ We have always sought to run our business in ways that are socially and environmentally responsible . . . this year we are launching our first corporate responsibility report.

Employees

This year's success is in large part attributable to the dedication of our employees who have shown resilience and resourcefulness in a difficult economic environment. Successful delivery of such a wide-ranging capital investment programme also requires considerable commitment on their part, to both managing the projects and ensuring that the day-to-day business continues to perform effectively. I take this opportunity to extend the gratitude of the board to all of them on behalf of all shareholders.

It is also satisfying to note that during a period of employment uncertainty we are able to report a further increase in the size of our workforce. The growth of the business has resulted in the number of our employees now reaching 97,000.

The continued development of the group requires exceptional and sustained performance from our executive teams. We have significantly increased our focus on executive development, running leading-edge programmes for our business leaders around the world as well as the first executive programmes dedicated to our Chinese teams. To support our requirement to retain key executives and attract new people to our executive teams as the group develops further, we will also be asking shareholders to approve an increase in the maximum grant of shares for our long-term incentive plans. At the same time, we are introducing a requirement that all direct reports to the Chief Executive build a shareholding in the Company over time, to a value equivalent to their annual salary.

Dividends

A final dividend of 16.2p is proposed, to be paid on 14 January 2011 to shareholders on the register on 10 December 2010. Together with the interim dividend of 7.6p paid on 2 July 2010, this will make a total of 23.8p for the year, an increase of 13%.

Outlook

There is uncertainty about the global economic outlook, especially for western economies, and governmental actions to be taken to reduce budget deficits. We are cautious of the impact that this, together with VAT increases in Europe, will have on consumer spending. We have also seen, recently, significant increases in some commodity prices, particularly cotton and wheat. However, the diversity of the group's operations and its broad geographic spread together with further returns from our capital investments serve to mitigate these pressures. At this stage, therefore, we expect to achieve revenue and profit growth in the coming year.

Charles Sinclair
Chairman

Operating review



This year's outstanding results represent a step change for the group. A number of major projects will be completed over the coming year which will underpin future profit delivery and provide a platform for further growth.

This is an exceptional set of results. Group revenue increased by 10% to £10.2bn and adjusted operating profit increased by 26% to £909m. With 56% of sales and 46% of operating profit generated outside the UK, the translated results of overseas businesses benefited from the weakness of sterling. At constant currency, and adjusted for the impact of acquisitions and disposals, group revenue increased by 6% but profit was little affected and was still 25% ahead. Four of our five business segments reported record profits and Agriculture almost equalled last year's record.

The drivers of this growth were returns from recent investments made, the restructuring of some of our operations and recovery in others. New stores for Primark, enzyme capacity expansion and an increase in sugar production in Zambia all contributed to the increase in profit for the year. We completed the restructuring of a number of our US and UK grocery businesses, the early benefits of which can be seen in margin improvement. Profitability also improved significantly with recovery in our UK sugar, China sugar and US vegetable oil businesses.

Sugar has received substantial investment through capital expenditure and acquisitions over a number of years. A business that was heavily dependent on UK beet sugar profit prior to reform of the EU sugar regime has been transformed. It now comprises businesses in the EU which have a more stable cash generative outlook, and businesses in the developing regions of Africa and China which provide the prospect of volume growth. The potential for this group is evident from the level of profitability and the international scale now achieved.

Primark's performance was truly outstanding and has taken profitability to a new level. The improvement in margin has been delivered with a much weaker sterling/dollar exchange rate compared to two years ago and has benefited from consistently strong volume growth. Trading in our stores in continental Europe stood out this year with sales densities already ahead of the Primark average and delivering a strong profit margin. Primark has now demonstrated the strength of its consumer appeal in a number of countries which provides every encouragement for its continued expansion.

Last year I outlined the work in progress to strengthen our portfolio of grocery businesses. This has comprised the integration of Patak's and Jordans with the existing grocery businesses in the UK, the creation of a wholly-branded operation in the US, a recovery in UK bread with the relaunch of the Kingsmill brand, and rationalisation of the cost base. The increase in margin and profit this year reflects some of the benefits from these activities now coming through. Further work is under way, especially in Twinings and the meat business in Australia, which we expect to deliver further benefit in the future.

A high level of capital investment has been a feature of recent years. Expenditure has been incurred this year on a number of projects, with those completed during the year including new stores for Primark, the sugar factory capacity expansion in Mozambique and the yeast capacity expansion at Harbin in China. Yeast extract capacity in China is in the process of commissioning. During the coming year, further new stores will be opened by Primark, we will commission both the new meat factory in Australia and the Vivergo biofuels plant in Hull, and increased sugar capacity in Swaziland will come on stream.

This year's outstanding results represent a step change for the group. A number of major projects will be completed over the coming year which will underpin future profit delivery and provide a platform for further growth. Opportunities for further attractive investment are plentiful and the group has the financial capacity to exploit them.

“ A business that was heavily dependent on UK beet sugar profit prior to reform of the EU sugar regime has been transformed. It now comprises businesses in the EU which have a more stable cash generative outlook, and businesses in the developing regions of Africa and China which provide the prospect of volume growth.

Sugar

Revenue

£1,941m (2009, £1,475m)

Adjusted operating profit

£240m (2009, £168m)

The results from Sugar improved substantially this year with revenue ahead by 32% primarily as a result of a full year's sales from Azucarera, acquired in April 2009, but also with good growth in the UK and from cane sugar in China. This revenue growth, together with an improvement in UK and Chinese margins, drove a profit increase of 43%.

In the EU, the UK business had an excellent campaign. Favourable growing conditions and improved beet yields led to production of 1.3 million tonnes of sugar which was 9% more than the previous year. Profit and margin were also significantly ahead. Factory performance was excellent with further improvements in energy consumption and costs savings achieved through optimising logistics. The business also benefited from firmer pricing, a stronger euro and 120,000 tonnes of non-quota exports into the world market enabled by a temporary increase in export licences issued by the European Commission. These exports were made at prices above the average for last year.

British Sugar has successfully developed, over many years, a number of co-products which maximise the value from the processing of sugar. These notably include molasses, animal feed, electricity generation and bioethanol for road transport. The glasshouse adjacent to the Wissington sugar factory, which uses waste heat and CO₂ to produce tomatoes, is being expanded by 70% to become the UK's largest tomato nursery. During the year, work also commenced on the development of a liquefaction plant in conjunction with Air Liquide to supply CO₂ to UK bottlers and at the same time further improve Wissington's carbon footprint. At Newark a raw sugar co-refining plant was successfully installed and commissioned, providing the capacity to process some 30,000 tonnes of raw sugar to supplement the annual beet quota. Opportunities to build similar plants at other UK sites are under review. Construction of Viverno's wheat bioethanol plant in Hull in the UK will be completed in December, and commissioned during spring 2011 with operation scheduled for the summer.

In Spain, Azucarera had a very poor campaign in the south where extensive flooding in the spring damaged beet quality and volumes. In the north, heavy rains interrupted the campaign which was only finally completed in May. Planting for the current season was delayed as a consequence and crop development in the north is later than normal. A total of 394,000 tonnes of beet sugar was produced and 145,000 tonnes of raw sugars were processed through the Guadalete refinery which was successfully commissioned at the beginning of the year. 50,000 tonnes of non-quota sugar was exported, also benefiting from the temporary increase in licences. Profit in the first half was constrained by the volume of high-cost inventory brought forward from the previous year, all of which had been sold by the half year, and the second half of the year was substantially more profitable as a result.

The sale of the Polish sugar business was completed on 25 November 2009 and its revenue and profit to the date of disposal are excluded from the results of continuing businesses. A profit of £33m on this transaction is included in the income statement within profit less losses on sale and closure of businesses which is excluded from adjusted operating profit.

At Illovo, profit was adversely affected by lower volumes, a weakening of the African currencies other than South Africa on the translation of results, the rand's strength on South African exports and the effect of a weakening euro on exports to the European market. We produced 1.7 million tonnes of sugar in the 2009/10 season, which ended in March. This was 10% below the previous year's level and the start to the new season has been slower than planned with drought in South Africa impacting crop volumes and continued rain in Mozambique and Malawi impacting crop harvesting and sucrose levels. The Zambian factory, where capacity was doubled last year, ran efficiently following completion of commissioning in the first half.

Sugar

The significant increase in sales and profit this year is the result of several years of substantial capital investment and the successful delivery of growth initiatives.

2009

Revenue

£1,475m

Adjusted operating profit

£168m



2010

Revenue

£1,941m

Adjusted operating profit

£240m

Guadelete Refinery, Cádiz

Strategically sited at a European seaport, the recently commissioned white sugar refinery in Spain can refine 400,000 tonnes of raw sugar each year. Most of this comes from the Least Developed Countries for whom this trade represents an important source of foreign earnings.



Factory expansion at Maragra in Mozambique was completed on plan, doubling production capacity in time for the new season. Expansion of the Ubombo operation in Swaziland is under way which will result in a substantial increase in milling capacity when it comes on stream in time for the 2011/12 season. The factory's power co-generating capacity is also to be increased, yielding surplus electricity for commercial export to the national grid. This project is linked to the completion of a major new dam and canal system sponsored by the Swaziland government to facilitate the development of some 5,000 hectares of new out-grower cane land.

The financial results of our Chinese sugar operations were much improved this year. Sugar prices recovered strongly from last year's depressed levels and have recently strengthened further to record levels. Our cane sugar business in the south has consistently delivered a profit. Cane sugar volumes were in line with last year at 474,000 tonnes. In the north 104,000 tonnes of beet sugar were produced, which was much lower than last year, as the business focused its agricultural development on a smaller acreage with processing at seven factories. Agricultural yield remains the largest challenge for this business. Substantial progress has been made with local government in securing support for beet. This year a large number of farmers have been trained in chemical usage and control, the use of appropriately designed machinery and irrigation. As a consequence, beet volumes for the coming year are anticipated to be significantly higher.

Agriculture**Revenue****£954m (2009, £913m)****Adjusted operating profit****£33m (2009, £34m)**

AB Agri had another strong year following last year's record performance. UK feed revenues were ahead of last year in all sectors, Frontier's grain trading revenues held up well despite less volatility in commodity prices for most of the year, and continued progress was made by Premier Nutrition and AB Vista.

KW Trident, our ruminant feeds business, achieved strong volume growth driven by very high sugar beet crop yields, although the benefit was partly offset by lower prices in a tough trading environment. Work continued with the agriculture industry to help UK farms reduce the level of greenhouse gas emissions. ABN made further progress with good underlying organic growth as a result of the pig and poultry markets benefiting from sterling weakness, which kept pressure on import prices, and continued consumer support for British agriculture. New information systems were successfully implemented this year in both of these businesses which will provide much improved support for our customer and business needs.

Premier Nutrition had a successful year with high demand for piglet starter feeds and premixes in the UK and rapid expansion into central and eastern European markets. Strong specialist feed enzyme sales were achieved by AB Vista following European regulatory approval of its new enzyme, Econase XT. International sales, particularly to the Americas and Asia, continued to develop well with investment in selling, technical and research resources supporting the introduction of a range of new products.

Demand for both pig and poultry feed in China was below last year driven by lower consumer prices for meat and eggs which resulted in a reduction in livestock levels. Construction of the new ruminant feed mill in Tianjin is nearing completion.

Grain trading markets were less volatile for most of the year, following high global grain production last year, but trading activity increased towards the end of the financial year with concerns over crop losses in eastern Europe and Russia's imposition of export restrictions. Frontier's grain trading business performed well, delivering a good result with a strong focus on customer service and merchandising of its fertilisers and crop protection products.

Ubombo sugar factory development

Our policy of investing for growth and our approach to sustainable development is exemplified by Illovo's expansion of its Ubombo sugar factory which is situated in the south east of Swaziland.

Construction of the Lubovane dam together with its associated canal systems and infrastructure was sponsored by the Swaziland government and completed in March 2009. The dam, supplied by water from the Usuthu River via a feeder canal, was designed to supply irrigation water for 11,500 hectares of land in the Lower Usuthu basin. It forms part of the independent Lower Usuthu Smallholder Irrigation Project which is aimed at alleviating poverty in this area by facilitating commercial irrigated agriculture for smallholder farmers. At least 5,000 hectares of this area is planned to be developed under sugar cane from smallholder farmers. Development of the first 885 hectares of land is nearing completion and will be harvested in 2011. Plans for the development of a further 600 hectares are being drawn up.

Construction of the dam has provided the agricultural infrastructure to enable Illovo to expand the Ubombo factory, increasing its annual sugar capacity from 230,000 tonnes to over 300,000 tonnes. The project, which will cost some £100m, will also increase the plant's power generation capacity by using biomass as a supplementary fuel for its boilers. Not only will the factory and its estates become self-sufficient in electricity, it will supply power to the country's national grid for 48 weeks of the year under an agreement reached with the Swaziland Electricity Company. By registering the co-generation project, the company will seek to earn carbon credits under the Kyoto Protocol's Clean Development Mechanism. The expanded factory is due to be commissioned in time for the 2011/12 season.



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As well as enabling the factory and its estates to become self-sufficient in electricity, it will see Ubombo supply power to the country's national grid for 48 weeks of the year.



Agriculture

Another strong year following last year's record performance.



2009

Revenue

£913m

Adjusted operating profit

£34m

2010

Revenue

£954m

Adjusted operating profit

£33m



AB Agri – driving change in agriculture

Since its emergence in 1985 as a fledgling operation with a single product and only a handful of employees, AB Agri has become a major business in UK agriculture.

Today it employs over 2,000 people in the UK and China, it operates through six divisions, sells to 43 countries around the world and has strong market positions in all of the sectors in which it operates.

Being part of Associated British Foods has been a key factor in AB Agri's success. AB Agri developed its core expertise around co-product management by adding value to the co-products from British Sugar's UK factories. Today the relationship with British Sugar continues to play a key part in its success but it has since leveraged synergies with other businesses in the group including Ryvita, Allied Bakeries, AB Mauri, AB Enzymes and Vivergo Fuels. These businesses rely on its expertise to source the raw materials that they need to produce their core products. For example, the million tonnes of wheat that Vivergo will use to produce bioethanol will be sourced by AB Agri. The business also adds value to the co-products of other group businesses, such as waste bread from the bakeries by incorporating them into animal feeds, thus reducing the environmental impact of food waste and avoiding high disposal costs. Many of our food, drink and biofuel businesses have a vested interest in the agricultural sector, driven by what they consume or what they produce, but AB Agri's leading position in UK agriculture allows it to provide a wealth of services not only to our businesses, but also to organisations outside the group.

Sustained investment in acquisitions, the recruitment of talented people and innovation in nutrition have also been major factors in the continued growth and success of the business. Over the last 25 years the group has established a significant position in the Chinese agriculture industry, acquired more than 25 individual businesses, opened new routes to market, extended its manufacturing base and capability, and developed new areas of expertise. Today it operates across the entire breadth of the agri-food chain, it is recognised for its expertise in food safety and the manufacture of quality feed and feed ingredients, it supplies premixes and specialist feed inputs to pet and animal feed manufacturers internationally, and supplies over 20% of the inputs, such as fertiliser and seed, to UK arable farmers.

Challenging established practices and driving change in agriculture is all part of what makes AB Agri a success. Whether it is establishing the world's first international phytase summit or creating new models to measure, track and reduce carbon emissions from farms, it truly is a business breaking new ground and challenging the status quo. It is one of the few agricultural businesses to realise the critical importance of alliances along the food chain. Today AB Agri invests in activities to promote British meat through its support of the 'Red Tractor'. It also provides biodiversity solutions and carbon reduction programmes to Waitrose and Sainsbury's to enhance their sustainable sourcing initiatives and create value for consumers, farmers and processors.

At AB Agri, excellence at speed, relentless innovation and continued investment has allowed it to create and sustain its market-leading positions. Equally focused on its people and its customers, it believes that partnerships and alliances along the food chain are fundamental to those who wish to succeed in the long term.



20%

AB Agri supplies premixes and specialist feed inputs to pet and animal feed manufacturers worldwide, and supplies over 20% of the inputs to UK arable farmers.

Store expansion by region

	UK		Republic of Ireland		Iberia		Other		Total	
	sq ft 000	stores	sq ft 000	stores	sq ft 000	stores	sq ft 000	stores	sq ft 000	stores
September 2009	4,380	136	970	38	450	15	80	2	5,880	191
Change in year	340	7	40	–	120	4	100	2	600	13
September 2010	4,720	143	1,010	38	570	19	180	4	6,480	204
	+8%		+4%		+27%		+125%		+10%	

Retail

Revenue

£2,730m (2009, £2,314m)

Adjusted operating profit

£341m (2009, £252m)

Primark had an exceptional year. Revenue increased by 18% with like-for-like sales growth of 6% and the benefit of continued investment in new stores. Our stores in continental Europe, particularly those in Spain, performed ahead of expectations and provide encouragement for expansion into these new markets. In the UK, which remains our most important market with over 70% of the group's total retail space, like-for-like sales were strong, particularly by comparison with other high street retailers. In Ireland, however, the weak economy had an adverse effect on trading.

Profit was 35% ahead and operating margin improved substantially from 10.9% to 12.5%. This improvement was largely driven by economies of scale as revenues increased, and by sterling's relative strength against the US dollar in the first half which benefited the cost of goods sourced in dollars and sold in the second half. However, we expect some of this margin improvement to be eroded in the coming financial year due to higher cotton prices and freight costs and increases in VAT, already implemented in Spain and planned for the UK in January 2011. Primark continues to lead the growing value sector of the market with its on-trend product offering and commitment to maintaining its position of price leadership on the high street.

Primark further developed its ethical trading agenda during the year and now has a highly experienced ethical trade team of full-time staff supporting the Ethical Trade director, in the UK, Bangladesh, China, India and Turkey. The target of 1,000 audits set last year was comfortably exceeded with 1,136 audits completed, representing 94% of our top 250 suppliers and 87% of the products we purchase. Over half of the audits carried out in 2010 were follow-up audits demonstrating our commitment to ensuring that our suppliers continue to improve. We provide support for them through dedicated training whether on site in factories or through informal supply training sessions, and online. Engaging directly with our suppliers is central to our objective of continually improving working conditions. With 95% of the factories shared by other high street brands, we also continue to collaborate with other retailers and non-governmental organisations on addressing the industry challenges,

both through our membership of the Ethical Trading Initiative (ETI), and externally with non-ETI members. As well as working with our suppliers we have continued the process of building an ethical supply culture amongst our own staff and the subject is a feature of the induction training provided to all new employees.

13 new stores were opened during the year: three in Spain; our first store in Belgium in Liège; one each in Portugal and Germany; and seven in the UK. We also relocated our stores in Waterford and Killarney in Ireland and Braehead in Scotland to larger premises. This brings the total number of stores trading by the year end to 204 with 6.5 million sq ft of selling space, an increase of 10% since last year end. A number of stores, including those extended during the year, have been redesigned and refitted to include upgraded in-store display and merchandising features. This not only increased the area available for display but also served to refresh the appearance of the stores and provide even more attractive places for our customers to shop.

Fashionable Netherlands

Customers vote with their feet. Time and again the opening of a new Primark will result in significant increases in footfall in the town. This phenomenon has led some analysts to describe Primark as a destination store. This was certainly the case when Primark opened in Rotterdam, Netherlands. 40% of the customers visiting the store had travelled between 25km and 40km and many from as far afield as Amsterdam.



Retail

Primark had an exceptional year. Revenue increased by 18%, with like-for-like sales growth of 6%, and profit was 35% ahead.

2009

Revenue

£2,314m

Adjusted operating profit

£252m





2010

Revenue

£2,730m

Adjusted operating profit

£341m

Primark

When you first step inside a Primark store you will be pleasantly surprised. You'll have heard of Primark's broad acclaim as the best value fashion store on the high street, so the unbelievably low price tickets won't come as a shock.

What will surprise you is that on first impressions, the visual merchandising of the store would not shame a retailer several tiers above Primark. What's the secret? There is no secret, as thousands of eager customers will testify. Primark has successfully brought together up-to-the-minute fashion, affordability and quality in a contemporary environment.

This focus on the merchandise and the stores in which it is sold is a continuous process of investment, improvement and innovation. Every new store opened presents an opportunity to push architectural boundaries to new heights and we have invested heavily in both fabric and fit-out. But it isn't just new stores receiving this degree of attention; existing stores are being extended and at the same time refurbished.

The merchandise itself has acquired an enviable reputation for providing up-to-the-minute fashion and Primark has invested in its UK and international buying offices to maintain and enhance this market position. The roll-out of stores across continental Europe has also required range adaptation to suit particular market needs and tastes and, of course, absolute dedication to garment quality, fit and consistency as a prerequisite for customer retention.

In store, the story is very similar. Furnishings and fittings are of high quality and the visual merchandising is designed to inspire customers. Key seasonal items are grouped together using feature walls, and focus fixtures are being added to encourage customers to put together the whole outfit or 'look' – a familiar concept at the top end of the sector but less common in value retailers.



Healthy options

From bread to breakfast cereal, our businesses have created food and drink brands that taste great and can be easily enjoyed as part of a balanced and varied diet. Just two slices of Kingsmill Tasty Wholemeal, for example, provide 100% of our daily recommended amount of wholegrains. Of course Ryvita and Jordans also provide a rich source of healthy wholegrains. Our brands have also been at the forefront in the drive to reduce levels of dietary salt. Kingsmill, George Weston Foods, Patak's and Blue Dragon have all made significant salt reductions in their recipes. Jordans has removed salt from its products altogether with no adverse effect on product performance.



We are continually working to secure new stores in each of the countries where we now operate. For those locations where contracts have already been exchanged and the required consents received, we expect to add another 0.5 million sq ft of selling space. This includes the remaining eight of the ten UK stores purchased from Bhs which are now in the process of being refitted and will open progressively during the year, together with a further six stores in Spain, the Netherlands, Germany and the UK. We also expect to start work during the financial year on a number of further stores, including a second store on London's Oxford Street following agreement of a conditional lease contract in August. These are planned to open in time for Christmas 2011.

We have also invested this year in improving the efficiency and increasing the capacity of our logistics network. The new 220,000 sq ft freehold warehouse in Naas, Ireland, is now operational and the former leased premises will be vacated at the end of 2010. The 200,000 sq ft leasehold warehouse at Torija in Spain is also now operational, providing regional distribution capability for southern continental Europe and reducing haulage from Dublin to Spain. Both of these new sites provide the opportunity for further expansion.

Primark new store openings

Barcelona (Spain)
Elche (Spain)
Castellón de la Plana (Spain)
Porto (Portugal)
Liège (Belgium)
Frankfurt (Germany)
Blackburn (UK)
Bury (UK)
Cambridge (UK)
Chester (UK)
Folkestone (UK)
Guildford (UK)
Wood Green (UK)

Relocations

Braehead (UK)
Killarney (Ireland)
Waterford (Ireland)

Grocery Revenue

£3,406m (2009, £3,188m)

**Adjusted operating profit
£229m (2009, £191m)**

Grocery revenue increased by 7% to £3.4bn driven mainly by the benefit of currency translation on the sales of George Weston Foods in Australia. At constant currency, sales were level with last year. Continued strong trading by Twinings Ovaltine was offset by lower vegetable oil sales in the US and Mexico where lower consumer prices reflected a large fall in commodity costs. Grocery profit increased by 20% to £229m with the benefit of the restructuring work undertaken last year and the first half recovery in our US bottled oils business. This year's result includes rationalisation costs of £29m, £19m of which relates to the manufacturing reorganisation at Twinings, and £7m has been provided for rationalisation of the meat business in Australia.

In the UK, Allied Bakeries enjoyed considerable success with its Little Big Loaf, a new format for the bread industry, which received Sainsbury's 'branded new product of the year award' for 2010. This contributed to the increase in Kingsmill's volume and market share over the year. The bread market remained very competitive with high levels of promotional activity. Margins showed improvement over last year but much higher wheat costs seen towards the end of the year will put pressure on margins for 2010/11. Allied Bakeries continued to invest in the environment and its commitment to carbon reduction has resulted in the introduction of aerodynamically designed, lightweight trucks that use less fuel and reduce carbon and other engine exhaust emissions.

Twinings Ovaltine achieved good sales and profit growth with particularly encouraging progress for Twinings in North America and the UK. Advertising expenditure was increased with television campaigns in support of infusions in the UK, and Chai and flavoured black teas in the US. In France we launched Twinings Fresh, an innovative cold-infused teabag that has been well received by the market, and in Australia, speciality teas, green tea and infusions all performed well. Ovaltine continued to build on its success in Thailand and strong growth was achieved in its developing markets. The restructuring of Twinings' manufacturing base is progressing to plan with capacity expansion in China well under way and construction of a new factory in Poland planned to

Grocery

The increase in profit and margin this year reflects work undertaken to strengthen our portfolio of businesses.

2009

Revenue

£3,188m

Adjusted operating profit

£191m



2010

Revenue

£3,406m

Adjusted operating profit

£229m

New product development

The introduction of Kingsmill's Little Big Loaf was inspired. Truly one of those ideas which make you wonder why nobody had thought of it before. Aimed at the increasing number of smaller households, it is the only loaf that offers full size slices, only fewer of them, so that every slice is as fresh as the last.



commission early in 2011. Of the £19m charge for this reorganisation, £8m is non-cash and relates to the writing off of plant and equipment.

Retail sugar continues to be a very competitive market although operating margins improved with the benefit of cost savings from the packaging plant rationalisation completed last year. A resurgence in home baking drove volume growth for Silver Spoon's caster, icing and brown sugars and the Allinson range of flours. Whilst best known for its bread flours, Allinson has always had a presence in culinary flour with its wholemeal plain and self-raising products and has recently launched Nature Friendly culinary flour made from Conservation Grade wheat.

AB World Foods delivered a strong performance this year. A notable success was the relaunch of the Patak's range with improved recipes, new products, new pack formats and advertising support. Blue Dragon export volumes increased, especially in Australia where distribution was taken in-house. Profit margins were much improved with recovery of increased commodity input costs, better factory operations in Poland and the UK, and good returns from investment in UK capacity. Westmill Foods increased profit despite the decline in the Indian and Chinese restaurant trade. Investment in our brands, particularly Patak's catering pastes, Green Dragon rice, Rajah spices and Lucky Boat noodles, resulted in an increased share of the UK ethnic food market.

A much improved performance from Jordans Country Crisp and a strong second half for Ryvita crispbread were the main drivers of a significantly better year for Jordans Ryvita. Two new crispbread varieties were launched supported by television advertising, and the Thins range is now well established following its launch last year. In May the business announced proposals to rationalise manufacturing with the closure of its Stockport factory and the transfer of production to its site in Poole, Dorset. A provision of £3m has been made in these accounts for the costs of closure and the rationalisation will be complete by summer 2011.

At ACH in the US, profit was well ahead with the absence of losses on vegetable oil futures incurred in the first half last year. Following consumer price reductions reflecting the large fall in commodity oil costs in 2009, there was greater market stability which enabled some margin recovery for Mazola and Capullo in the first half. However, margins tightened in the second half as corn oil costs began to increase. A number of new products were launched and, in the baking sector, our strong brands benefited from exclusive listings. The Stratas joint venture successfully transitioned its manufacturing capacity from ACH factories to its own plants, production at our Champaign and Jacksonville sites ceased during the year, and the sale of the Champaign site was completed shortly after the year end.

In Australia, growth of premium and continental branded breads, together with supplies to in-store bakeries, was made at the expense of private label. The launch of Abbott's Village Bakery in the premium bread segment of the market was particularly successful and we increased market share in bakery snacks. Bakery margins further benefited from improvement in operations. The meat business continued to experience difficulties. Volumes were affected by the reduced supply of bulk bacon and ham to the important delicatessen section of the major supermarkets. In the branded pre-pack segment, market share was maintained but margins came under pressure from discounted retail pricing.

The opening of the new meat factory at Castlemaine next summer and the subsequent closure of the Altona factory in Melbourne will go some way to improve margins and a provision of £7m has been charged against adjusted operating profit for rationalisation of this business. Significant progress has been made in the construction of the new factory with fit-out now well under way. Early in the year we announced the closure of the abattoir in Queensland, which had been acquired with the KR Castlemaine business, and a provision of £8m for this exit has been charged in the income statement to profits less losses on sale and closure of businesses.

Everyday products for people everywhere

A well-managed food brand is far more than just a label. It is an indication of quality and a guarantee of consistency that reflects the values of the consumer. Good brands are built using insight and understanding of customers' tastes and culture to create a bond of trust, often over many years, if not generations.

Associated British Foods, through its global businesses, is the owner of an enviable portfolio of leading food brands that reflect the wonderful tastes of food from a diversity of cultures around the world.

George Weston Foods is Australia's second largest food manufacturer and if you ask the average Australian to name a brand of bread they'll say 'Tip Top'. Tip Top Bakeries was founded in the 1940s from the amalgamation of several small bakeries in New South Wales and Victoria. Today, Tip Top is one of the most recognisable national food brands in Australia and a true Australian icon, enjoyed by generations of Australians because of its taste, texture and wholesomeness.

In the US and Mexico, *Mazola* cooking oil was established in 1911 and plays a major role in many traditional recipes. Today, along with its sister brand *Capullo*, it is one of the leading cooking oil brands in the region. *Karo*, *Argo* and *Fleishmann's* are also an integral part of American baking culture and are essential ingredients in important seasonal celebrations such as Thanksgiving as well as in traditional American dishes. Established in 1902, *Karo* corn syrup is well and truly an American favourite – a mixture of corn syrup, sugar, eggs, vanilla and pecans baked in a pastry case produces the classic pecan pie. In the southern states, that same recipe continues to be called *Karo* pie. *Argo* and *Fleishmann's* yeast, together with *Tone's* spices, share a similar illustrious history in the US dating as far back as 1868 – products that are still found today in millions of kitchen cupboards across the country.

In the UK, Thomas Twining first set up shop on London's Strand in 1706. In the age of coffee shops, he was the man who loved tea and worked hard to bring it to the people. More than 300 years later, the passion is still there – and so is *Twining's*, who still sell tea from Thomas's shop. *Twining's* now sells over 100 varieties of tea that are drunk all over the world and its expert blenders taste more than 3,000 cups of tea every week!

Twining's sister brand in the group's grocery portfolio is *Ovaltine*. Launched in Switzerland by Dr. George Wander in 1904, it was the first convenient and complete milk fortifier to provide hot nutritional drinks to 'strengthen under-nourished children, breastfeeding women, the weak and the infirm'. *Ovaltine* even accompanied Sir Edmund Hillary on his ascent of Everest in 1953! Today, it is sold in more than 50 countries around the world and is particularly popular in the Far East, where it is largely drunk cold by children.

Also in the UK, the *Ryvita* crispbread was first manufactured in 1925 and has been advertised as a healthy way to stay slim by a succession of celebrities, including the actress Julie Andrews. *Ryvita* is still the UK's leading brand of crispbread today.

In Britain's vibrant ethnic food sector, the *Patak's* brand was launched in 1957 by the Pathak family as one of the country's first authentic ranges of pickles and Indian cooking sauces. Now, under the stewardship of Associated British Foods and the next generation of the Pathak family, the *Patak's* brand has been brought together with our *Blue Dragon* range of oriental sauces and ingredients, as part of the newly formed AB World Foods operation.

Around the world, we continue to manage our portfolio of food brands to engage with local tastes and customs so as to provide people with the flavours and tastes they love. Whether it is Omega 3 in bread, Rainforest Alliance certified teas, pioneering wildlife-friendly cereals from Jordans and Allinson or ready-to-drink cool *Ovaltine*, Associated British Foods continues to ensure that our leading food brands remain as fresh and inventive to consumers as the day they were launched.



1706

Thomas Twining first set up shop on London's Strand. In the age of coffee shops, he was the man who loved tea and worked hard to bring it to the people. More than 300 years later, the passion is still there – and so is *Twining's*.



Ingredients

Capital investment in expansion projects across the yeast, yeast extracts and bakery ingredients businesses is continuing, providing further capacity for organic growth.

2009

Revenue

£989m

Adjusted operating profit

£88m



2010

Revenue

£1,067m

Adjusted operating profit

£104m



Cross-business collaboration

ABF Ingredients sells internationally to a wide range of third-party customers. In addition it has fostered a symbiotic commercial relationship with sister companies in the group. For example close collaboration with AB Mauri has led to the successful construction of a brand new yeast extracts plant in China adjacent to AB Mauri's Harbin yeast facility. In addition, the group's AB Enzymes unit has managed joint developments with AB Agri in animal feeds and AB Mauri in bakery ingredients.

**Ingredients****Revenue****£1,067m** (2009, £989m)**Adjusted operating profit****£104m** (2009, £88m)

Ingredients achieved a revenue increase of 8% over last year and operating profit rose by 18%. The improvement in margin was driven by a strong performance from the bakery ingredients and enzymes businesses.

The yeast and bakery ingredients business of AB Mauri achieved a good result. Bakery ingredients had another strong year of growth by concentrating on expansion of its range of icings, toppings and fillings in the UK and major new product launches into the craft bakery sector in Brazil, Argentina, Peru and Colombia drove growth in South America. In the US and Mexico we continued to build on our range of technical ingredients as exemplified by the launch of a technologically advanced system for coating dough with an enhanced leavening ingredient which produces tortillas with improved eating qualities, lower sodium and better functional characteristics. The earthquake that hit Chile in February caused some structural damage to our operations in Santiago but our employees sustained no injuries and they implemented a recovery plan very effectively. Further progress was made by our yeast business, especially in Germany and Argentina, and a number of operational improvements were achieved in Italy, Spain and France that will deliver savings next year.

A high level of capital investment continued this year behind several expansion projects and improvements to a number of effluent treatment plants across the business. The new yeast plant in Harbin, China was completed at the end of the year and is now operational. Capital expenditure on further expansionary projects in the Americas, China and Europe is planned for the yeast business in the coming year.

ABF Ingredients had a much better year with strong revenue growth from enzymes and speciality lipids in the US. The global enzyme market continued to grow, new feed and bakery enzymes were launched during the year and our distribution and market coverage was again increased. The operational performance of our manufacturing plant in Finland was improved following the capacity expansion completed last year. Improved key account management and growth in pharmaceutical excipients strengthened our speciality lipids business in the US which out-performed last year. The proteins business made a good recovery, with the benefit of higher and more stable dairy protein and lactose pricing. The sale of the milk protein facility in Norfolk, Nebraska was completed in February.

The new yeast extracts plant in Harbin, China, is in the final stages of commissioning. This plant will provide a low-cost complement to our existing facility in Hamburg, Germany, and capacity for further expansion both in the domestic Chinese market and in exports to other countries in Asia and Europe.

George Weston

Chief Executive

The science behind the art of baking

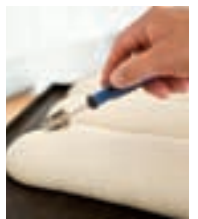
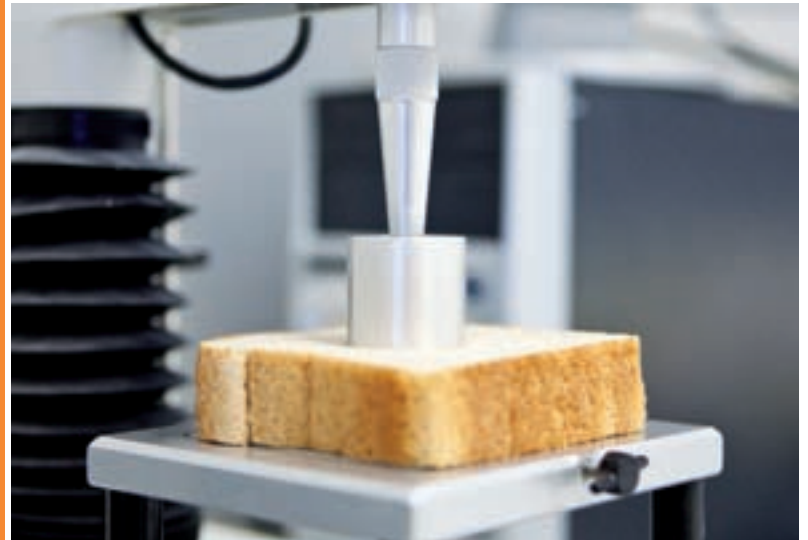
In addition to its global presence in the production and marketing of yeast, AB Mauri is a major international player in the bakery ingredients market.

AB Mauri markets its bakery ingredients expertise and capabilities through demonstrating an understanding of all the elements of the baking business chain including consumer needs, distribution, technology, the materials used and the variety of processes employed. Working with customers both large and small, we have developed genuine leadership in applying baking technology and creating an extensive range of bakery ingredient formulations.

Central to this unique approach to customer service is the Baking Technology Group, a team of highly skilled baking scientists and technologists based at their centre in the Netherlands serving AB Mauri customers worldwide. It is the innovation and technology 'engine room' of our bakery ingredients development. With teams focused on new technology research, formula creativity and bakery application, it delivers genuine added value in fulfilling customers' requirements.

Bakery scientists examine many baking raw materials for ingredient synergies including enzyme system selection and application. They examine all aspects of product performance from taste profiling to the causes of shelf life deterioration, in pursuit of the ideal cost/quality ratio. Moreover they assist their customers in developing and defining the optimum process to ensure repeatability and consistent quality.

Research programmes are managed across the bakery business developing new propositions consistent with consumer trends and demands. It is the AB Mauri belief that today, more than ever, our bakery customers all over the world need technology partners to drive product improvement and development, whilst at the same time optimising their baking processes for best results.



Financial review



Net cash flow from operating activities was £1,172m compared with £833m last year and was more than double that generated in 2008.

Group performance

Group revenue increased by 10% to £10.2bn with growth achieved in every business segment and with notable step changes for Sugar and Primark. This increase benefited from this being a 53 week year and from the translation of overseas revenues arising from the weakness of sterling, particularly those in Australia. At constant currency, and excluding the impact of acquisitions and disposals, revenue increased by 6%.

Adjusted operating profit increased by 26% to £909m with a notable improvement in operating margin. The weakness of sterling had less of an impact on profit and at constant currency, and excluding the impact of acquisitions and disposals, it increased by 25%. In calculating adjusted operating profit, the amortisation charge on non-operating intangibles and any profits or losses on disposal of non-current assets are excluded. Together, these items amounted to £90m this year compared with £83m last year.

A net profit of £28m arose on the sale and closure of businesses and principally related to the disposal of the Polish sugar operation in November 2009. This compared with a loss of £65m last year which arose on the contribution of the US packaged oil business to the Stratas joint venture. Profits and losses arising on the sale or closure of businesses are excluded from the calculation of adjusted earnings. Revenue and profit from disposed businesses are disclosed separately in the segmental analysis.

Finance expense less finance income of £76m compared favourably with the charge of £78m last year, as interest rates on bank borrowings remained low and the level of net debt was consistently lower than last year. The reduction in net debt was the consequence of the minority shareholders' £115m contribution to the Illovo rights issue early in the year together with a strong underlying cash flow. Other financial expense of £8m compared with income last year of £13m and related primarily to the net expense on retirement benefit schemes, being the charge on pension scheme liabilities less the expected return on scheme assets.

Profit before tax rose from £495m to £763m. The increase included the profit on sale or closure of businesses this year, the non-recurrence of the loss on disposal of businesses last year, together with net losses on disposal of non-current assets. Last year's profit before tax also included a charge of £12m for an inventory adjustment arising on the Azucarera acquisition. Adjusted to exclude these items, underlying profit before tax increased by 26% to £825m.

Taxation

The tax charge of £194m included an underlying charge of £221m, at an effective tax rate of 26.8% on the adjusted profit before tax. This was higher than last year's 25.3% as a result of the mix of profits in different tax jurisdictions. Following the enactment of legislation in the UK to reduce the corporation tax rate from 28% to 27% from 1 April 2011, the effective tax rate this year includes the impact on the income statement of calculating the UK deferred tax balances at the lower UK corporation tax rate. The impact of this rate change is a reduction in the tax charge of £6m. Proposed future reductions in the UK tax rate to 24% will be reflected when the relevant legislation is substantively enacted.

The overall tax charge for the year benefited from a £27m (2009 – £25m) credit for tax relief on the amortisation of non-operating intangible assets and goodwill arising from acquisitions. No tax arose on the profit on the sale of businesses or on the loss on disposal of non-current assets.

Earnings and dividends

Earnings attributable to equity shareholders were £546m, £187m higher than last year, and the weighted average number of shares in issue used to calculate earnings per share fell from 789 million to 788 million. Earnings per ordinary share were 52% ahead of last year at 69.3p. Adjusted earnings per share which provides a more consistent measure of performance increased by 25% from 57.7p to 72.2p.

“ We successfully negotiated a new £1.15bn revolving credit facility with maturity in July 2015 ... The strength and breadth of the 12 banks in the syndicate provide support for our financial needs and reflect the scale and international presence of the business.

The interim dividend was increased by 10% to 7.6p and a final dividend has been proposed at 16.2p which represents an overall increase of 13% for the year. In accordance with IFRS, no accrual has been made in these accounts for the proposed dividend which is expected to cost £128m and will be charged next year. Dividend cover, on an adjusted basis, has now returned to three times, a level last seen prior to the restructuring of the EU sugar regime.

Balance sheet

Non-current assets of £6,493m increased by £475m as a result of an increase in property, plant and equipment of £422m which was driven by the high level of capital expenditure in the year net of depreciation. Working capital was tightly managed during the year and at the year end was £144m lower than last year. Provisions were £216m lower than last year end which had included a provision of £122m against the advanced consideration received from the sale of the Polish sugar business. The provision was released on completion of the transaction in November 2009 and at that time the Polish sugar assets and liabilities, which had been included in the balance sheet as 'held for sale', were disposed of. Net borrowings at the year end were £183m lower than last year at £816m resulting from the strong cash flow of the business together with the benefit of £115m raised by the Illovo rights issue at the beginning of the year.

A currency gain of £217m arose on the translation into sterling of the group's foreign currency denominated net assets. This resulted from sterling being weaker against most of the major currencies at the end of this year than at the end of the previous year. The group's net assets increased by £668m to £5,744m.

After a number of years of decline, return on capital employed for the group increased from 15.4% to 17.8% this year. This is a consequence of the substantial increase in profit and the completion of a number of long-term capital projects which were in progress last year end and have now begun to yield a return. Return on capital employed is defined as adjusted operating profit expressed as a percentage of average capital employed for the year.

Cash flow

Net cash flow from operating activities was £1,172m compared with £833m last year and was more than double that generated in the 2008 financial year. This substantial increase mainly reflects the strong operating profit and a working capital inflow of £193m compared to last year's inflow of £46m.

We continued to invest in the future growth of the group with a net £699m spent on property, plant and equipment and intangibles net of disposals during the year. Capital expenditure amounted to £694m of which £207m was spent by Primark on the acquisition and fit-out of stores. Expenditure elsewhere was incurred on a wide variety of projects, the largest of which were development of the yeast and yeast extracts plants in China, expansion of our sugar interests in southern Africa and construction of the Viverno bioethanol plant in the UK and the new meat factory in Australia.

We invested £50m on acquisitions, principally deferred consideration payable on acquisitions in previous years and the buyout of some minority interests in China and southern Africa.

Financing

Cash and cash equivalents totalled £345m at the year end. These were managed during the year by a central treasury department, operating under strictly controlled guidelines, which also arranges term bank finance for acquisitions and to meet short-term working capital requirements, particularly for the sugar beet and wheat harvests.

At the year end the group had total committed borrowing facilities amounting to £2.1bn of which £927m was drawn down. In July we successfully negotiated a new £1.15bn revolving credit facility, with maturity in July 2015, which replaced our existing \$1.2bn and £320m facilities that were due to mature in October 2011. The strength and breadth of the 12 banks in the syndicate provide support for our financial needs and reflect the scale and international presence of the business. The group also had access, at the year end, to £629m of uncommitted credit lines under which £234m was drawn.

Pensions

Pensions are accounted for in accordance with IAS 19 *Employee benefits* and on this basis, liabilities in the group's defined benefit pension schemes exceeded employee benefit assets by £99m compared with last year's deficit of £106m. This improvement was primarily due to favourable investment returns and deficit reduction contributions, but was largely offset by a fall in discount rates applied to scheme liabilities. The triennial actuarial valuation of the UK Pension Scheme undertaken in 2008 revealed a funding deficit of £163m which, by agreement with the Trustees, the Company is eliminating with five deficit payments of £30m each, the second of which was made in March 2010. Total contributions to defined benefit plans in the year amounted to £66m (2009 – £76m).

The UK government announced on 8 July 2010 that it will in future use the Consumer Price Index rather than the Retail Prices Index for the purposes of determining statutory pension increases for private sector occupational pension schemes. The group's current UK defined benefit pension scheme rules specify that pensions in deferment will increase in line with the annual statutory order published by the UK government. The group has therefore amended its assumption for increases to pensions in deferment to reflect this. The resulting reduction in the present value of scheme liabilities of £28m is included as a change in assumptions within other comprehensive income rather than the income statement.

For defined contribution schemes the charge for the year is equal to the contributions made which amounted to £45m (2009 – £33m).

John Bason

Finance Director

Corporate responsibility

The value of Associated British Foods to society is overwhelmingly in the business it transacts. We play a positive role in contributing to the quality of people's lives by providing food and clothing, ever competing to make these better. We have always sought to do so in ways that are socially and environmentally responsible. This has been part of our culture and we have been reporting the group's performance on health, safety and the environment for the past seven years. Now we are launching our first corporate responsibility report.

Over the years we have grown into a diversified international food, ingredients and retail group, and we have focused more on the 'responsibility' than on the 'corporate'. We are committed to sustainability – whether in providing healthcare for our employees in Africa or in deriving half of our energy consumption around the world from renewable sources.

We are a highly decentralised group – currently employing 97,000 people in 44 countries – united by four overarching business principles: managing our environmental impact; taking care of our people; fostering ethical business relationships; and being good neighbours. These govern our detailed business principles, which are set out on the Company's website at www.abf.co.uk/corporate-responsibility.aspx

These principles extend to all sites, in all countries and at every level of our organisation. We believe that their universal application increases the strength of our businesses and our brands but we also believe in allowing individual businesses and managers the freedom to meet local circumstances and to be innovative.

Our culture is, and will remain, one where the centre directs with a light touch. From baking bread to making high street fashion affordable, it is our people and our products in a wide range of different businesses that make us successful.

Without imposing central edicts, we have taken a number of steps with the aim of ensuring that our core values are fully implemented throughout the group – from board member to the shop floor.

We want to continue to ensure that each business takes its own responsibilities seriously and acts in the most appropriate way to meet our high standards. However, we also consider, on a case-by-case basis, whether there are particular corporate responsibility (CR) policies that are best adopted throughout the group, as we have done this year on palm oil. As part of our move towards a more holistic CR approach, in February 2010 we held our first groupwide CR day to share ideas and best practice across the businesses. This follows annual sustainability conferences held by our Grocery group in 2009 and 2010.

One particular area upon which we will concentrate at group level, as well as in every business, is health and safety. This has always been of particular importance to us but clearly with four deaths on our premises, four from traffic accidents, and two in unique circumstances, this year has been unprecedented and is unacceptable.

Now that so many of our businesses are doing so much in this arena, our reporting will include more information on our people, our suppliers, our customers and our products. For Associated British Foods, as with other companies, CR is a journey with improvement every year. We therefore intend to publish a full CR report every three years with more frequent updates online. By measuring and recording our performance in this way we hope to give internal and external stakeholders a clearer picture of our commitment to CR and of what we are doing to drive continuing improvement.

George Weston
Chief Executive



Key corporate responsibility achievements 2009/10

- We invested over £63m in environmental improvements, mainly in strengthening our effluent treatment capability
- Energy use fell by 14% and CO₂ emissions by 22%*
- 52.1% of our total energy use came from renewable sources
- We mapped our water-intensive AB Mauri and Illovo sites against locations of future water stress to gain a better understanding of potential shortages
- Waste sent to landfill fell by 45%*
- The weight of packaging used fell by 20%
- Introduction of a group policy to source palm oil from sustainable sources by 2015
- Our UK grocery businesses signed up to the Courtauld II post 2010 agreements to reduce packaging and waste
- We invested over £25m in improving working conditions and the safety of plant and equipment
- Reportable injuries fell by 15%, with 168 factories managing a year's operation without any at all
- The Ethical Trading Initiative recognised Primark's efforts by categorising the business as an Achiever this year, a significant step up from its Improver status last year
- Primark conducted twice as many audits in 2009 as in 2008: 1,136 audits in total, covering 94% of its top 250 suppliers, accounting for more than 87% of total business
- Primark set up several projects/worked with local NGOs in Bangladesh, China, southern India and Vietnam

* These achievements were partly due either to factors outside our control or the sale of factories.

CR in more depth: in print and online

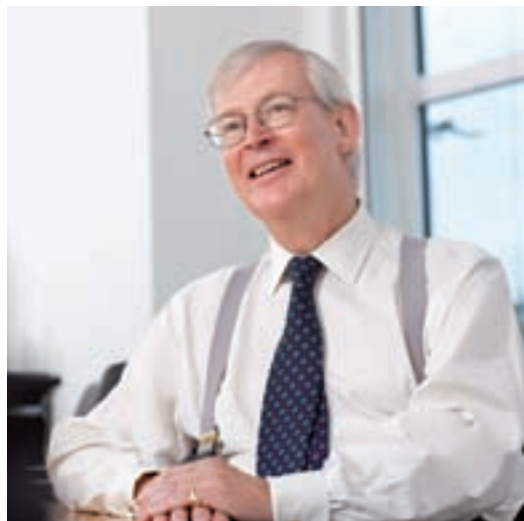
This year sees the release of our first CR report in print, and an updated section on our new group website.

This marks the transition from the health, safety and environment reports that we have published for the last seven years. Now that so many of our businesses are doing so much in this arena, our reporting has changed to include more information on our people, suppliers, customers and products. For Associated British Foods, as with other companies, CR is a journey with improvement every year. By measuring and recording our performance online, we hope to give internal and external stakeholders a clearer picture of our commitment to CR.



www.abf.co.uk/corporate-responsibility.aspx

Board of directors



Charles Sinclair
Non-executive director
(age 62)

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



George G Weston
Executive director
(age 46)

George Weston is Chief Executive. In his former roles as Managing Director of Westmill Foods, Allied Bakeries and George Weston Foods Ltd (Australia) he has been a member of the ABF board since 1999. He took up his current appointment in April 2005. He is also a non-executive director of Wittington Investments Limited and a trustee of the Garfield Weston Foundation.



John Bason
Executive director
(age 53)

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. He is a trustee of Voluntary Service Overseas and is deputy chairman of the charity FareShare.



Peter Smith
Independent
non-executive director
(age 64)

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



Lord Jay of Ewelme
GCMG
Independent
non-executive director
(age 64)

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



WG Galen Weston OC
Non-executive director
(age 70)

A director since 1964, he is chairman and president of George Weston Limited, Canada. He is also chairman of Selfridges & Co. Limited, a non-executive director of Wittington Investments Limited and a trustee of the Garfield Weston Foundation.



Timothy Clarke
Senior independent
non-executive director
(age 53)

Appointed a director on 3 November 2004, he was chief executive of Mitchells & Butlers plc, following its demerger from Six Continents PLC, until May 2009. He joined Bass PLC in 1990 having previously been a partner of Panmure Gordon & Co. He is currently a non-executive director of Timothy Taylor & Company Limited and Hall & Woodhouse Limited.



Javier Ferrán
Independent
non-executive director
(age 54)

Appointed a director on 1 November 2006, he spent his earlier career with Bacardi Group, his last position being president and chief executive officer. He is currently a partner at Lion Capital LLP, a London-based private equity firm.

Corporate governance

The board of Associated British Foods plc (the 'Company') believes that good corporate governance represents essential protection for the Company's shareholders and remains committed to maintaining high standards of business ethics and integrity across the group, recognising these to be vital to the Company's successful long-term performance.

The Company is subject to the Combined Code on Corporate Governance published in June 2008 by the Financial Reporting Council ('FRC') (the 'Combined Code') which is publicly available at www.frc.org.uk. This report, together with the Remuneration report on pages 45 to 50, explains how the Company discharges its corporate governance responsibilities.

Following a review of the Combined Code in 2009, the FRC has published an

updated version under a new title, the UK Corporate Governance Code (the 'revised Code'). The revised Code will apply for financial years beginning on or after 29 June 2010. The board is keeping its practices under review in light of the revised Code, adapting its procedures as appropriate.

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

Statement of compliance

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

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

The board of directors

Role and responsibilities

All members of the board take collective responsibility for the overall management and performance of the Company. The board met formally eight times during the year. The individual attendance by directors is detailed on page 36.

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

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

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

Composition

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

The board considers that the non-executive directors provide a solid foundation for good corporate governance for the group and ensure that no individual or group dominates the board's decision-making. Collectively, the non-executive directors bring a wide range of international experience and expertise to the board. They each occupy or have occupied senior positions in industry or public life and consequently contribute significantly to board decision-making.

Details of the full board are set out on pages 32 and 33.

Chairman and Chief Executive

The roles of the Chairman and the Chief Executive are separately held and the division of their responsibilities is clearly established, set out in writing, and agreed by the board to ensure that no one has unfettered powers of decision. The Chairman, Charles Sinclair, is responsible for the operation and leadership of the board, ensuring its effectiveness and setting its agenda. The Chief Executive, George Weston, is responsible for leading and managing the group's business within the authorities delegated by the board and the implementation of board strategy and policy.

Senior independent director

Tim Clarke is the recognised senior independent director.

Re-election

Under the Articles, all directors seek election at their first annual general meeting following appointment. The Articles also require all directors who held office at the time of the two preceding annual general meetings, and in any event not less than one third of relevant directors (excluding those who retire other than by rotation), to submit themselves for re-election. In accordance with the Combined Code, all non-executive directors who have served for more than nine years must also submit themselves for re-election on an annual basis. Accordingly, Galen Weston, Peter Smith and George Weston will be required to seek re-election at the forthcoming annual general meeting.

Induction and continuing professional development

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

Information flow

Board and committee papers are circulated to members in advance of the meetings. The Company Secretary manages the provision of information to the board at other appropriate times, in consultation with the Chairman and Chief Executive. In addition to formal meetings, the Chairman and Chief Executive maintain regular contact with all directors. The Chairman also holds informal meetings with non-executive directors, without any of the executives being present, to discuss any issues affecting the group.

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

Corporate governance continued

Location of board meetings

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

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

Independent professional advice

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

Company Secretary

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

Attendance at meetings

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

The attendance by individual directors at board and committee meetings during the year ended 18 September 2010 was as follows:

DIRECTORS	Audit committee		Nomination committee		Remuneration committee		Full board meeting	
	Possible	Actual	Possible	Actual	Possible	Actual	Possible	Actual
Charles Sinclair	—	—	1	1	4	4	8	8
George Weston	—	—	—	—	—	—	8	8
John Bason	—	—	—	—	—	—	8	8
Tim Clarke	3	3	1	1	4	4	8	8
Javier Ferrán	—	—	1	1	4	4	8	8
Lord Jay	3	3	1	1	4	4	8	6
Peter Smith	3	3	1	1	4	4	8	8
Galen Weston	—	—	—	—	—	—	8	3

Board committees

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

Nomination committee

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

Further details of the Nomination committee can be found on page 38.

Audit committee

Current members: Peter Smith (chairman), Tim Clarke, Lord Jay.

Further details of the Audit committee can be found on page 39.

Remuneration committee

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

Details of the Remuneration committee and its policies can be found on pages 45 to 50.

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

Board evaluation

Performance evaluation of the board, its committees and individual directors takes place on an annual basis and is conducted with the aim of improving individual contributions, the effectiveness of the board, its committees and the performance of the group. This year the review, which took place in the final quarter of the financial year, was led by the senior independent director. The process involved putting together a discussion guide which covered designated topics, with a particular focus this year on board dynamics and effectiveness, corporate governance, risk management and the development of strategy. The senior independent director undertook a confidential, unattributable interview with each director and the Company Secretary based on the discussion guide. Particular attention was paid to progress made in implementing the previous year's recommendations. Following the meetings, the senior independent director produced a written report which was discussed with each of the Chairman and the Chief Executive, before being sent to board members and discussed at the following meeting.

Among the main themes highlighted by this year's evaluation were the importance of reviewing the development of strategy further and of scrutinising risk assessment procedures and the processes in place to mitigate risks identified. A list of action points to deal with the issues arising from the performance evaluation was compiled and is being implemented under the direction of the Chairman.

Overall, the evaluation process in 2010 confirmed that the board and its principal committees had functioned efficiently during the year and that each director continued to contribute to his role effectively and with proper commitment, including of time.

The board has taken the decision that in future the annual evaluation of its performance will be externally facilitated at least once every three years.

Relations with shareholders

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

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

The annual general meeting takes place in London. Formal notification is sent to shareholders approximately one month in advance and in any event at least 21 days before the meeting. Other general meetings may also be convened from time to time on at least 21 days' notice, or where certain requirements are met including prior approval by shareholders by way of special resolution, 14 days' notice. The annual general meeting gives shareholders an opportunity to hear about the general development of the business and to ask questions of the Chairman and, through him, the chairmen of the key committees and other directors. The practice has been for a short film to be shown at the meeting explaining a particular area of the group's business. Details of the meeting and the resolutions to be proposed, together with explanatory notes, are set out in the Notice of Meeting which is sent to shareholders. Any member attending the annual general meeting has the right to ask questions. The Company must cause to be answered any such question relating to the business being dealt with at the meeting, unless it is not in the interests of the Company or the good order of the meeting to do so, or if to do so would involve the disclosure of confidential information. Shareholders attending the meeting are advised of the number of proxy votes lodged for each resolution. All resolutions are voted on by poll and the results announced to the London Stock Exchange and posted on the Company's website.

Corporate governance continued

Accountability and audit

The board is required by the Combined Code to present a balanced and understandable assessment of the Company's position and prospects. In relation to this requirement, reference is made to the statement of directors' responsibilities for preparing the financial statements set out on page 54 of this annual report and accounts.

The independent auditors' report on page 55 includes a statement by the auditors about their reporting responsibilities. The board recognises that its responsibility to present a balanced and understandable assessment extends to interim and other price-sensitive public reports, reports to regulators, and information required to be presented by law.

Going concern

After making enquiries the directors have a reasonable expectation that the Company and the group have adequate resources to continue in operational existence for the foreseeable future. Accordingly and in accordance with the guidance contained in the document titled 'Going Concern and Liquidity Risk: Guidance for Investors of UK Companies 2009' published by the FRC, they continue to adopt the going concern basis in preparing the annual report and accounts.

Procedures to deal with directors' conflicts of interest

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

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

The Company has complied with these procedures during the year.

Report of the Nomination committee

Composition of the Nomination committee

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

Charles Sinclair (chairman)
Tim Clarke
Javier Ferrán
Lord Jay
Peter Smith

Executive directors may be invited to attend meetings as appropriate.

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

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

Duties

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

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

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

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

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

Activities

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

Corporate website

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

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

Report of the Audit committee

Summary of the role of the Audit committee

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

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

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

Composition of the Audit committee

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

Peter Smith (chairman)
Tim Clarke
Lord Jay

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

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

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

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

- the principles of, and developments in, financial reporting including the applicable accounting standards and statements of recommended practice;
- key aspects of the Company's operations including corporate policies and the group's internal control environment;
- matters which may influence the presentation of accounts and key figures;
- the principles of, and developments in, company law, sector-specific laws and other relevant corporate legislation;
- the role of internal and external auditing and risk management; and
- the regulatory framework for the group's businesses.

Meetings

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

Corporate governance continued

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

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

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

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

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

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

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

Typically, the committee will approve the use of the external auditors to provide: accounting advice and training; employee benefit plan audits; corporate responsibility, IT and other assurance services; due diligence in respect of acquisitions and disposals; certain specified tax services including tax compliance, tax planning and related implementation advice; and certain other services when it is in the best interests of the Company to do so and they can be undertaken without jeopardising auditor independence.

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

To fulfil its responsibility regarding the independence of the external auditors, the Audit committee reviewed:

- changes in external audit executives in the audit plan for the current year;
- a report from the external auditors describing their arrangements to identify, report and manage any conflicts of interest; and
- the extent of non-audit services provided by the external auditors.

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

- the external auditors' fulfilment of the agreed audit plan and variations from it; and
- reports highlighting the major issues that arose during the course of the audit.

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

- the terms, areas of responsibility, associated duties and scope of the audit as set out in the external auditors' engagement letter for the forthcoming year;
- the external auditors' overall work plan for the forthcoming year;
- the external auditors' fee proposal;
- the major issues that arose during the course of the audit and their resolution;
- key accounting and audit judgements;
- the levels of errors identified during the audit; and
- recommendations made by the external auditors in their management letters and the adequacy of management's response.

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

Internal audit function

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

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

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

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

The Audit committee holds private meetings with the external auditors after each committee meeting to review key issues within their sphere of interest and responsibility.

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

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

Internal control

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

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

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

Standards

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

High-level controls

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

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

Internal audit

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

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

Financial reporting

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

Corporate governance continued

Principal risks and uncertainties

The group's risk management process seeks to enable the early identification, evaluation and effective management of the key risks facing the businesses at an operational level and to operate internal controls to mitigate these risks. The key risks and internal control procedures are reviewed by group personnel together with internal audit activities. Each business is responsible for regularly assessing its risk management activities to ensure good practice in all areas. Compliance with group requirements is monitored six monthly, and these assessments are formally reviewed by group personnel at least annually. The board reviews annually the material, financial and non-financial risks facing our businesses and, on a rolling cycle basis, reviews the effectiveness of the risk management processes and the resources that our businesses devote to them. The Audit committee receives reports on internal financial control issues both from management and the external auditors and regularly reports to the board for the purposes of the board's annual review.

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

Food safety

Food safety affects all businesses except Primark. For businesses that are adequately prepared and managing their processes efficiently, the prospect of a contamination incident and the risks of product withdrawal and recall are significantly diminished.

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

Given the diversity of our businesses, the responsibility for managing and mitigating this risk lies with the chief executive of each business. There are, however, several internal mechanisms for exchange of best practice amongst the businesses. Allied Technical Centre, part of the UK milling and baking business, provides technical advice on aspects of food safety. The group technical forum, which was started in 2007, enables senior technical managers from each division to discuss and share best practice and emerging developments on a wide variety of food safety-related issues including food policy and regulation, quality management systems and food safety protocols.

Review of food safety processes

In March 2010, a review of food safety processes at each of the businesses was undertaken by the Chief Executive and Finance Director. This covered quality control, product security, hygiene, regulatory compliance, product recall procedures and incidents over the last two years. As expected, food safety procedures are a high priority for all our businesses. While government standards in developing countries differ from those in developed countries, both AB Agri and British Sugar regard the higher standards demanded of their Chinese businesses as a commercial differentiator from their competitors.

Across the group's factories, there is almost universal usage of Hazard and Critical Control Points (HACCP) analysis, which is required by EU law, and widespread accreditation to the ISO quality standards and British Retail Consortium global standards for food safety. Some Illovo sites outside South Africa have yet to implement HACCP, but extension to these sites is planned.

All businesses have documented and tested product recall procedures, except British Sugar in China where testing is still to be undertaken, and the incidence of product recalls in the last two years has been relatively few. However, any recall is damaging to customer relationships, and so a renewed focus is being given to this area.

Assurance

A number of independent audit processes are in place which provide a level of assurance on food safety. All sites are regularly audited by their major customers. Larger customers have their own teams of food safety experts who have a clear incentive to ensure that their suppliers have in place robust and effective food safety and quality processes as well as recall procedures. All sites also have quality and food safety audits carried out by local quality control staff. Additionally, some businesses utilise site audits by their own technical staff and others undertake cross-site peer audits.

Global economic slowdown and changing consumer demand

Uncertainty about the global economic outlook, especially for western economies, and governmental actions to be taken to reduce budget deficits could have an adverse impact on consumer spending, with clear implications for group revenue and profitability.

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

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

Input costs, suppliers and supply chain reliance

Primark's ethical trade programme has been further strengthened over the past year and now has a highly experienced ethical trade team of full-time staff supporting the Ethical Trade Director in the UK, Bangladesh, China, India and Turkey. During the year, 1,136 audits were completed representing 94% of our top 250 suppliers and 87% of the products we purchase. Over half of the audits carried out were follow-up audits, demonstrating our commitment to ensuring our suppliers continue to improve. We provide support for them through dedicated training whether on site in factories or through informal supply training sessions, and online.

Engaging directly with our suppliers is central to our objective of continually improving working conditions. With 95 % of the factories shared by other high street brands, we also continue to collaborate with other retailers and non-governmental organisations (NGOs) to address the industry challenges, both through our membership of the Ethical Trading Initiative (ETI), and externally with non-ETI members. We have built solid partnerships with a number of NGOs to understand and address the challenges faced by workers in the communities where our products are made, particularly focusing on training workers on their entitlements, including wages and associated rights.

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

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

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

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

Competition rules

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

Environment

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

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

- accidents are prevented so far as is reasonably practical; and
- effective emergency response procedures are in place to minimise the impact of any incidents that do arise.

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

The principal impacts upon the environment and biodiversity arise from the use of energy and the resultant emission of carbon dioxide, the abstraction of water, the release of waste water and the generation and disposal of waste. All sites that are subject to the EU's Pollution Prevention and Control regime are also under a statutory duty to minimise energy consumption by use of best available techniques.

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

In addition to the consumption of energy we generate surplus electricity from highly efficient combined heat and power (CHP) plants and sell this electricity to other companies. All UK CHP plants participate in the UK government's CHP quality assurance scheme and qualify for a full exemption from the UK's Climate Change Levy.

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

The principal legal risk is regulatory action for non-compliance with licence conditions and statutory requirements. All of our businesses have named senior executives and responsible managers accountable for waste, and the management of the physical and legal risks, for which they employ specialists, is included in their annual objectives.

We use Environmental Resources Management (ERM) to perform a rolling programme of audits of the management of environmental risks at a representative sample of our businesses. The sites audited are selected on the basis of materiality as well as their contribution to the health, safety and environmental performance of the group as a whole. ERM also carry out an independent data assurance process to verify our safety and environmental data. Each year the board reviews the verified results and provides strategic direction. Businesses are required to develop action plans as appropriate and progress is monitored by the Group Health and Safety Manager.

Details of our management of environmental issues are included in our corporate responsibility report which is available for download from our website at www.abf.co.uk/corporate-responsibility.aspx

Corporate governance **continued**

Health and safety

Our principal health and safety risks relate to the potential for serious injury and fatal accidents in the workplace and regulatory action for non-compliance with statutory requirements.

We are committed to providing a safe and healthy workplace to protect all employees, visitors and the public from foreseeable work hazards. We are also committed to complying with the applicable legislation of the countries in which we operate. We consider health and safety as equal in importance to that of any other function of the group and its business objectives. We require our businesses to improve their safety performance year-on-year.

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

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

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

Details of our management of health and safety issues are included in our corporate responsibility report which is available for download from our website at www.abf.co.uk/corporate-responsibility.aspx

People

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

Financial and commodity risks

Treasury operations are conducted within a framework of board-approved policies and guidelines to manage the group's financial and commodity risks. Financial risks essentially arise through exposure to foreign currencies, interest rates, counterparty credit and borrowings. Commodity risks arise from the procurement of raw materials and the exposure to changes in market prices. Liquidity risk arises from the availability of internal and external funding to enable the group to meet its financial obligations as and when they fall due.

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

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

Details of the group's accounting and risk management policies with respect to financial instruments and the associated quantitative and qualitative disclosures are set out in note 25 on pages 93 to 105.

Taxation risks

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

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

Loss of a major site and business continuity

The group operates from many key sites the loss of which, for example as a result of a fire, would present significant operational difficulties. Our operations have business continuity plans in place to manage the impact of such an event and group insurance programmes to mitigate the financial consequences.

Major projects

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

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

Management succession

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

Regulatory and political environment

Our businesses are subject to a wide variety of regulations in the different countries in which they operate. They may also be affected by political developments and cultural differences in those countries. These uncertainties in the external environment are considered when developing strategy and reviewing performance, and we remain vigilant to future changes and the increased risk presented by emerging markets. We engage with governments and NGOs to ensure the views of our stakeholders are represented and we try to anticipate, and contribute to, important changes in public policy. Our financial control requirements are consistently applied wherever we operate.

Remuneration report

1. Introduction

This report sets out the policy and disclosures on directors' remuneration as required by the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 issued under the Companies Act 2006 (the 'Act'). In accordance with the Act, a resolution to approve this report will be proposed at the forthcoming annual general meeting of the Company. The vote will have advisory status in respect of the remuneration policy and overall remuneration packages and will not be specific to individual levels of remuneration. KPMG Audit Plc has audited the report to the extent required by the Companies Act, being the sections entitled directors' remuneration, long-term incentives, directors' pensions and directors' share options.

2. The Remuneration committee

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

Committee composition

The Remuneration committee currently consists of five non-executive directors. The members of the committee who held office during the year and at the date of this report are:

Charles Sinclair (chairman)
Tim Clarke
Lord Jay
Javier Ferrán
Peter Smith

Consultants

The Remuneration committee has retained Towers Watson to provide independent market information and remuneration advice. Towers Watson does not provide any other consulting services to the Company.

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

George Weston, Chief Executive
Des Pullen, Group HR Director

George Weston did not advise in respect of his own remuneration. The Group HR Director and Towers Watson provided support and liaison throughout the year.

3. Directors' remuneration policy

The remuneration policy of the Company aims to:

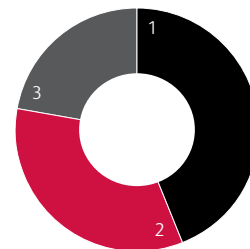
- provide alignment between remuneration and the Company's business objectives;
- align executive rewards with shareholder value;
- attract and retain high-calibre executive directors;
- motivate executive directors to achieve challenging performance levels and reward them for so doing;
- recognise both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

The remuneration of executive directors is determined by the Remuneration committee taking into account group performance, individual potential and competitive market practice. The total remuneration of executive directors comprises base salary, annual and long-term incentives, pension provisions and other benefits.

The Remuneration committee continues to believe that a substantial element of compensation should be 'at risk' in order to reward and drive performance and to align better the interests of executives with those of shareholders. The proportion of variable pay in the form of annual performance bonus and long-term incentives compared to base salary for executive directors in 2009/10 was around 1.3 to 1 for 'on target' performance. The committee believes that this proportion is low in relation to the current size and complexity of the group. It has therefore proposed that this ratio be increased to 1.6 to 1 for 2010/11 by making increases to the expected value of long-term incentive awards.

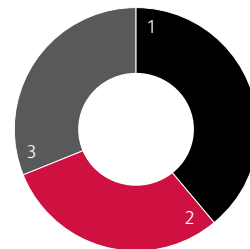
2009/10

- 1 Base salary 44 %
- 2 Annual performance bonus 'on target' 34 %
- 3 Long-term incentive expected value 22 %



2010/11

- 1 Base salary 39 %
- 2 Annual performance bonus 'on target' 30 %
- 3 Long-term incentive expected value 31 %



First line reports to the Chief Executive and other senior executives are also rewarded within the same overall remuneration policy as executive directors, in order to ensure commonality across the group. Other executives therefore participate in incentive arrangements similar to those of the executive directors, but with lower levels of potential payout.

In 2009/10 the proportion of variable pay to base salary for first line executives was around 0.8 to 1 for 'on target' performance. In line with the increase being proposed for executive directors, it is agreed that this ratio should rise to 1 to 1 for the financial year 2010/11.

Details of all changes are described in the sections below.

Base salary

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

Remuneration report continued

3. Directors' remuneration policy continued

Annual performance bonus

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

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

The maximum annual performance bonus opportunity for executive directors in 2009/10 was 150% of base salary. When the current bonus plans were put in place in 2006 it was agreed that achievement of specific personal objectives should normally account for around 20% of the total annual performance bonus opportunity. However it was also agreed that this should be capped at 20% of base salary in all cases. Consequently, of the 2009/10 annual bonus opportunity of 150% for executive directors, up to 20% may be paid for achievement of specific personal objectives and up to 130% may be paid for achievement of financial results as outlined above. 'On target' performance yields around 78% of base salary.

As reported previously, in 2009 the Remuneration committee reviewed the annual performance bonus plans for executive directors and other senior executives. It concluded that the current arrangements were working satisfactorily and that it did not wish to alter the focus or metrics of the scheme. During 2010 the committee reviewed the level of annual performance bonus plan yields and was again satisfied that no changes should be made for executive directors. The maximum annual performance bonus opportunity for executive directors in 2010/11 will therefore remain at the present level of 150%. However, it was also decided that maximum annual performance bonus yields for other groups of executives below board level should be increased by an average of 15% of base salary, as these had fallen below the level required to attract and retain high-calibre individuals.

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

	Award date	Market price at date of award (p)	End of performance period	Vesting date	Shares vested during the year	Market price at date of vesting (p)	Value vested	Conditional allocations of shares as at 12.09.09	Conditional allocations of shares as at 18.09.10
George Weston	21.11.06	890.1	12.09.09	23.11.09	0	832.2	0	94,793	0
	21.11.07	905.85	18.09.10	22.11.10	—	—	—	103,494	103,494
	21.11.08	656.0	17.09.11	21.11.11	—	—	—	157,203	157,203
	23.11.09	833.5	15.09.12	23.11.12	—	—	—	—	128,974
John Bason	21.11.06	890.1	12.09.09	23.11.09	0	832.2	0	68,812	0
	21.11.07	905.85	18.09.10	22.11.10	—	—	—	71,618	71,618
	21.11.08	656.0	17.09.11	21.11.11	—	—	—	104,802	104,802
	23.11.09	833.5	15.09.12	23.11.12	—	—	—	—	86,608

Long-term incentives

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

Since 2006, annual allocations of conditional shares have been made to executive directors and other senior executives thus creating a series of overlapping three-year performance periods. For executive directors, all these allocations were to a maximum face value of 125% of base salary, and relate to performance periods of three financial years. Group performance under the long-term share plan for all four allocations are being measured against an absolute range of 5% to 11% compound annual growth in adjusted earnings per share.

Adjusted earnings per share remains the measure chosen for long-term group incentives because:

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

An absolute rather than a relative measure is used as the group is a global business for which UK inflation factors are largely irrelevant.

Other measures have been considered, but found to be unhelpful or inappropriate. Measures which require testing against a group of companies, for example, relative TSR, are difficult to use given the problem of finding appropriate comparator companies. Cash flow or return measures have been considered, but these are to some extent already encompassed within the earnings per share measure, are likely to require many adjustments over a three-year period, and may reward volatility and thus detract from a direct growth measure.

For the three financial years from September 2006 to September 2009 adjusted earnings per share grew by 4.27%. As the group target was not met, no shares were released to executive directors for the 2006/9 scheme. However, for the three-year performance period ended September 2010, the compound annual growth in adjusted earnings per share was 10.92%. Consequently the executive directors will receive 99.12% of the shares allocated in 2007.

Long-term incentives for executives with divisional responsibility are largely measured against adjusted operating profit and working capital targets, set by reference to the business for which each executive is directly responsible. The long-term share awards for these executives therefore depend on the level of performance achieved in each business. In 2010, 68 divisional executives, representing around 91 % of all eligible participants, will also receive a release of shares in November.

Under the current terms of the Share Incentive Plan, the fifth allocation of conditional shares will be made on or after 23 November 2010 for the performance period September 2010 to September 2013. The Remuneration committee has reviewed the performance criteria and has determined that this allocation will again be measured against an absolute range of 5 % to 11 % compound annual growth in adjusted earnings per share. The Remuneration committee believes that this range remains achievable but stretching over the next three-year period, given the scale of investments required to deliver this growth, the complexity of some of the projects involved and the volatility present in many of the markets in which the group operates.

In addition, as the Company is now set to enter another phase of demanding growth, it needs to continue the development of teams of committed executives to meet the challenges ahead. In order to do this successfully, the Company must ensure that remuneration packages are sufficient to attract and retain exceptional executive talent. The current levels of long-term incentive plan opportunity have remained unchanged since 2006 and the Remuneration committee is concerned that these awards are not now competitive, nor commensurate with the increased size, complexity and international reach of the organisation.

Agreement will therefore be sought from shareholders, at the 2010 annual general meeting, for an increase in the maximum grant level of the Associated British Foods Executive Share Incentive Plan 2003 from 150 % to 200 % of base salary. Details of the proposal will be found on page 4 of the Notice of annual general meeting 2010 in a note to the proposed resolutions.

The Remuneration committee also believes that those executives who most closely influence the sustained long-term growth of the Company should also be required to demonstrate their commitment to the Company by aligning their personal interests to the success of the group and its shareholders. Consequently, from the beginning of the 2010/11 financial year, executive directors and all first line reports to the Chief Executive will be expected to build up a shareholding in the Company to a value at least equal to their pre-tax base salary. In order to achieve this target, executives will be required to retain at least 50 % of any post-tax shares vesting each year from 2013, until such time as the appropriate level of shareholding has been achieved, and then to manage their shareholding in such a way as to continue to meet the requirement.

Other executives participating in the share-based long-term incentive plan will be encouraged to build up a beneficial interest in the Company, but will not be required to do so.

4. Directors' remuneration

Executive directors

Executive directors' salaries were reviewed on 1 December 2009 in accordance with normal policy. In line with most other UK executives across the group, the salaries of both executive directors were increased by 1.5 %. George Weston's salary was increased to £873,000 per annum and John Bason's salary was increased to £586,000 per annum.

Executive directors' salaries are next subject to review on 1 December 2010.

The financial element of the annual bonus to be paid to executive directors in respect of the 2009/10 financial year is 130 % of base salary. This reflects the strong financial performance of the group over the past year when adjusted operating profit and working capital both exceeded the maximum of the ranges set. The maximum payout in respect of the personal element of the annual bonus is 20 %, around 13 % of the total annual bonus. Actual bonuses to be paid to each of the executive directors for the personal element are based on an assessment of their individual performance against specific objectives for the 2009/10 financial year.

Executive directors are also entitled to the provision of a fully expensed company car, private medical insurance, life assurance, home and mobile telephone costs and the reimbursement of reasonable business expenses. The taxable value of these benefits is included in the table of directors' remuneration on page 48.

Non-executive directors

The board reviews non-executive directors' fees periodically in the light of fees payable in comparable companies and the importance attached to the retention and attraction of high-calibre individuals as non-executive directors. Fees are paid on a per annum basis and are not varied for the number of days worked.

The current fee for a non-executive director is £54,000 per annum. The chairman of the Audit committee and the Senior Independent Director are paid an additional fee of £10,000 per annum. Following postponement of the fee review last year, these fees have now remained unchanged for a period of three years. The Chairman is paid an annual fee of £300,000 per annum, which is unchanged since April 2009, when he was appointed to the role.

Non-executive directors do not participate in the Company's annual or long-term incentive plans and take no part in any discussion or decision concerning their own fees.

Following the recent board evaluation and fee review, with advice from Towers Watson, the executive directors have agreed that the simple fee structure for non-executive directors should remain in place. It is also agreed that from 1 December 2010 the fee for a non-executive director will rise to £60,000 per annum, with an additional fee of £12,500 per annum payable to the chairman of the Audit committee and the Senior Independent Director. The Chairman's fee will rise to £335,000 from the same date.

Remuneration report continued

4. Directors' remuneration continued

The remuneration paid to all directors for the year to 18 September 2010 was as follows:

	Salary or fees ¹ £000	Annual bonus ² £000	Benefits £000	2010 total ¹ £000	2009 total £000
Non-executive directors					
Charles Sinclair	305	–	–	305	159
Galen Weston	–	–	–	–	–
Tim Clarke	65	–	–	65	64
Lord Jay	55	–	–	55	54
Javier Ferrán	55	–	–	55	54
Peter Smith	65	–	–	65	64
Executive directors					
George Weston	866	1,266	15	2,147	2,011
John Bason	575	841	21	1,437	1,356

¹ Salaries and fees reflect a 53 week year in 2009/10.

² 2009/10 bonus to be paid in December 2010 for the financial year 2009/10.

5. Directors' pensions

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

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

Over the past year the Remuneration committee has been following governmental proposals for pension reform in 2011 and the potential impact that any proposals will have on high earners, including executive directors. The committee will review the options and conclude the best way forward for all those affected when governmental proposals have been finalised.

Directors' pension disclosure for year ended 18 September 2010

The table below shows the defined benefit pension entitlements from the Associated British Foods Pension Scheme ('the ABF Scheme'), and employer-financed arrangements where appropriate, of executive directors of Associated British Foods plc who were members of the ABF Scheme during the year ended 18 September 2010.

Pension entitlements and corresponding transfer values increased as follows during the year:

	Increase in accrued pension £000 pa (A)	Increase in accrued pension net of inflation £000 pa (B)	Total accrued pension at 18.09.10 £000 pa (C)	Director's contributions during period £000 (D)	Value of net increase in accrual over period £000 (E)	Value of accrued pension at 18.09.10 £000 (F)	Value of accrued pension at 12.09.09 £000 (G)	Total change in value during period £000 (H)
George Weston	36	22	340	19	174	3,503	2,984	500
John Bason	25	18	186	19	233	2,995	2,476	500

Notes:

- Pension accrual (C) is the total amount which would be paid annually on retirement based on service to the end of the year or earlier retirement.
- The pension values (E), (F) and (G) are transfer values calculated in accordance with Occupational Pension Schemes (Transfer Values) Regulations 2008 and Actuarial Guidance Note GN11 (but making no deduction for underfunding).
- The value of net increase in pension (E) represents the incremental value to the director of his pension benefits during the year, resulting from additional service and increases in salary. It is based on the increase in accrued pension net of inflation (B) after deducting the director's contribution during the year (D).
- The change in the transfer value (H) includes the effect of fluctuations in the transfer value due to factors beyond the control of the Company and directors, such as stock market movements. The directors' contributions during the year (D) are excluded from this value.
- Both directors opted out of the ABF Scheme on 5 April 2006, and since then have earned benefits in the Employer Financed Retirement Benefit Scheme (EFRBS). The figures shown represent the aggregate of benefits in the ABF Scheme and the EFRBS.
- Voluntary contributions paid by directors and resulting benefits are not shown.
- Pension benefits include a 50% spouse's pension. Pensions are guaranteed to increase in line with RPI limited each year to 5% (2.5% for benefits accrued post 1 January 2008). Additional discretionary increases to pensions in payment have been granted in the past.

6. Directors' share options

There are two schemes under which both HMRC approved and unapproved options have been granted in the past:

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

Some years ago it was agreed that share option awards would no longer form part of the normal remuneration package for executives although the Remuneration committee reserved the right to grant options under special circumstances.

All share options held by the executive directors under the 1994 Scheme and the 2000 Scheme were exercised during the year as follows:

	Options as at 12.09.09	Lapsed in year	Exercised during year	Options as at 18.09.10	Exercise price	Earliest normal exercise date	Expiry date	Exercise date	Price on exercise
George Weston	22,500**	–	22,500	–	484p	17.01.2004	16.01.2011	05.11.2009	816p
John Bason	50,000**	–	50,000	–	484p	17.01.2004	16.01.2011	25.02.2010	937p
	50,000*	–	50,000	–	497p	07.12.2006	06.12.2011	25.02.2010	937p
	50,000*	–	50,000	–	564p	09.12.2007	08.12.2012	25.02.2010	937p

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

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

At close of business on 17 September 2010, the last trading day before the end of the financial year, the market value of the Company's ordinary shares was 1056p. During the previous 12 months the price ranged from 798p to 1087p.

7. Performance review

The performance graph illustrates the performance of the Company over the past five years in terms of total shareholder return compared with that of the companies comprising the FTSE 100 index. This index has been selected because it represents a cross-section of leading UK companies.

Year-on-year TSR – ABF v FTSE 100 (2005 = 100)



Remuneration report continued

8. Directors' service contracts

It is the Company's policy that all executive directors have rolling contracts with 12-month notice periods. The Company's Articles of Association require that all directors retire from office if they have not retired by rotation at the preceding two annual general meetings. Details of the contracts of service of directors who served during the year ended 18 September 2010 are set out below:

	Date of appointment	Effective date of current contract	Notice period from Company	Notice period from director
Charles Sinclair	01.10.08	21.04.09	6 months	6 months
George Weston	19.04.99	01.06.05	12 months	12 months
John Bason	04.05.99	16.03.99	12 months	12 months
Tim Clarke	03.11.04	03.11.04	6 months	6 months
Lord Jay	01.11.06	01.11.06	6 months	6 months
Javier Ferrán	01.11.06	01.11.06	6 months	6 months
Peter Smith	28.02.07	28.02.07	6 months	6 months

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

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

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

9. Directors' interests

The directors of the Company as at 18 September 2010 had the following interests in the shares of the Company notifiable to the Company under the Disclosure and Transparency Rules and its holding company.

	As at 18 September 2010	As at 12 September 2009
Charles Sinclair		
Associated British Foods plc, ordinary shares of 5 ¹⁵ /22p	12,760	6,740
George Weston		
Wittington Investments Limited, ordinary shares of 50p	5,209	5,209
Associated British Foods plc, ordinary shares of 5 ¹⁵ /22p	3,211,283	3,188,783
John Bason		
Associated British Foods plc, ordinary shares of 5 ¹⁵ /22p	20,028	17,216
Galen Weston		
Wittington Investments Limited, ordinary shares of 50p	37,953	37,953
Associated British Foods plc, ordinary shares of 5 ¹⁵ /22p	5,672,560	5,672,560
Tim Clarke		
Associated British Foods plc, ordinary shares of 5 ¹⁵ /22p	4,000	4,000
Lord Jay		
Associated British Foods plc, ordinary shares of 5 ¹⁵ /22p	100	100
Javier Ferrán		
Associated British Foods plc, ordinary shares of 5 ¹⁵ /22p	500	500
Peter Smith		
Associated British Foods plc, ordinary shares of 5 ¹⁵ /22p	2,000	2,000

In addition to the above, George Weston and John Bason were allocated a conditional grant of shares under the Share Incentive Plan, details of which are shown on page 46.

The interests above remained the same at 9 November 2010.

10. Executive directors serving as non-executive directors

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

During the year, George Weston served as a non-executive director of Wittington Investments Limited, and John Bason served as a trustee of Voluntary Service Overseas and as deputy chairman of the charity FareShare. Neither director received compensation in respect of any of these roles.

11. Compliance statement

In compliance with the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, the auditable part of the Remuneration report comprises directors' remuneration on page 48, directors' pensions on page 48, directors' share options on page 49 and long-term incentives on page 46 including the table on that page.

By order of the board
Paul Lister
 Company Secretary
 9 November 2010

Other disclosures

Business review

The Companies Act 2006 requires the Company to set out in the Directors' report a fair review of the business of the Company during the financial year ended 18 September 2010 including an analysis of the position of the business at the end of the financial year and a description of the principal risks and uncertainties facing the Company (the 'Business review'). The purpose of the Business review is to enable shareholders to assess how the directors have performed their duties under section 172 of the Companies Act 2006, being the duty to promote the success of the Company. The information that fulfils the requirements of the Business review can be found in the following sections of this report:

- Chairman's statement on pages 4 and 5;
- Our group at a glance on pages 2 and 3;
- Operating review on pages 6 to 27, which includes a review of the external environment, key strategic aims and performance measures;
- Financial review on pages 28 and 29;
- Corporate responsibility on pages 30 and 31;
- Principal risks and uncertainties are described on pages 42 to 44;
- Details of the principal operating subsidiaries are set out on page 107; and
- Information on essential contracts and arrangements on page 53.

Principal activities

The activities of the group principally concern the processing and manufacture of food worldwide and textile retailing in the UK and continental Europe. Comments on the development of the business during the period under review and on the future outlook are contained within the Chairman's statement on pages 4 and 5 and the Operating review on pages 6 to 27.

The Company is the holding company for the Associated British Foods group ('the group'). Details of the principal operating subsidiaries are set out on page 107.

The audited financial statements of the group and Company appear on pages 56 to 114.

Results and dividends

The consolidated income statement is on page 56. Profit for the financial year attributable to equity shareholders amounted to £546m.

The directors recommend a final dividend of 16.2p per ordinary share, to be paid, if approved, on 14 January 2011 which, together with the interim dividend of 7.6p per share paid in July, amounts to 23.8p for the year. Dividends are detailed on page 73.

Research and development

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

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

Charitable and political donations

Contributions to charitable organisations by the group during the year totalled £2.8m (2009 – £2.4m). No political donations were made during the year.

Financial instruments

Details of the group's use of financial instruments, together with information on our risk objectives and policies and our exposure to price, credit, liquidity, cash flow and interest rate risks, can be found in note 25 on pages 93 to 105.

Payments to suppliers

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

Employees

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

- Equal opportunities – it is committed to offering equal opportunities to all people in their recruitment, training and career development, having regard for their particular aptitudes and abilities. Full and fair consideration is given to applicants with disabilities and every effort is made to give employees who become disabled whilst employed by the group an opportunity for retraining. It is group policy that the training, career development and promotion of disabled persons should, as far as possible, be the same as that of other employees.
- Health and safety – health and safety are considered as equal in importance to that of any other function of the group and its business objectives. The policy and a full global report is available on the Company's website at www.abf.co.uk

Other disclosures continued

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

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

It remunerates fairly with respect to skills, performance, its peers and local conditions.

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

Property, plant and equipment

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

Substantial shareholding and controlling interest

Details of a controlling interest in the shares of the Company are given in note 29 on page 107.

As at 1 November 2010, the Company had received formal notification, under the Disclosure and Transparency Rules, of the following material interest in its shares:

Shareholder	Number of ordinary shares	% of issued share capital	Date of notification of interest
AXA S.A.	39,350,240	4.97	10 November 2009

Power to issue shares

At the last annual general meeting, held on 4 December 2009, authority was given to the directors to allot unissued relevant securities in the Company up to a maximum of an amount equivalent to two thirds of the shares in issue (of which one third must be offered by way of rights issue). This authority expires on the date of the annual general meeting to be held on 10 December 2010. No such shares have been issued. The directors propose to renew this authority at the annual general meeting to be held on 10 December 2010 for the following year.

A further special resolution passed at that meeting granted authority to the directors to allot equity securities in the Company for cash, without regard to the pre-emption provisions of the Companies Act 2006. This authority also expires on the date of the 2010 annual general meeting and the directors will seek to renew this authority for the following year.

The Companies Act 2006 empowers the Company to purchase its own shares subject to the necessary shareholder approval. The Company has no existing authority to purchase its own shares.

Appointment of directors

The Company's Articles of Association (the 'Articles') give the directors power to appoint and replace directors. Under the terms of reference of the Nomination committee, any appointment must be recommended by the Nomination committee for approval by the board of directors. A person who is not recommended by the directors may only be appointed as a director where details of that director have been provided at least seven and not more than 35 days prior to the relevant meeting by at least two members of the Company. The Articles also require directors to retire and submit themselves for election at the first annual general meeting following appointment and all directors who held office at the time of the two preceding annual general meetings, and in any event not less than one third of the relevant directors (excluding those directors who retire other than by rotation), to submit themselves for re-election. In accordance with the Combined Code, all non-executive directors who have served for more than nine years must also submit themselves for election on an annual basis.

Articles of Association

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

Power of the directors

The directors are responsible for managing the business of the Company and may exercise all the powers of the Company subject to the provisions of relevant statutes, to any directions given by special resolution and to the Company's Articles. The Articles, for example, contain specific provisions and restrictions concerning the Company's power to borrow money. As indicated above, powers relating to the issuing of shares are also included in the Articles and such authorities are renewed by shareholders at the annual general meeting each year.

Significant agreements

The group has contractual arrangements with many parties including directors, employees, customers, suppliers and banking groups. The following arrangements are considered to be significant in terms of their potential impact on the business of the group as a whole:

- The group has a number of borrowing facilities provided by various banking groups. These facility agreements generally include change of control provisions which, in the event of a change in ownership of the Company, could result in their renegotiation or withdrawal. The most significant agreements are the £1.15bn syndicated loan facility which was signed on 13 July 2010 and under which £33m was drawn down at the year end and the £120m Finance Contract from the European Investment Bank which was signed on 5 December 2007 and under which £120m was drawn down at the year end. The syndicated loan facilities for US\$1.2bn signed on 12 October 2006 and for £320m signed on 14 October 2008 were both cancelled upon entering the £1.15bn syndicated facility.
- In addition to these bank facilities, in March 2009 the Company issued US\$610m of private placement notes to institutional investors. In accordance with the scheduled maturities, no repayment of these notes had taken place by the year end. In the event of a change in ownership of the Company, the Company is obliged to make an offer of immediate repayment to the note holders.
- In September 2010, the group entered into contracts for the supply to the UK businesses of electricity and gas.

These agreements include provisions which, in the event of a change of control of the Company, could result in the agreement being altered or terminated.

Essential contracts or arrangements

Individual companies in the group have contractual and other arrangements with many third parties in support of the group's businesses activities. Such contracts and arrangements may be deemed essential to one or more operating companies but there are no contracts or arrangements considered to be essential to the group as a whole, save that British Sugar has a contract with the National Farmers' Union, the Inter Professional Agreement. This consists of approximately 4,000 identical but individual contracts with sugar beet growers.

Further information

Further information that fulfils the requirements of Part 6 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 and which should be treated as forming part of this report by reference are included in the following sections of the annual report:

- details of the structure of the Company's share capital and the rights attached to the Company's shares set out on page 89; and
- details of share schemes set out on pages 91 and 92, including the voting policy of the trustee of a trust holding ordinary shares of the Company.

Disclosure of information to auditors

The directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information. For these purposes, relevant audit information means information needed by the Company's auditors in connection with the preparation of their report on page 55.

Auditors

In accordance with section 489 of the Companies Act 2006, a resolution for the reappointment of KPMG Audit Plc as auditors of the Company is to be proposed at the forthcoming annual general meeting.

Directors

The names of the persons who were directors of the Company during the financial year and as at 9 November 2010 appear on pages 32 and 33.

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

Directors' indemnities

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

Directors' responsibility statement

- The financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit for the Company and the undertakings included in the consolidation taken as a whole; and
- Pursuant to Disclosure and Transparency Rules, Chapter 4, the following sections of the Company's annual report contain a fair review of the development and performance of the business and the position of the Company, and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face:
 1. The Chairman's statement on pages 4 and 5;
 2. Operating review on pages 6 to 27, which includes a review of the external environment, key strategic aims future development and performance measures;
 3. Financial review on pages 28 and 29;
 4. Other disclosures: 'Research and development';
 5. Other disclosures: 'Financial instruments';
 6. Other disclosures: 'Property, plant and equipment';
 7. Other disclosures: 'Power of the directors'; and
 8. Other disclosures: 'Principal risks and uncertainties'.

On behalf of the board

Charles Sinclair

Chairman

9 November 2010

George Weston

Chief Executive

John Bason

Finance Director

Statement of directors' responsibilities in respect of the annual report and the financial statements

The directors are responsible for preparing the annual report and the group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare group and parent company financial statements for each financial year. Under that law they are required to prepare the group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of their profit or loss for that period. In preparing each of the group and parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- for the group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- for the parent company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the parent company financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a Directors' report, Remuneration report and Corporate governance report that complies with that law and those regulations.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent auditors' report

to the members of Associated British Foods plc

We have audited the financial statements of Associated British Foods plc for the 53 week period ended 18 September 2010 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated and Company balance sheet, the consolidated cash flow statement, the consolidated statement of changes in equity, the Company reconciliation of movements in equity shareholders' funds and related notes. The financial reporting framework that has been applied in the preparation of the consolidated financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU. The financial reporting framework that has been applied in the preparation of the Company financial statements is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Statement of directors' responsibilities in respect of the annual report and the financial statements set out on page 54, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the Company's affairs as at 18 September 2010 and of the group's profit for the period then ended;
- the consolidated financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the Company financial statements have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006; and, as regards the consolidated financial statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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

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

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 38, in relation to going concern; and
- the part of the Corporate governance statement relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

Stephen Oxley
for and on behalf of KPMG Audit Plc
 Chartered Accountants
 Statutory Auditor
 15 Canada Square
 London
 E14 5GL

9 November 2010

Consolidated income statement

for the 53 weeks ended 18 September 2010

	Note	2010 53 weeks £m	2009 52 weeks £m
CONTINUING OPERATIONS			
REVENUE	1	10,167	9,255
Operating costs	2	(9,355)	(8,639)
		812	616
Share of profit after tax from joint ventures and associates	11	16	10
Profits less losses on disposal of non-current assets		(9)	(1)
OPERATING PROFIT		819	625
Adjusted operating profit	1	909	720
Profits less losses on disposal of non-current assets		(9)	(1)
Amortisation of non-operating intangibles	8	(81)	(82)
Inventory fair value adjustment	22	–	(12)
Profits less losses on sale and closure of businesses	22	28	(65)
PROFIT BEFORE INTEREST		847	560
Finance income	4	12	17
Finance expense	4	(88)	(95)
Other financial (expense)/income	4	(8)	13
PROFIT BEFORE TAXATION		763	495
Adjusted profit before taxation		825	655
Profits less losses on disposal of non-current assets		(9)	(1)
Amortisation of non-operating intangibles		(81)	(82)
Inventory fair value adjustment		–	(12)
Profits less losses on sale and closure of businesses		28	(65)
Taxation – UK		(83)	(71)
– Overseas		(111)	(41)
	5	(194)	(112)
PROFIT FOR THE PERIOD		569	383
ATTRIBUTABLE TO			
Equity shareholders		546	359
Non-controlling interests		23	24
PROFIT FOR THE PERIOD		569	383
Basic and diluted earnings per ordinary share (pence)	7	69.3	45.5
Dividends per share paid and proposed for the period (pence)	6	23.8	21.0

Consolidated statement of comprehensive income

for the 53 weeks ended 18 September 2010

	2010 53 weeks £m	2009 52 weeks £m
PROFIT FOR THE PERIOD RECOGNISED IN THE INCOME STATEMENT	569	383
OTHER COMPREHENSIVE INCOME/(EXPENSE)		
Actuarial losses on defined benefit schemes	(22)	(217)
Deferred tax associated with defined benefit schemes	3	62
Effect of movements in foreign exchange	228	270
Net loss on hedge of net investment in foreign subsidiaries	(11)	(27)
Deferred tax associated with movements in foreign exchange	(4)	1
Reclassification adjustment for movements in foreign exchange on subsidiaries disposed	(28)	–
Current tax associated with movements in foreign exchange	(4)	(4)
Movement in cash flow hedging position	41	(81)
Deferred tax associated with movement in cash flow hedging position	(11)	18
Share of other comprehensive income of joint ventures and associates	1	(1)
OTHER COMPREHENSIVE INCOME FOR THE PERIOD	193	21
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	762	404
ATTRIBUTABLE TO:		
Equity shareholders	715	361
Non-controlling interests	47	43
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	762	404

Consolidated balance sheet

at 18 September 2010

	Note	2010 £m	2009 £m
NON-CURRENT ASSETS			
Intangible assets	8	1,925	1,913
Property, plant & equipment	9	3,941	3,519
Biological assets	10	97	92
Investments in joint ventures	11	121	122
Investments in associates	11	38	32
Employee benefits assets	12	–	16
Deferred tax assets	13	180	184
Other receivables	14	191	140
TOTAL NON-CURRENT ASSETS		6,493	6,018
CURRENT ASSETS			
Assets classified as held for sale	15	–	136
Inventories	16	1,238	1,262
Biological assets	10	100	101
Trade and other receivables	14	1,079	1,121
Other financial assets	25	33	12
Cash and cash equivalents	17	345	383
TOTAL CURRENT ASSETS		2,795	3,015
TOTAL ASSETS		9,288	9,033
CURRENT LIABILITIES			
Liabilities classified as held for sale	15	–	(26)
Loans and overdrafts	18	(367)	(584)
Trade and other payables	19	(1,491)	(1,413)
Other financial liabilities	25	(38)	(76)
Income tax		(132)	(113)
Provisions	20	(99)	(248)
TOTAL CURRENT LIABILITIES		(2,127)	(2,460)
NON-CURRENT LIABILITIES			
Loans	18	(794)	(806)
Provisions	20	(106)	(173)
Deferred tax liabilities	13	(418)	(396)
Employee benefits liabilities	12	(99)	(122)
TOTAL NON-CURRENT LIABILITIES		(1,417)	(1,497)
TOTAL LIABILITIES		(3,544)	(3,957)
NET ASSETS		5,744	5,076
EQUITY			
Issued capital	21	45	47
Other reserves	21	175	173
Translation reserve	21	606	439
Hedging reserve		(4)	(32)
Retained earnings		4,471	4,121
TOTAL EQUITY ATTRIBUTABLE TO EQUITY SHAREHOLDERS		5,293	4,748
Non-controlling interests		451	328
TOTAL EQUITY		5,744	5,076

The financial statements on pages 56 to 109 were approved by the board of directors on 9 November 2010 and were signed on its behalf by:
Charles Sinclair, *Chairman* and **John Bason**, *Director*.

Consolidated cash flow statement

for the 53 weeks ended 18 September 2010

	2010 53 weeks £m	2009 52 weeks £m
CASH FLOW FROM OPERATING ACTIVITIES		
Profit before taxation	763	495
Profits less losses on disposal of non-current assets	9	1
Profits less losses on sale and closure of businesses	(28)	65
Inventory fair value adjustment	–	12
Finance income	(12)	(17)
Finance expense	88	95
Other financial expense/(income)	8	(13)
Share of profit after tax from joint ventures and associates	(16)	(10)
Amortisation	89	85
Depreciation	324	290
Net change in the fair value of biological assets	(8)	(19)
Share-based payment expense	11	5
Pension costs less contributions	(34)	(40)
Decrease/(increase) in inventories	61	(13)
Decrease in receivables	105	159
Increase/(decrease) in payables	27	(100)
Purchases less sales of current biological assets	(3)	(7)
Decrease in provisions	(57)	(20)
Cash generated from operations	1,327	968
Income taxes paid	(155)	(135)
NET CASH FROM OPERATING ACTIVITIES	1,172	833
CASH FLOWS FROM INVESTING ACTIVITIES		
Dividends received from joint ventures and associates	6	4
Purchase of property, plant & equipment	(694)	(545)
Purchase of intangibles	(32)	(24)
Purchase of non-current biological assets	–	(10)
Sale of property, plant & equipment	27	19
Quota renunciation compensation	–	101
Purchase of subsidiaries, joint ventures and associates	(36)	(266)
Sale of subsidiaries, joint ventures and associates	4	145
Loans to joint ventures	(74)	(52)
Purchase of non-controlling interests	(14)	(2)
Purchase of other investments	–	(4)
Interest received	11	12
NET CASH FROM INVESTING ACTIVITIES	(802)	(622)
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid to non-controlling interests	(29)	(23)
Dividends paid to equity shareholders	(171)	(161)
Interest paid	(84)	(89)
Decrease in other current investments	–	12
Financing:		
(Decrease)/increase in short-term loans	(241)	283
Decrease in long-term loans	(30)	(100)
Net proceeds of rights issue taken up by non-controlling interests	115	19
Redemption of deferred shares	(2)	–
Movements from changes in own shares held	(4)	(15)
NET CASH FROM FINANCING ACTIVITIES	(446)	(74)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(76)	137
Cash and cash equivalents at the beginning of the period	361	210
Effect of movements in foreign exchange	24	14
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	309	361

Consolidated statement of changes in equity

Note	Attributable to equity shareholders						Non-controlling interests £m	Total equity £m
	Issued capital £m	Other reserves £m	Translation reserve £m	Hedging reserve £m	Retained earnings £m	Total £m		
Balance as at 14 September 2008	47	173	221	25	4,088	4,554	290	4,844
TOTAL COMPREHENSIVE INCOME								
Profit for the period recognised in the income statement	—	—	—	—	359	359	24	383
Actuarial losses on defined benefit schemes	—	—	—	—	(217)	(217)	—	(217)
Deferred tax associated with defined benefit schemes	—	—	—	—	62	62	—	62
Effect of movements in foreign exchange	—	—	245	—	—	245	25	270
Net loss on hedge of net investment in foreign subsidiaries	—	—	(27)	—	—	(27)	—	(27)
Deferred tax associated with movements in foreign exchange	—	—	—	—	1	1	—	1
Current tax associated with movements in foreign exchange	—	—	—	—	(4)	(4)	—	(4)
Movement in cash flow hedging position	—	—	—	(75)	—	(75)	(6)	(81)
Deferred tax associated with movement in cash flow hedging position	—	—	—	18	—	18	—	18
Share of other comprehensive income of joint ventures and associates	—	—	—	—	(1)	(1)	—	(1)
Total comprehensive income	—	—	218	(57)	200	361	43	404
TRANSACTIONS WITH OWNERS								
Dividends paid to equity shareholders	6	—	—	—	(161)	(161)	—	(161)
Net movement in own shares held	—	—	—	—	(10)	(10)	—	(10)
Dividends paid to non-controlling interests	—	—	—	—	—	—	(23)	(23)
Changes in ownership of subsidiaries	—	—	—	—	4	4	18	22
Total transactions with owners	—	—	—	—	(167)	(167)	(5)	(172)
Balance as at 12 September 2009	47	173	439	(32)	4,121	4,748	328	5,076
TOTAL COMPREHENSIVE INCOME								
Profit for the period recognised in the income statement	—	—	—	—	546	546	23	569
Actuarial losses on defined benefit schemes	—	—	—	—	(22)	(22)	—	(22)
Deferred tax associated with defined benefit schemes	—	—	—	—	3	3	—	3
Effect of movements in foreign exchange	—	—	204	—	—	204	24	228
Net loss on hedge of net investment in foreign subsidiaries	—	—	(9)	—	—	(9)	(2)	(11)
Reclassification adjustment for movements in foreign exchange on subsidiaries disposed	—	—	(28)	—	—	(28)	—	(28)
Deferred tax associated with movements in foreign exchange	—	—	—	—	(4)	(4)	—	(4)
Current tax associated with movements in foreign exchange	—	—	—	—	(4)	(4)	—	(4)
Movement in cash flow hedging position	—	—	—	38	—	38	3	41
Deferred tax associated with movement in cash flow hedging position	—	—	—	(10)	—	(10)	(1)	(11)
Share of other comprehensive income of joint ventures and associates	—	—	—	—	1	1	—	1
Total comprehensive income	—	—	167	28	520	715	47	762
TRANSACTIONS WITH OWNERS								
Dividends paid to equity shareholders	6	—	—	—	(171)	(171)	—	(171)
Redemption of deferred shares	21	(2)	2	—	(2)	(2)	—	(2)
Net movement in own shares held	—	—	—	—	7	7	—	7
Dividends paid to non-controlling interests	—	—	—	—	—	—	(29)	(29)
Disposal of subsidiary	—	—	—	—	—	—	(3)	(3)
Changes in ownership of subsidiaries	—	—	—	—	(4)	(4)	108	104
Total transactions with owners	—	2	—	—	(170)	(170)	76	(94)
Balance as at 18 September 2010	45	175	606	(4)	4,471	5,293	451	5,744

Significant accounting policies

for the 53 weeks ended 18 September 2010

Associated British Foods plc ('the Company') is a company domiciled in the United Kingdom. The consolidated financial statements of the Company for the 53 weeks ended 18 September 2010 comprise those of the Company and its subsidiaries (together referred to as 'the group') and the group's interest in associates and jointly controlled entities.

The financial statements were authorised for issue by the directors on 9 November 2010.

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

The Company has elected to prepare its parent company financial statements under UK Generally Accepted Accounting Practice. These are presented on pages 110 to 114.

Basis of preparation

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

The preparation of financial statements under Adopted IFRS requires management to make judgements, estimates and assumptions about the reported amounts of assets and liabilities, income and expenses and the disclosure of contingent assets and liabilities. The estimates and associated assumptions are based on experience. Actual results may differ from these estimates. Judgements made by management in the application of Adopted IFRS that have a significant effect on the financial statements, and estimates with a significant risk of material adjustment next year, are discussed in note 30.

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

The accounting policies set out below have been applied to all periods presented, except where detailed otherwise.

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

The financial statements of the group are prepared to the Saturday nearest to 15 September. Accordingly, these financial statements have been prepared for the 53 weeks ended 18 September 2010 (prior period for the 52 weeks ended 12 September 2009). To avoid delay in the preparation of the consolidated financial statements, the results of certain subsidiaries are included up to 31 August 2010. The results of Illovo are included for the period to 30 September 2010 in line with Illovo's local reporting date. Adjustments are made as appropriate for significant transactions or events occurring between 31 August and 30 September.

The group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business review on pages 6 to 27. The financial position of the group, its cash flows, liquidity position and borrowing facilities are described in the Financial review on pages 28 and 29. In addition, the risk management review on pages 42 to 44 and note 25 on pages 93 to 105 provide details of the group's policy on managing its financial and commodity risks.

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

Basis of consolidation

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

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

Changes in the group's ownership interest in a subsidiary that do not result in a loss of control are accounted for within equity.

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

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

Significant accounting policies continued

for the 53 weeks ended 18 September 2010

Business combinations

On the acquisition of a business or an interest in a joint venture or associate, fair values are attributed to the identifiable assets, liabilities and contingent liabilities acquired, reflecting conditions at the date of acquisition. Adjustments to fair values include those made to bring accounting policies into line with those of the group. Provisional fair values are finalised within twelve months of the business combination date and are adjusted by restatement of the comparative period in which the acquisition occurred. Non-controlling interests are measured at the proportionate share of the net identifiable assets acquired.

For business combinations executed in periods ending on or before 12 September 2009:

Goodwill arising on a business combination was the excess of the carrying amount of any existing equity interest plus the fair value of consideration payable for the additional stake over the fair value of the share of net identifiable assets and liabilities acquired (including separately identified intangible assets), net of non-controlling interests. Total consideration included acquisition costs.

Contingent consideration was measured at fair value at the date of the business combination. Subsequent changes to contingent consideration other than settlements are accounted for as adjustments to goodwill.

The following changes apply to business combinations executed in periods beginning on or after 13 September 2009:

Existing equity interests in the acquiree are remeasured to fair value as at the date of the business combination, with any resulting gain or loss taken to the income statement.

Goodwill arising on a business combination is the excess of the remeasured carrying amount of any existing equity interest plus the fair value of consideration payable for the additional stake over the fair value of the share of net identifiable assets and liabilities acquired (including separately identified intangible assets), net of non-controlling interests. Total consideration does not include acquisition costs, which are expensed as incurred.

Contingent consideration is measured at fair value at the date of the business combination, classified as asset, liability or equity (usually as a liability), and subsequently accounted for in line with that classification. Changes in contingent consideration classified as an asset or liability resulting other than from the finalisation of provisional fair values are accounted for in the income statement.

Revenue

Revenue represents the invoiced value of sales made to customers after deduction of discounts and sales taxes. Discounts include sales rebates, price discounts, customer incentives, certain promotional activities and similar items. Revenue does not include sales between group companies. Revenue is recognised when the risks and rewards of the underlying products have been substantially transferred to the customer, and when it can be reliably measured.

Revenue from sale of goods is generally recognised on dispatch or delivery to customers, dependent on shipping terms. Discounts are provided for as a reduction to revenue at the time a sale is recorded, based on management's best estimate of the amount required to meet claims by customers.

Borrowing costs

Borrowing costs are accounted for on an accruals basis in the income statement using the effective interest method. For qualifying items of property, plant and equipment, where the commencement date for capitalisation was on or after 13 September 2009, the group capitalises borrowing costs that are directly attributable to the acquisition, construction or production of those qualifying assets as part of their cost. Previously, the group expensed all borrowing costs as incurred. Interest capitalised is taxed under current or deferred tax as appropriate.

Exceptional items

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

Foreign currencies

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

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

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

Pensions and other post-employment benefits

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

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

Share-based payments: employee benefits

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

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

Income tax

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

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

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

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

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

Financial assets and liabilities

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

Cash and cash equivalents

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

Significant accounting policies continued

for the 53 weeks ended 18 September 2010

Derivative financial instruments

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

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

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

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

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

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

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

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

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

Intangible assets other than goodwill

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

Operating intangible assets are intangible assets acquired in the ordinary course of business and typically include software costs and development expenditure.

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

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

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

Goodwill

All business combinations are accounted for using the acquisition method. For business combinations that occurred between 3 September 2004 and 12 September 2009, goodwill represented the excess of the carrying amount of any existing equity interest plus the fair value of consideration payable for the additional stake over the fair value of the share of net identifiable assets and liabilities acquired (including separately identified intangible assets), net of non-controlling interests. For business combinations prior to this date, goodwill is included on the basis of its deemed cost, represented by the net book value recorded under previous GAAP. The classification and accounting treatment of business combinations that occurred prior to 3 September 2004 were not reconsidered on transition to IFRS.

For business combinations that have occurred on or after 13 September 2009, goodwill represents the excess of the fair value of any existing equity interest plus the fair value of consideration payable for the additional stake over the fair value of the share of net identifiable assets and liabilities acquired (including separately identified intangible assets), net of non-controlling interests.

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

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

Research and development

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

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

Impairment

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

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

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

Calculation of recoverable amount

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

Reversals of impairment

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

Property, plant and equipment

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

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

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

Significant accounting policies continued

for the 53 weeks ended 18 September 2010

Leases

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

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

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

Biological assets

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

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

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

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

Other biological assets include livestock.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost includes raw materials, direct labour and expenses and an appropriate proportion of production and other overheads. Cost is calculated on a first-in first-out basis.

Cash flow statement

The group has amended the way in which it presents adjustments relating to biological assets in the consolidated cash flow statement, in the reconciliation between profit before taxation and cash generated from operations. Previously the change in fair value mainly attributable to growth of sugar cane was shown as a separate adjustment, and the impact of harvested cane was shown in the inventory movement. The impact of these two items is now shown net as one separate adjustment, as this better presents the impact of biological assets on the cash flows of the group. Prior period amounts have been amended to reflect this change. There is no impact on cash generated from operations as a result of this change.

New accounting policies

The group has applied the revised version of IAS 1 *Presentation of Financial Statements* which became effective on 13 September 2009. The standard addresses presentational and terminology issues only. The principal changes are as follows:

- the consolidated statement of changes in equity becomes a primary statement. Previously, this information was included as part of a note to the financial statements;
- changes in total equity resulting from transactions with owners are detailed in the consolidated statement of changes in equity, and are presented separately from non-owner changes in equity; and
- income and expenses are presented separately from transactions with owners in two primary statements – the consolidated income statement and the consolidated statement of comprehensive income (which details the components of other comprehensive income). The consolidated statement of comprehensive income replaces the consolidated statement of recognised income and expense, which is no longer presented. These two statements together comprise total comprehensive income.

The standard also introduces some changes in terminology, many of which are voluntary and have not been adopted. However, a small number of changes have been incorporated, including the names of the consolidated statement of changes in equity and the consolidated statement of comprehensive income, as described above. Minority interests are now referred to as non-controlling interests.

Comparative information has been re-presented so that it conforms with the revised standard. Since the change in accounting policy only impacts presentation, there is no impact on reported profit, earnings per share or net assets.

The group has applied the revised version of IFRS 3 *Business Combinations* and IAS 27 *Consolidated and Separate Financial Statements* with effect from 13 September 2009. The standards apply prospectively to all business combinations executed from that date. Business combinations executed prior to that date, and the resolution of related issues, are dealt with under the preceding version of the standards as previously applied by the group.

The revised standards introduce changes in a number of areas, the most significant of which are as follows:

- non-controlling interests may be measured either at fair value or at the proportionate share of the fair value of the net identifiable assets and liabilities acquired, with the choice available individually for each business combination. In the past, the group measured non-controlling interests at the proportionate share of the fair value of the net identifiable assets and liabilities acquired, and it is expected that this will remain the case;
- for business combinations achieved in stages, the group is required at the acquisition date to remeasure to fair value any existing equity interest in the acquiree, with any resulting gain or loss taken to the income statement. The group did not previously perform any such remeasurement;
- contingent consideration continues to be recognised at fair value at the date of the business combination. Post-acquisition changes to contingent consideration classified as an asset or liability (for instance resulting from revised expectations of deferred consideration payments) are required to be recognised in the income statement, where previously they were treated as an adjustment to goodwill;
- contingent liabilities are required to be recorded at fair value at acquisition, where previously there was no requirement to record them on the balance sheet;
- acquisition costs no longer comprise part of consideration, and must be expensed as incurred; and
- changes in ownership interest in a subsidiary that do not result in a loss of control are accounted for within equity, which is consistent with the group's previous treatment.

Since the revised standards apply only prospectively to new business combinations, their implementation does not result in restatement of any prior periods. The group did not complete any business combinations in the period.

The group has applied Amendments to IFRS 7 *Improving Disclosures about Financial Instruments* with effect from 13 September 2009. The amendments require enhanced disclosures about fair value measurement methods and about liquidity risk and the management thereof. The disclosures around fair value measurement relate to valuation methods applied to financial instruments carried at fair value in the balance sheet. They require classification of such instruments using a three-level hierarchy that ranks the inputs to valuation techniques according to their use of both objective evidence and subjective judgements. These new disclosures are given at the end of section a) in note 25. The disclosures on liquidity management are an enhancement of existing requirements and are given in section h) of note 25. Comparative information in the first year of application is not required. Since the amendments relate to disclosure only, no restatements of profit, earnings or net assets are required.

The group has applied IFRS 8 *Operating Segments* which became effective on 13 September 2009 and has been applied retrospectively. IFRS 8 requires separate reporting of segmental information for operating segments, and replaces IAS 14 *Segment Reporting*. Operating segments are determined based on the information that is presented to the board of directors, which is the chief operating decision maker as defined in the standard.

Since the application of this new standard affects only disclosure and presentation, there is no impact on reported profit, earnings per share or net assets, and no material restatement of prior periods is required, other than minor presentational changes.

The group has applied the amendment to IAS 23 *Borrowing Costs* with effect from 13 September 2009. For qualifying items of property, plant and equipment and intangibles, where the commencement date for capitalisation was on or after 13 September 2009, the group capitalises borrowing costs that are directly attributable to the acquisition, construction or production of those qualifying assets as part of their cost. Previously, the group expensed all borrowing costs as incurred. The standard applies prospectively and comparative periods have not been restated. The general future impact of this standard will be to reduce interest expense at the time of a qualifying asset's construction, and to decrease operating profit in future periods when that asset is used, via increased depreciation on the higher cost.

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

IFRS 9 *Financial Instruments* (effective for annual periods beginning on or after 1 January 2013, not yet endorsed by the EU) is the first stage in the ongoing project to replace IAS 39 *Financial Instruments: Recognition and Measurement*, and covers the classification and measurement of financial assets and financial liabilities. The group has not yet concluded on the impact that this standard will have, but it is not expected to be significant.

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

Notes forming part of the financial statements

for the 53 weeks ended 18 September 2010

1. Operating segments

The group discloses five operating segments, as described below. These are the group's operating divisions, based on the group's management and internal reporting structure, which combine businesses with common characteristics. The board is the chief operating decision maker.

Inter-segment pricing is determined on an arm's length basis. Segment result is adjusted operating profit, as shown on the face of the consolidated income statement. Segment assets comprise all non-current assets except employee benefits assets and deferred tax assets, and all current assets except cash and cash equivalents. Segment liabilities comprise trade and other payables, other financial liabilities and provisions. Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets and expenses, cash, borrowings, employee benefits balances and current and deferred tax balances. Segment non-current asset additions are the total cost incurred during the period to acquire segment assets that are expected to be used for more than one year, comprising property, plant and equipment, operating intangibles and biological assets.

The group is comprised of the following operating segments:

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

Geographical information

In addition to the required disclosure for operating segments, disclosure is also given of certain geographical information about the group's operations, based on the geographical groupings: United Kingdom; Europe & Africa; The Americas; and Asia Pacific.

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

	Revenue		Adjusted operating profit	
	2010 £m	2009 £m	2010 £m	2009 £m
OPERATING SEGMENTS				
Grocery	3,406	3,188	229	191
Sugar	1,941	1,475	240	168
Agriculture	954	913	33	34
Ingredients	1,067	989	104	88
Retail	2,730	2,314	341	252
Central	–	–	(42)	(34)
	10,098	8,879	905	699
Businesses disposed:				
Grocery	17	177	–	–
Sugar	19	100	4	21
Agriculture	33	91	–	–
Ingredients	–	8	–	–
	69	376	4	21
	10,167	9,255	909	720
GEOGRAPHICAL INFORMATION				
United Kingdom	4,411	4,049	480	354
Europe & Africa	2,495	1,927	219	198
The Americas	1,120	1,068	121	85
Asia Pacific	2,072	1,835	85	62
	10,098	8,879	905	699
Businesses disposed:				
United Kingdom	33	91	–	–
Europe & Africa	19	100	4	21
The Americas	17	185	–	–
	69	376	4	21
	10,167	9,255	909	720

1. Operating segments continued

For the 53 weeks ended 18 September 2010

	Grocery £m	Sugar £m	Agriculture £m	Ingredients £m	Retail £m	Central £m	Total £m
Revenue from continuing businesses	3,410	2,030	958	1,142	2,730	(172)	10,098
Internal revenue	(4)	(89)	(4)	(75)	–	172	–
External revenue from continuing businesses	3,406	1,941	954	1,067	2,730	–	10,098
Businesses disposed	17	19	33	–	–	–	69
Revenue from external customers	3,423	1,960	987	1,067	2,730	–	10,167
Adjusted operating profit from continuing businesses	229	242	23	96	341	(42)	889
Share of profit after tax from joint ventures and associates	–	(2)	10	8	–	–	16
Businesses disposed	–	4	–	–	–	–	4
Adjusted operating profit	229	244	33	104	341	(42)	909
Amortisation of non-operating intangibles	(26)	(33)	–	(22)	–	–	(81)
Profits less losses on disposal of non-current assets	12	(24)	3	(1)	–	1	(9)
Profits less losses on sale and closure of businesses	(7)	35	–	–	–	–	28
Profit before interest	208	222	36	81	341	(41)	847
Finance income	–	–	–	–	–	12	12
Finance expense	–	–	–	–	–	(88)	(88)
Other financial expense	–	–	–	–	–	(8)	(8)
Taxation	–	–	–	–	–	(194)	(194)
PROFIT FOR THE PERIOD	208	222	36	81	341	(319)	569
Segment assets (excluding investments in associates and joint ventures)	2,555	2,454	227	1,354	1,892	122	8,604
Investments in associates and joint ventures	26	40	61	32	–	–	159
SEGMENT ASSETS	2,581	2,494	288	1,386	1,892	122	8,763
Cash and cash equivalents	–	–	–	–	–	345	345
Deferred tax assets	–	–	–	–	–	180	180
SEGMENT LIABILITIES	(566)	(402)	(91)	(184)	(342)	(149)	(1,734)
Loans and overdrafts	–	–	–	–	–	(1,161)	(1,161)
Income tax	–	–	–	–	–	(132)	(132)
Deferred tax liabilities	–	–	–	–	–	(418)	(418)
Employee benefits liabilities	–	–	–	–	–	(99)	(99)
NET ASSETS	2,015	2,092	197	1,202	1,550	(1,312)	5,744
Non-current asset additions	251	171	10	81	214	12	739
Depreciation	98	84	7	32	102	1	324
Impairment of property, plant & equipment	–	13	–	1	–	–	14
Amortisation	32	34	–	23	–	–	89
Impairment of intangibles	–	10	–	–	–	–	10

Geographical information

	United Kingdom £m	Europe & Africa £m	The Americas £m	Asia Pacific £m	Total £m
Revenue from external customers	4,444	2,514	1,137	2,072	10,167
Segment assets	3,344	2,629	1,043	1,747	8,763
Non-current asset additions	227	250	43	219	739
Depreciation	155	79	29	61	324
Impairment of property, plant & equipment	–	–	–	14	14
Amortisation	14	41	20	14	89
Impairment of intangibles	–	–	–	10	10

Notes forming part of the financial statements continued

for the 53 weeks ended 18 September 2010

1. Operating segments continued

For the 52 weeks ended 12 September 2009

	Grocery £m	Sugar £m	Agriculture £m	Ingredients £m	Retail £m	Central £m	Total £m
Revenue from continuing businesses	3,197	1,580	914	1,033	2,314	(159)	8,879
Internal revenue	(9)	(108)	(1)	(44)	—	162	—
External revenue from continuing businesses	3,188	1,472	913	989	2,314	3	8,879
Businesses disposed	177	103	91	8	—	(3)	376
Revenue from external customers	3,365	1,575	1,004	997	2,314	—	9,255
Adjusted operating profit from continuing businesses	199	166	23	83	252	(34)	689
Share of profit after tax from joint ventures and associates	(8)	2	11	5	—	—	10
Businesses disposed	—	21	—	—	—	—	21
Adjusted operating profit	191	189	34	88	252	(34)	720
Inventory fair value adjustment	—	(12)	—	—	—	—	(12)
Amortisation of non-operating intangibles	(27)	(25)	(1)	(29)	—	—	(82)
Profits less losses on disposal of non-current assets	—	(1)	—	—	—	—	(1)
Profits less losses on sale and closure of businesses	(57)	(2)	—	(6)	—	—	(65)
Profit before interest	107	149	33	53	252	(34)	560
Finance income	—	—	—	—	—	17	17
Finance expense	—	—	—	—	—	(95)	(95)
Other financial income	—	—	—	—	—	13	13
Taxation	—	—	—	—	—	(112)	(112)
PROFIT FOR THE PERIOD	107	149	33	53	252	(211)	383
Segment assets (excluding investments in associates and joint ventures)	2,414	2,570	230	1,240	1,780	54	8,288
Investments in associates and joint ventures	32	42	51	29	—	—	154
SEGMENT ASSETS	2,446	2,612	281	1,269	1,780	54	8,442
Cash and cash equivalents	—	—	—	—	—	391	391
Employee benefits assets	—	—	—	—	—	16	16
Deferred tax assets	—	—	—	—	—	184	184
SEGMENT LIABILITIES	(503)	(557)	(90)	(150)	(339)	(296)	(1,935)
Loans and overdrafts	—	—	—	—	—	(1,390)	(1,390)
Income tax	—	—	—	—	—	(114)	(114)
Deferred tax liabilities	—	—	—	—	—	(396)	(396)
Employee benefits liabilities	—	—	—	—	—	(122)	(122)
NET ASSETS	1,943	2,055	191	1,119	1,441	(1,673)	5,076
Non-current asset additions	115	213	11	80	177	5	601
Depreciation	89	76	8	32	85	—	290
Impairment of property, plant & equipment	37	—	—	—	—	—	37
Amortisation	29	27	—	29	—	—	85
Impairment of intangibles on closure of business	6	—	—	—	—	—	6
Other significant non-cash expenses (inventory fair value adjustment)	—	12	—	—	—	—	12

Geographical information

	United Kingdom £m	Europe & Africa £m	The Americas £m	Asia Pacific £m	Total £m
Revenue from external customers	4,140	2,027	1,253	1,835	9,255
Segment assets	3,258	2,689	1,021	1,474	8,442
Non-current asset additions	221	196	24	160	601
Depreciation	149	62	27	52	290
Impairment of property, plant & equipment	—	—	37	—	37
Amortisation	14	35	26	10	85
Impairment of intangibles on closure of business	—	—	6	—	6
Other significant non-cash expenses (inventory fair value adjustment)	—	12	—	—	12

2. Operating costs

	Note	2010 £m	2009 £m
OPERATING COSTS			
Cost of sales (including amortisation of intangibles)		7,554	7,085
Distribution costs		1,153	1,002
Administration expenses		648	552
		9,355	8,639
OPERATING COSTS ARE STATED AFTER CHARGING/(CREDITING):			
Employee benefits expense	3	1,497	1,295
Amortisation of non-operating intangibles	8	81	82
Amortisation of operating intangibles	8	8	3
Profits less losses on disposal of non-current assets		9	1
Depreciation of owned property, plant & equipment	9	324	290
Operating lease payments under property leases		95	81
Operating lease payments for hire of plant & equipment		11	10
Other operating income		(14)	(18)
Research and development expenditure		22	23
Fair value gains on financial assets and liabilities held for trading		(27)	(97)
Fair value losses on financial assets and liabilities held for trading		31	95
Foreign exchange gains on operating activities		(40)	(93)
Foreign exchange losses on operating activities		38	90

	2010 £m	2009 £m
AUDITORS' REMUNERATION		
FEES PAYABLE TO THE COMPANY'S AUDITOR AND ITS ASSOCIATES IN RESPECT OF THE AUDIT		
Group audit of the Company's financial statements	0.5	0.5
Audit of the Company's subsidiaries pursuant to legislation	4.6	4.2
Total audit remuneration	5.1	4.7
FEES PAYABLE TO THE COMPANY'S AUDITOR AND ITS ASSOCIATES IN RESPECT OF NON-AUDIT RELATED SERVICES		
Other services pursuant to legislation	0.4	0.3
Tax services	2.9	2.4
Information technology services	0.4	–
Due diligence	–	0.2
All other services	0.3	0.3
Total non-audit related remuneration	4.0	3.2
FEES PAYABLE TO THE COMPANY'S AUDITOR AND ITS ASSOCIATES IN RESPECT OF THE GROUP'S PENSION SCHEMES		
Audit of the pension schemes	0.1	–
	0.1	–

Notes forming part of the financial statements continued

for the 53 weeks ended 18 September 2010

3. Employees

	2010	2009
AVERAGE NUMBER OF EMPLOYEES		
United Kingdom	34,416	32,399
Europe & Africa	38,594	39,065
The Americas	3,672	4,166
Asia Pacific	20,233	20,621
	96,915	96,251

	Note	£m	£m
EMPLOYEE BENEFITS EXPENSE			
Wages and salaries		1,285	1,128
Social security contributions		122	93
Contributions to defined contribution schemes	12	45	33
Charge for defined benefit schemes	12	34	36
Equity-settled share-based payment schemes	23	11	5
		1,497	1,295

Details of directors' remuneration, share options and pension entitlements are shown in the Remuneration report on pages 45 to 50.

4. Interest and other finance income and expense

	Note	2010 £m	2009 £m
FINANCE INCOME			
Interest income on financial assets not at fair value through profit or loss:			
– cash and cash equivalents		11	13
– unwinding of discount on receivables		–	3
– finance leases		1	1
Total finance income		12	17
FINANCE EXPENSE			
Interest expense on financial liabilities not at fair value through profit or loss:			
– bank loans and overdrafts		(34)	(55)
– all other borrowings		(46)	(31)
– finance leases		(1)	(1)
– other payables		(3)	(2)
– unwinding of discount on provisions		(4)	(5)
Fair value loss on current asset investments		–	(1)
Total finance expense		(88)	(95)
OTHER FINANCIAL (EXPENSE)/INCOME			
Expected return on employee benefit scheme assets	12	138	154
Interest charge on employee benefit scheme liabilities	12	(143)	(142)
Net financial (expense)/income from employee benefit schemes		(5)	12
Net foreign exchange (losses)/gains on financing activities		(3)	1
Total other financial (expense)/income		(8)	13

5. Income tax expense

	2010 £m	2009 £m
CURRENT TAX EXPENSE		
UK – corporation tax at 28% (2009 – 28%)	92	63
Overseas – corporation tax	99	86
(Over)/underprovided in prior periods	(10)	3
	181	152
DEFERRED TAX EXPENSE		
UK deferred tax	(8)	10
Overseas deferred tax	14	(48)
Under/(over)provided in prior periods	7	(2)
TOTAL INCOME TAX EXPENSE IN INCOME STATEMENT	194	112
RECONCILIATION OF EFFECTIVE TAX RATE		
Profit before taxation	763	495
Less share of profit after tax from joint ventures and associates	(16)	(10)
PROFIT BEFORE TAXATION EXCLUDING SHARE OF PROFIT AFTER TAX FROM JOINT VENTURES AND ASSOCIATES	747	485
Nominal tax charge at UK corporation tax rate of 28% (2009 – 28%)	209	136
Lower tax rates on overseas earnings	(27)	(44)
Expenses not deductible for tax purposes	13	12
Utilisation of losses	(6)	–
Deferred tax not recognised	8	7
Adjustments in respect of prior periods	(3)	1
	194	112
INCOME TAX RECOGNISED DIRECTLY IN EQUITY		
Deferred tax associated with defined benefit schemes	(3)	(62)
Deferred tax associated with movement in cash flow hedging position	11	(18)
Deferred tax associated with movements in foreign exchange	4	(1)
Current tax associated with movements in foreign exchange	4	4
	16	(77)

Following the enactment of legislation in the UK to reduce the corporation tax rate from 28% to 27% from 1 April 2011, the effective tax rate this year includes the impact on the income statement of calculating the UK deferred tax balances at the lower UK corporation tax rate. The impact of this rate change is a £6m reduction in the tax charge in the income statement and a £1m increase in the tax charge in other comprehensive income. Proposed future reductions in the UK tax rate to 24% will be reflected when the relevant legislation is substantively enacted.

Deferred taxation balances are analysed in note 13.

6. Dividends

	2010 pence per share	2009 pence per share	2010 £m	2009 £m
2008 final	–	13.50	–	107
2009 interim	–	6.90	–	54
2009 final	14.10	–	111	–
2010 interim	7.60	–	60	–
	21.70	20.40	171	161

The 2010 interim dividend was declared on 20 April 2010 and paid on 2 July 2010. The 2010 final dividend of 16.2 pence, total value of £128m, will be paid on 14 January 2011 to shareholders on the register on 10 December 2010.

Dividends relating to the period were 23.8 pence per share totalling £188m (2009 – 21.0 pence per share totalling £165m).

Notes forming part of the financial statements continued

for the 53 weeks ended 18 September 2010

7. Earnings per share

The calculation of basic earnings per share at 18 September 2010 was based on the net profit attributable to equity shareholders of £546m (2009 – £359m), and a weighted average number of shares outstanding during the year of 788 million (2009 – 789 million). The calculation of the weighted average number of shares excludes the shares held by the Employee Share Ownership Plan Trust on which the dividends are being waived.

Adjusted earnings per ordinary share, which exclude the impact of profits less losses on disposal of non-current assets and sale and closure of businesses, amortisation of non-operating intangibles, the inventory fair value adjustment on the acquisition of Azucarera, and the associated tax credits, is shown to provide clarity on the underlying performance of the group.

The diluted earnings per share calculation takes into account the dilutive effect of share options and share incentives. The diluted, weighted average number of shares is 788 million (2009 – 789 million). There is no difference between basic and diluted earnings.

	2010 £m	2009 £m
ADJUSTED PROFIT FOR THE PERIOD	569	455
Profits less losses on disposal of non-current assets	(9)	(1)
Profits less losses on sale and closure of businesses	28	(65)
Inventory fair value adjustment	–	(12)
Tax effect on above adjustments	–	29
Amortisation of non-operating intangibles	(81)	(82)
Tax credit on non-operating intangibles amortisation and goodwill	27	25
Non-controlling interests' share of amortisation of non-operating intangibles net of tax	12	10
PROFIT FOR THE PERIOD ATTRIBUTABLE TO EQUITY SHAREHOLDERS	546	359

	2010 pence	2009 pence
ADJUSTED EARNINGS PER SHARE	72.2	57.7
Disposal of non-current assets	(1.1)	(0.1)
Sale and closure of businesses	3.6	(8.3)
Inventory fair value adjustment	–	(1.5)
Tax effect on above adjustments	–	3.6
Amortisation of non-operating intangibles	(10.3)	(10.4)
Tax credit on non-operating intangibles amortisation and goodwill	3.4	3.2
Non-controlling interests' share of amortisation of non-operating intangibles net of tax	1.5	1.3
EARNINGS PER ORDINARY SHARE	69.3	45.5

8. Intangible assets

	Non-operating					Operating		Total £m
	Goodwill £m	Technology £m	Brands £m	Customer relationships £m	Grower agreements £m	Other £m	Other £m	
COST								
At 13 September 2008	1,225	217	300	75	154	7	66	2,044
Acquired through business combinations	28	–	27	14	8	–	5	82
Other acquisitions – externally purchased	–	–	–	–	–	–	41	41
Other disposals	–	–	–	–	–	–	(18)	(18)
Transferred to assets classified as held for sale	(26)	–	–	–	–	–	(2)	(28)
Effect of movements in foreign exchange	69	14	11	9	25	1	5	134
AT 12 SEPTEMBER 2009	1,296	231	338	98	187	8	97	2,255
Acquired through business combinations	2	–	–	–	(9)	–	–	(7)
Other acquisitions – externally purchased	–	–	–	–	–	–	34	34
Businesses disposed	–	–	–	–	–	–	–	–
Other disposals	–	–	–	–	–	–	(10)	(10)
Effect of movements in foreign exchange	57	13	11	6	20	1	5	113
AT 18 SEPTEMBER 2010	1,355	244	349	104	198	9	126	2,385
AMORTISATION AND IMPAIRMENT								
At 13 September 2008	5	76	69	39	31	7	2	229
Amortisation for the year	–	21	30	15	16	–	3	85
Impairment	–	–	–	–	–	–	6	6
Effect of movements in foreign exchange	–	5	4	5	7	1	–	22
AT 12 SEPTEMBER 2009	5	102	103	59	54	8	11	342
Amortisation for the year	–	21	27	14	19	–	8	89
Impairment	–	–	–	–	–	–	10	10
Effect of movements in foreign exchange	–	7	5	5	7	1	(6)	19
AT 18 SEPTEMBER 2010	5	130	135	78	80	9	23	460
NET BOOK VALUE								
At 13 September 2008	1,220	141	231	36	123	–	64	1,815
At 12 September 2009	1,291	129	235	39	133	–	86	1,913
AT 18 SEPTEMBER 2010	1,350	114	214	26	118	–	103	1,925

Operating intangibles mainly comprise computer software, land use rights and emissions trading licenses. Amortisation and impairment charges are recognised in the income statement.

In 2009, £30m of intangible assets were included within assets classified as held for sale (see note 15).

The impairment of operating intangibles in 2010 related to land use rights in China, which is included within losses on disposal of non-current assets in the income statement, and is included in the Sugar segment.

The impairment of operating intangibles in 2009 related to the closure of factories following the contribution of the US packaged oils business to the Stratas joint venture, the cost of which was included within losses on sale and closure of businesses in the income statement and was included in the Grocery segment.

Notes forming part of the financial statements continued

for the 53 weeks ended 18 September 2010

8. Intangible assets continued

Impairment of goodwill

As at 18 September 2010, the consolidated balance sheet included goodwill of £1,350m (2009 – £1,291m). Goodwill is allocated to the group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination that gave rise to the goodwill, as follows:

CASH-GENERATING UNIT (CGU) OR GROUP OF CGUS	Primary reporting segment	2010 £m	2009 £m
ACH	Grocery	248	231
AB Mauri	Ingredients	344	330
Twinings Ovaltine	Grocery	119	119
Capullo	Grocery	58	58
Illovo	Sugar	193	168
AB World Foods	Grocery	58	58
North China Sugar	Sugar	65	60
Other*	Various	265	267
		1,350	1,291

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

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

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

- The carrying value of goodwill has been assessed with reference to value in use to perpetuity reflecting the projected cash flows of each of the CGUs or group of CGUs based on the most recent budget. Growth rates for the period not covered by the annual budget are based on a range of growth rates that reflect the products, industries and countries in which the relevant CGU or group of CGUs operate.
- The key assumptions on which the cash flow projections for the most recent annual budget are based relate to discount rates, growth rates and expected changes in selling prices and direct costs.
- The cash flow projections have been discounted using a range of rates based on the group's pre-tax weighted average cost of capital adjusted for specific risks of the business if necessary. The rates used vary between 8% and 11% (2009 – between 8% and 11%).
- The growth rates applied in the value in use calculations for goodwill allocated to each of the CGUs or groups of CGUs that is significant to the total carrying amount of goodwill were in a range between 0% and 2.5% (2009 – between 0% and 2.5%).
- For some recently acquired intangible assets, management expects to achieve growth over the next three to five years in excess of the long-term growth rates for the applicable country or region. In these circumstances, the cash flow forecast is extended to between three and five years using specific growth assumptions.
- Changes in selling price and direct costs are based on past results and expectations of future changes in the market.

Sensitivity to changes in key assumptions

Impairment testing is dependent on management's estimates and judgements, particularly as they relate to the forecasting of future cash flows, the discount rates selected, and expected long-term growth rates. Each of the group's CGUs had significant headroom under the annual impairment review with the exception of the recently acquired sugar business in north east China. Current forecasts support the carrying value of the assets of the business but the achievement of these forecasts depends on significant improvements in agricultural yields and factory volumes. Management will closely monitor the value in use of these CGUs.

For all goodwill other than North China Sugar, management has concluded that no reasonably possible change in key assumptions, on which it has determined value in use, would cause carrying values to exceed value in use.

9. Property, plant and equipment

	Land and buildings £m	Plant and machinery £m	Fixtures and fittings £m	Assets under construction £m	Total £m
COST					
At 13 September 2008	1,553	2,208	872	196	4,829
Acquired through business combinations	85	114	3	16	218
Other acquisitions	147	155	96	152	550
Businesses disposed	(9)	(35)	(1)	–	(45)
Other disposals	(42)	(176)	(35)	–	(253)
Transfer to assets classified as held for sale	(37)	(61)	(2)	(4)	(104)
Transfers from assets under construction	16	142	2	(160)	–
Effect of movements in foreign exchange	54	88	19	(17)	144
AT 12 SEPTEMBER 2009	1,767	2,435	954	183	5,339
Other acquisitions	117	146	133	308	704
Interest capitalised	–	–	–	1	1
Businesses disposed	(13)	(2)	–	–	(15)
Other disposals	(5)	(68)	(37)	–	(110)
Transfers from assets under construction	46	151	14	(211)	–
Effect of movements in foreign exchange	39	117	(9)	15	162
AT 18 SEPTEMBER 2010	1,951	2,779	1,055	296	6,081
DEPRECIATION AND IMPAIRMENT					
At 13 September 2008	275	1,192	252	–	1,719
Depreciation for the year	38	168	84	–	290
Impairment on closure of business	15	22	–	–	37
Businesses disposed	(1)	(16)	–	–	(17)
Other disposals	(40)	(152)	(34)	–	(226)
Transfer to assets classified as held for sale	(12)	(28)	(1)	–	(41)
Effect of movements in foreign exchange	5	49	4	–	58
AT 12 SEPTEMBER 2009	280	1,235	305	–	1,820
Depreciation for the year	40	183	101	–	324
Impairment	14	–	–	–	14
Businesses disposed	–	(1)	–	–	(1)
Other disposals	(2)	(58)	(37)	–	(97)
Effect of movements in foreign exchange	9	72	(1)	–	80
AT 18 SEPTEMBER 2010	341	1,431	368	–	2,140
NET BOOK VALUE					
At 13 September 2008	1,278	1,016	620	196	3,110
At 12 September 2009	1,487	1,200	649	183	3,519
AT 18 SEPTEMBER 2010	1,610	1,348	687	296	3,941

	2010 £m	2009 £m
Net book value of finance lease assets	12	13
Land and buildings at net book value comprise:		
– freehold	1,249	1,161
– long leasehold	271	254
– short leasehold	90	72
	1,610	1,487
Capital expenditure commitments – contracted but not provided for	218	211

In 2009, £64m of property, plant & equipment was included within assets classified as held for sale (see note 15).

Impairment

In 2010, the impairment of land and buildings related to the sugar business in North China and was included within profits less losses on disposal of non-current assets.

In 2009, the impairment of land and buildings and plant and machinery related to the closure of factories following the contribution of the US packaged oils business to the Stratas joint venture, the cost of which was included within losses on sale and closure of businesses in the income statement and was included in the Grocery segment.

Notes forming part of the financial statements continued

for the 53 weeks ended 18 September 2010

10. Biological assets

	Current			Non-current
	Growing cane £m	Other £m	Total £m	Cane roots £m
At 13 September 2008	76	4	80	66
Acquired through business combinations	4	—	4	4
Transferred to inventory	(64)	(8)	(72)	—
Purchases	1	6	7	10
Changes in fair value	77	4	81	9
Effect of movements in foreign exchange	1	—	1	3
AT 12 SEPTEMBER 2009	95	6	101	92
Disposed through business combinations	(1)	—	(1)	(2)
Transferred to inventory	(94)	(13)	(107)	—
Purchases	—	3	3	1
Changes in fair value	94	13	107	8
Effect of movements in foreign exchange	(2)	(1)	(3)	(2)
AT 18 SEPTEMBER 2010	92	8	100	97

CANE ROOTS

	2010	2009
AREA UNDER CANE AS AT THE END OF THE PERIOD (HECTARES)		
South Africa	8,142	8,162
Malawi	20,565	19,924
Zambia	16,977	16,835
Swaziland	8,170	8,175
Tanzania	9,844	8,515
Mozambique	5,572	5,255
	69,270	66,866

GROWING CANE

The following assumptions have been used in the determination of the estimated sucrose tonnage at 18 September 2010:

	South Africa	Malawi	Zambia	Swaziland	Tanzania	Mozambique
Expected area to harvest (hectares)	5,140	20,267	16,905	8,067	9,365	5,493
Estimated yield (tonnes cane/hectare)	69.2	111.0	120.5	111.4	80.0	95.0
Average maturity of cane	55.6%	66.7%	66.7%	66.7%	50.0%	66.7%

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

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

11. Investments in joint ventures and associates

	Joint ventures			Associates		
	Shares £m	Goodwill £m	Total £m	Shares £m	Goodwill £m	Total £m
At 13 September 2008	69	6	75	23	–	23
Acquisitions	41	8	49	3	–	3
Profit for the period	2	–	2	4	–	4
Dividends received	(3)	–	(3)	(1)	–	(1)
Effect of movements in foreign exchange	(1)	–	(1)	3	–	3
AT 12 SEPTEMBER 2009	108	14	122	32	–	32
Profit for the period	12	–	12	4	–	4
Dividends received	(4)	–	(4)	(2)	–	(2)
Effect of movements in foreign exchange	(9)	–	(9)	4	–	4
AT 18 SEPTEMBER 2010	107	14	121	38	–	38

In 2009, profit for the period of £6m (£2m joint ventures and £4m associates) comprised £10m shown in share of profit after tax from joint ventures and associates (£6m joint ventures and £4m associates) and a £4m loss relating to joint ventures included in profits less losses on sale and closure of business.

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

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

	Joint ventures		Associates	
	2010 £m	2009 £m	2010 £m	2009 £m
Non-current assets	175	105	20	18
Current assets	265	235	148	152
Current liabilities	(175)	(159)	(130)	(132)
Non-current liabilities	(158)	(73)	–	(6)
Goodwill	14	14	–	–
Net assets	121	122	38	32
Revenue	1,000	913	69	18
Expenses	(982)	(915)	(62)	(12)
Taxation	(6)	4	(3)	(2)
Profit for the period	12	2	4	4

Notes forming part of the financial statements continued

for the 53 weeks ended 18 September 2010

12. Employee entitlements

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

UK schemes

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

Actuarial gains and losses arising over the financial year are recognised immediately in other comprehensive income and are reflected in the balance sheet at 18 September 2010. Past service cost is recognised immediately in the income statement to the extent that the benefits have already vested.

The last actuarial valuation of the Associated British Foods Pension Scheme was carried out as at 5 April 2008. At the valuation date the total market value of the assets of the Scheme was £2,223m and represented 93% of the benefits that had accrued to members after allowing for expected future increases in earnings. Following completion of the actuarial valuation, the group agreed to make five annual payments of £30m in order to eliminate the deficit at 5 April 2008. The first two of these payments were made in March 2009 and March 2010.

The UK government announced on 8 July 2010 that it will in future use the Consumer Price Index rather than the Retail Prices Index for the purposes of determining statutory minimum pension increases for private sector occupational pension schemes. The group's current UK defined benefit pension scheme rules specify that pensions in deferment will increase in line with the annual statutory order published by the UK government. The group has therefore amended its assumption for increases to pensions in deferment to reflect this. The resulting reduction in the present value of scheme liabilities of £28m is included as a change in assumptions within other comprehensive income.

Overseas schemes

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

Assumptions

The UK pension schemes represent 89% (2009 – 90%) of the group's scheme assets and 88% (2009 – 90%) of the group's scheme liabilities. The financial assumptions used to value the UK pension schemes under IAS 19, together with the expected long-term rates of return on assets, are:

	2010 %	2009 %	2008 %
Discount rate	5.2	5.7	6.0
Inflation	3.5	3.5	3.7
Rate of increase in salaries	5.0	5.0	5.2
Rate of increase for pensions in payment	3.3	3.3	3.5
Rate of increase for pensions in deferment (where provided)	3.0	3.5	3.7

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

Examples of the resulting life expectancies are as follows:

LIFE EXPECTANCY FROM AGE 65 (IN YEARS)	2010		2009	
	Male	Female	Male	Female
Member aged 65 in 2010 (2009)	20.9	23.1	20.8	22.7
Member aged 65 in 2030 (2029)	22.7	25.0	22.6	24.2

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

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

12. Employee entitlements continued**Balance sheet**

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

UK SCHEMES	2010 %	2010 £m	2009 %	2009 £m	2008 %	2008 £m
Expected long-term rates of return:						
Equities	7.1	831	7.2	674	7.7	752
Government bonds	4.1	542	4.2	673	4.7	643
Non-government bonds	5.2	919	5.7	696	6.0	694
Property	5.6	90	5.7	75	6.2	90
Other	0.5	23	0.5	17	5.0	23
Total market value of plan assets		2,405		2,135		2,202
Present value of scheme liabilities		(2,434)		(2,211)		(2,117)
Aggregate net (deficit)/surplus of the plan		(29)		(76)		85
Irrecoverable surplus (a)		–		–		–
Net pension (liability)/asset		(29)		(76)		85
Unfunded liability included in the present value of scheme liabilities above		(15)		(11)		(8)

The plan assets, scheme liabilities and aggregate net surplus of the plans were respectively £2,256m, £1,972m and £284m in 2007 and £2,191m, £2,040m and £151m in 2006.

The sensitivities regarding the principal assumptions used to measure scheme liabilities at 18 September 2010 are:

	Change in assumption	Impact on scheme liabilities
Discount rate	decrease/increase by 0.5%	increase/decrease by 8.9%
Inflation	increase/decrease by 0.5%	increase/decrease by 9.0%
Rate of increase in salaries	increase/decrease by 0.5%	increase/decrease by 1.8%
Rate of mortality	reduce by one year	increase by 2.8%

OVERSEAS SCHEMES	2010 %	2010 £m	2009 %	2009 £m	2008 %	2008 £m
Expected long-term rates of return:						
Equities	7.7	112	8.8	102	8.9	108
Government bonds	4.3	34	7.0	69	6.9	49
Non-government bonds	2.9	41	4.1	36	4.0	37
Property	7.1	5	5.9	6	6.4	5
Other	6.3	93	5.4	25	6.1	23
Total market value of plan assets		285		238		222
Present value of scheme liabilities		(342)		(242)		(211)
Aggregate net (deficit)/surplus of the plans		(57)		(4)		11
Irrecoverable surplus (a)		(13)		(26)		(35)
Net pension liability		(70)		(30)		(24)
Unfunded liability included in the present value of scheme liabilities above		(36)		(32)		(22)

The plan assets, scheme liabilities and aggregate net surplus of the plans were respectively £218m, £192m and £26m in 2007 and £202m, £190m and £12m in 2006.

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

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

The UK schemes' net pension liability of £29m (2009 – £76m liability) plus the overseas schemes' net pension liability of £70m (2009 – £30m liability) totals a liability of £99m (2009 – £106m). This equates to the employee benefits asset of nil (2009 – £16m) and liability of £99m (2009 – £122m) shown on the face of the consolidated balance sheet.

Notes forming part of the financial statements continued

for the 53 weeks ended 18 September 2010

12. Employee entitlements continued

Income statement

The charge to the income statement comprises:

	2010 £m	2009 £m
Charged to operating profit:		
Defined benefit plans		
Current service cost	(34)	(35)
Past service cost	(1)	(2)
Gain on curtailment	1	1
Defined contribution plans	(45)	(33)
Total operating cost	(79)	(69)
Reported in other financial (expense)/income:		
Expected return on assets	138	154
Interest charge on liabilities	(143)	(142)
Net financial (expense)/income from employee benefit schemes	(5)	12
Net impact on the income statement (before tax)	(84)	(57)

The actual return on scheme assets was a gain of £374m (2009 – loss of £49m).

Cash flow

Group cash flow in respect of employee benefits schemes comprises contributions paid to funded plans and benefits paid in respect of unfunded plans. In 2010, the benefits paid in respect of unfunded plans was £2m (2009 – £1m). Company contributions to funded defined benefit plans are subject to periodic review. In 2010, contributions to funded defined benefit plans amounted to £66m (2009 – £76m). Contributions to defined contribution plans amounted to £45m (2009 – £33m).

Total contributions to funded plans and benefit payments by the group in respect of unfunded plans are currently expected to be approximately £68m in 2011 (2010 – £70m).

Other comprehensive income

Amounts recognised in other comprehensive income:

	2010 £m	2009 £m
Actual return less expected return on pension scheme assets	236	(203)
Experience gains and losses arising on the scheme liabilities	(15)	5
Changes in assumptions underlying the present value of the scheme liabilities	(258)	(33)
	(37)	(231)
Change in unrecognised surplus	15	14
Net actuarial loss recognised in other comprehensive income (before tax)	(22)	(217)

Cumulative actuarial losses from 19 September 2004 reported in other comprehensive income are £347m (2009 – cumulative losses of £325m).

12. Employee entitlements continued**Reconciliation of change in assets and liabilities**

	2010 assets £m	2009 assets £m	2010 liabilities £m	2009 liabilities £m	2010 net £m	2009 net £m
Asset/(liability) at beginning of year	2,373	2,424	(2,453)	(2,328)	(80)	96
Current service cost	–	–	(34)	(35)	(34)	(35)
Employee contributions	11	11	(11)	(11)	–	–
Employer contributions	66	76	–	–	66	76
Benefit payments	(146)	(117)	148	117	2	–
Past service cost	–	–	(1)	(2)	(1)	(2)
Gain on curtailments	–	–	1	1	1	1
Financial income	138	154	–	–	138	154
Financial expenses	–	–	(143)	(142)	(143)	(142)
Actuarial gain/(loss)	236	(203)	(273)	(28)	(37)	(231)
Effect of movements in foreign exchange	12	28	(10)	(25)	2	3
Asset/(liability) at end of year	2,690	2,373	(2,776)	(2,453)	(86)	(80)

HISTORY OF EXPERIENCE GAINS AND LOSSES

	2010	2009	2008	2007	2006
Difference between the expected and actual return on scheme assets					
– amount (£m)	236	(203)	(170)	(20)	75
– percentage of scheme assets	8.8%	8.6%	7.0%	0.8%	3.1%
Experience gains and losses on scheme liabilities					
– amount (£m)	(15)	5	61	(32)	4
– percentage of scheme liabilities	0.5%	0.2%	2.6%	1.5%	0.2%
Total amount included in other comprehensive income					
– amount (£m)	(37)	(231)	(253)	108	49
– percentage of scheme liabilities	1.3%	9.4%	10.9%	5.0%	2.2%

Notes forming part of the financial statements continued

for the 53 weeks ended 18 September 2010

13. Deferred tax assets and liabilities

	Property plant & equipment £m	Intangible assets £m	Employee benefits £m	Financial assets and liabilities £m	Other temporary differences £m	Tax value of carry-forward losses £m	Total £m
At 13 September 2008	196	121	21	6	44	(40)	348
Amount charged/(credited) to the income statement	(5)	(7)	13	–	5	(45)	(39)
Amount charged/(credited) to other comprehensive income	–	–	(62)	(18)	(1)	–	(81)
Acquired through business combinations	3	5	–	–	(18)	(13)	(23)
Businesses disposed	(1)	–	–	–	–	–	(1)
Effect of change in tax rate:							
– income statement	–	–	–	–	–	(1)	(1)
Effect of movements in foreign exchange	4	8	–	(2)	(5)	4	9
AT 12 SEPTEMBER 2009	197	127	(28)	(14)	25	(95)	212
Amount charged/(credited) to the income statement	5	(8)	5	–	4	13	19
Amount charged/(credited) to other comprehensive income	–	–	(4)	11	4	–	11
Acquired through business combinations	1	–	–	–	3	–	4
Businesses disposed	(1)	–	–	–	–	–	(1)
Effect of change in tax rate:							
– income statement	(6)	–	–	–	–	–	(6)
– other comprehensive income	–	–	1	–	–	–	1
Effect of movements in foreign exchange	2	4	(1)	3	(8)	(2)	(2)
AT 18 SEPTEMBER 2010	198	123	(27)	–	28	(84)	238

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

	2010 £m	2009 £m
Deferred tax assets	(180)	(184)
Deferred tax liabilities	418	396
	238	212

The recoverability of deferred tax assets is supported by the expected level of future profits in the countries concerned. Other deferred tax assets totalling £20m (2009 – £11m) have not been recognised on the basis that their future economic benefit is uncertain.

In addition, there are temporary differences of £1,789m (2009 – £1,778m) relating to investments in subsidiaries. No deferred tax has been provided in respect of these differences, since the timing of the reversals can be controlled and it is probable that the temporary differences will not reverse in the future.

14. Trade and other receivables

	2010 £m	2009 £m
NON-CURRENT – OTHER RECEIVABLES		
Loans and receivables	182	132
Other non-current investments	9	8
	191	140
CURRENT – TRADE AND OTHER RECEIVABLES		
Trade receivables	835	847
Other receivables	99	135
Accrued income	14	22
	948	1,004
Prepayments and other non-financial receivables	131	117
	1,079	1,121

In 2009 £20m of trade and other receivables were included within assets held for sale (see note 15) of which £3m related to non-financial receivables.

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

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

Trade and other receivables include £20m (2009 – £19m) in respect of finance lease receivables, with £18m in non-current loans and receivables and £2m in current other receivables (2009 – £18m in non-current loans and receivables and £1m in current other receivables). Minimum lease payments receivable are £3m within one year, £14m between one and five years, and £5m after five years (2009 – £1m within one year, £16m between one and five years, and £4m after five years).

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

15. Assets and liabilities classified as held for sale

No assets or liabilities have been classified as held for sale in the current year.

In August 2009, agreement was reached to sell the Polish sugar business, completion of which was subject to competition clearance, and the Polish sugar business was classified as a disposal group held for sale at the year end. The disposal of the business did not qualify as a discontinued operation. The proceeds of disposal were expected to exceed the book value of the related net assets and accordingly no impairment losses were recognised on the classification of this operation as held for sale. Following clearance from the Polish National Competition Authority, the disposal was completed on 25 November 2009 (see note 22).

	2010 £m	2009 £m
ASSETS CLASSIFIED AS HELD FOR SALE		
Intangible assets	–	30
Property, plant & equipment	–	64
Inventories	–	14
Trade and other receivables	–	20
Cash and cash equivalents	–	8
	–	136
LIABILITIES CLASSIFIED AS HELD FOR SALE		
Trade and other payables	–	25
Income tax	–	1
	–	26

Notes forming part of the financial statements continued

for the 53 weeks ended 18 September 2010

16. Inventories

	2010 £m	2009 £m
Raw materials and consumables	303	329
Work in progress	19	14
Finished goods and goods held for resale	916	919
	1,238	1,262
Write down of inventories	(57)	(60)

In 2009, £14m of inventories were included within assets classified as held for sale (see note 15).

17. Cash and cash equivalents

	Note	2010 £m	2009 £m
CASH			
Cash at bank and in hand		324	340
Cash equivalents		21	43
Cash and cash equivalents	25	345	383
RECONCILIATION TO THE CASH FLOW STATEMENT			
Cash and cash equivalents included in assets classified as held for sale	15	–	8
Bank overdrafts	18	(36)	(30)
Cash and cash equivalents in the cash flow statement		309	361

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

Cash equivalents generally comprise:

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

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

18. Loans and overdrafts

	Note	2010 £m	2009 £m
CURRENT LOANS AND OVERDRAFTS			
Secured bank loans		68	43
Unsecured bank loans and overdrafts		299	541
		367	584
NON-CURRENT LOANS			
Secured redeemable debenture stock 2013		150	150
Secured bank loans		72	101
Unsecured bank loans		560	542
Finance leases	26	12	13
		794	806
	25	1,161	1,390
		2010 £m	2009 £m
10 ³ / ₄ % secured redeemable debenture stock 2013 (GBP)		150	150
Secured bank loans			
– USD floating rate		11	15
– EUR fixed rate		1	1
– ZAR floating rate		–	6
– RMB floating rate		66	39
– RMB fixed rate		–	4
– Other floating rate		34	45
– Other fixed rate		28	34
Unsecured bank loans and overdrafts			
– Bank overdrafts	17	36	30
– GBP floating rate		145	120
– GBP fixed rate		80	82
– USD floating rate		–	21
– USD fixed rate		300	278
– EUR floating rate		147	330
– EUR fixed rate		19	21
– ZAR floating rate		47	99
– RMB floating rate		70	86
– RMB fixed rate		9	8
– Other floating rate		5	7
– Other fixed rate		1	1
Finance leases (fixed rate)		12	13
		1,161	1,390

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

Bank overdrafts generally bear interest at floating rates.

Notes forming part of the financial statements continued

for the 53 weeks ended 18 September 2010

19. Trade and other payables

	2010 £m	2009 £m
Trade payables	762	667
Accruals	522	560
	1,284	1,227
Deferred income and other non-financial payables	207	186
	1,491	1,413

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

In 2009, £25m trade and other payables (of which £4m related to non-financial payables) were included within liabilities classified as held for sale (see note 15).

20. Provisions

	Restructuring £m	Deferred consideration £m	Other £m	Total £m
At 12 September 2009	67	244	110	421
Created	31	–	15	46
Unwinding of discount	–	4	–	4
Utilised	(38)	(37)	(40)	(115)
Released	(5)	(138)	(11)	(154)
Effect of movements in foreign exchange	6	(1)	(2)	3
AT 18 SEPTEMBER 2010	61	72	72	205
Current	46	10	43	99
Non-current	15	62	29	106
	61	72	72	205

Provisions include financial liabilities of £205m (2009 – £421m) (see note 25).

Restructuring

Restructuring provisions relate to the cash costs, including redundancy, associated with the group's announced reorganisation plans, of which the majority will be utilised in 2010/11.

Deferred consideration

Deferred consideration comprises estimates of amounts due to the previous owners of businesses acquired by the group which are often linked to performance or other conditions. In 2009, it included £122m of advance consideration received in respect of the agreement to dispose of the Polish sugar business. This was released to the income statement on completion of the disposal during the year, through profits less losses on sale and closure of businesses (see note 22).

Other

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

21. Share capital and reserves**Share capital**

	Deferred shares of £1 each 000	Ordinary shares of 5½p each 000	Nominal value £m
ISSUED AND FULLY PAID			
At 12 September 2009	2,000	791,674	47
Redeemed	(2,000)	–	(2)
AT 18 SEPTEMBER 2010	–	791,674	45

The two million deferred shares of £1 each were redeemed by the Company at par on 15 September 2010.

At 18 September 2010, the Company's issued share capital comprised 791,674,183 ordinary shares of 5½p each, carrying one vote per share.

Other reserves

£173m of other reserves arose from the cancellation of share premium account by the Company in 1993. The remaining £2m arose in the year as a transfer to capital redemption reserve following redemption of the two million £1 deferred shares at par. Both are non-distributable.

Translation reserve

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

22. Acquisitions and disposals**Acquisitions****2010**

During 2010, the group completed no new business combinations. Minor provisional fair value adjustments were finalised during the year. These comprised a £9m reduction in non-operating intangibles, a £3m reduction in other non-current receivables, a £1m reduction in trade and other receivables and a £4m increase in deferred tax liabilities. This reduction in net identifiable assets and liabilities of £17m resulted in a £2m increase in goodwill and a £15m decrease in deferred consideration. There were no changes to pre-acquisition carrying amounts.

Cash flow on purchase of subsidiaries, joint ventures and associates of £36m in the cash flow statement comprises £35m paid in respect of previous acquisitions and £1m investment in a joint venture.

2009

During 2009, the group completed the acquisition of the Iberian sugar business, Azucarera Ebro, together with a small feed mill in the UK and a sugar cane farm in Zambia, as well as a number of other small acquisitions. Costs associated with these acquisitions were included within cash and deferred consideration. Deferred consideration was paid in respect of the beet sugar operations acquired in north east China in 2008.

Notes forming part of the financial statements continued

for the 53 weeks ended 18 September 2010

22. Acquisitions and disposals continued

In 2009, acquisitions had the following effect on the group's assets and liabilities:

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

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

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

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

Disposals and closure of business

During 2010, the group disposed of its Polish sugar business and some agricultural assets in South Africa. The group also announced the closure of its abattoir operations in Queensland, Australia. Costs associated with these disposals are included within cash and deferred consideration. The assets and liabilities of the Polish sugar business were shown within assets and liabilities held for sale at 12 September 2009 (see note 15).

During 2009, the group disposed of its US packaged oils business to a newly formed joint venture (with Archer Daniels Midland Company Inc.), Stratas Foods. The group also sold the former Gilde Bakery Ingredients business in Iberia together with our manufacturing plant in Portugal and the Pongola mill in South Africa. Costs associated with these disposals are included within cash and deferred consideration.

22. Acquisitions and disposals continued

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

	2010 carrying values £m	2009 carrying values £m
NET ASSETS		
Intangible assets	1	–
Property, plant & equipment	82	28
Biological assets	3	–
Other non-current receivables	–	16
Inventories	37	5
Trade and other receivables	20	7
Cash and cash equivalents	2	–
Trade and other payables	(37)	(8)
Intercompany payables	(13)	–
Loans	(7)	–
Taxation	(2)	(1)
Net identifiable assets and liabilities	86	47
Goodwill	29	–
Non-controlling interests	(3)	–
Recycle of effect of movements in foreign exchange	(28)	–
Profit less losses on sale and closure of business	28	(65)
Total consideration	112	(18)
SATISFIED BY		
Cash consideration	123	22
Deferred consideration	5	11
Provisions made	(16)	(65)
Interest in joint venture	–	14
	112	(18)
NET CASH		
Cash consideration	125	22
Cash and cash equivalents disposed	(2)	–
Cash consideration in respect of previous disposals	3	–
	126	22

Provisions made on sale and closure of business mainly comprise rationalisation costs and warranty provisions. In 2009, provisions made of £65m comprised £37m of property, plant & equipment impairment (see note 9), £6m of operating intangible impairment (see note 8) and £22m of other rationalisation costs.

The net cash of £126m in the disposal table above differs from the cash flow on sale of subsidiaries, joint ventures and associates shown in the cash flow statement by £122m as this cash was received in the preceding financial year and was included in the cash flow statement in the same caption for the year ended 12 September 2009. This advance consideration was included within provisions as at 12 September 2009 as the disposal of the Polish sugar business was still subject to competition clearance from the relevant authorities (clearance was subsequently received in November 2009).

In 2009, the net cash of £22m in the disposal table above differed from the cash flow on sale of subsidiaries, joint ventures and associates shown in the cash flow statement by £123m. Of this difference, £122m related to the advance consideration for the disposal of the Polish sugar business, as described above. The remaining £1m was received in respect of a reduction in stake in a joint venture.

23. Share-based payments

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

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

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

Notes forming part of the financial statements continued

for the 53 weeks ended 18 September 2010

23. Share-based payments continued

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

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

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

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

Further information regarding the operation of the above plans can be found on pages 46 to 49 of the Remuneration report.

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

	Balance outstanding at the beginning of the year	Granted/ awarded	Exercised	Vested	Expired/ lapsed	Balance outstanding at the end of the year	Options exercisable at the end of the year
2010							
the 1994 Scheme	180,000	–	(180,000)	–	–	–	–
the 2000 Scheme	177,500	–	(102,500)	–	–	75,000	75,000
the Share Incentive Plan	5,142,081	2,340,377	–	(621,674)	(1,069,221)	5,791,563	n/a
2009							
the 1994 Scheme	180,000	–	–	–	–	180,000	180,000
the 2000 Scheme	177,500	–	–	–	–	177,500	177,500
the Share Incentive Plan	3,591,785	2,249,486	–	(195,376)	(503,814)	5,142,081	n/a

	Weighted average exercise price of options							Range of exercise prices for options outstanding at the end of the year pence	Weighted average remaining contractual life of outstanding options at the end of the year years
	Outstanding at the beginning of the year pence	Granted pence	Exercised pence	Forfeited pence	Expired pence	Outstanding at the end of the year pence	Exercisable at the end of the year pence		
2010									
the 1994 Scheme	530.50	–	530.50	–	–	–	–	n/a	–
the 2000 Scheme	484.00	–	484.00	–	–	484.00	484.00	484.00	0.3
2009									
the 1994 Scheme	530.50	–	–	–	–	530.50	530.50	497–564	2.7
the 2000 Scheme	484.00	–	–	–	–	484.00	484.00	484.00	1.3

The weighted average market price for share options exercised during the year was 918 pence (2009 – no share options exercised).

Ordinary shares already issued and subject to option under the 1994 Scheme and the 2000 Scheme, or subject to allocation under the Share Incentive Plan, are held in a separate Employee Share Ownership Plan Trust. The Trust is funded by the Company. Voting rights attached to shares held by the Trust are exercisable by the trustee, who is entitled to consider any recommendation made by a committee of the Company. At 18 September 2010 the trust held 3,502,583 (2009 – 3,906,757) ordinary shares of the Company. The market value of these shares at the year end was £37m (2009 – £33m). The Trust has waived its right to dividends. Movements in the year were releases under the Share Incentive Plan of 621,674, share option exercises of 282,500 and purchases of 500,000 (2009 – release under the Share Incentive Plan of 195,376 and purchases of 2,000,000).

Fair values

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

The weighted average fair value of the shares awarded under the Share Incentive Plan during the year was 801 pence (2009 – 610 pence) and the weighted average share price was 862 pence (2009 – 656 pence). The dividend yield used was 2.5%.

No options were granted under the 1994 Scheme or the 2000 Scheme in either 2009 or 2010.

In accordance with the transitional provisions of IFRS 1, the group has recognised an expense in respect of all grants under these plans made after 7 November 2002 and unvested at 18 September 2004. The group recognised a total equity-settled share-based payment expense of £11m (2009 – £5m).

24. Analysis of net debt

	At 12 September 2009 £m	Cash flow £m	Disposals £m	Exchange adjustments £m	At 18 September 2010 £m
Cash at bank and in hand, cash equivalents and overdrafts	361	(76)	–	24	309
Short-term borrowings	(554)	241	–	(18)	(331)
Loans over one year	(806)	30	7	(25)	(794)
	(999)	195	7	(19)	(816)

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

In 2009, cash at bank and in hand disclosed above included £8m within assets held for sale (see note 15).

25. Financial instruments**a) Carrying amount and fair values of financial assets and liabilities**

	2010		2009	
	Carrying amount £m	Fair value £m	Carrying amount £m	Fair value £m
FINANCIAL ASSETS				
Cash and cash equivalents	345	345	391	391
LOANS AND RECEIVABLES:				
Trade and other receivables	948	948	1,021	1,021
Other non-current receivables	191	182	140	140
AT FAIR VALUE THROUGH PROFIT OR LOSS:				
Derivative financial assets not designated in a cash flow hedging relationship:				
– currency derivatives	4	4	2	2
– commodity derivatives	3	3	3	3
DESIGNATED CASH FLOW HEDGING RELATIONSHIPS:				
Derivative financial assets designated and effective as cash flow hedging instruments:				
– currency derivatives	21	21	6	6
– commodity derivatives	5	5	1	1
TOTAL FINANCIAL ASSETS	1,517	1,508	1,564	1,564
FINANCIAL LIABILITIES				
FINANCIAL LIABILITIES AT AMORTISED COST:				
Trade and other payables	(1,284)	(1,284)	(1,248)	(1,248)
Secured redeemable debenture stock	(150)	(183)	(150)	(184)
Secured bank loans	(140)	(141)	(144)	(142)
Unsecured bank loans and overdrafts	(859)	(934)	(1,083)	(1,130)
Finance leases	(12)	(11)	(13)	(12)
Provisions	(205)	(205)	(421)	(421)
AT FAIR VALUE THROUGH PROFIT OR LOSS:				
Derivative financial liabilities not designated in a cash flow hedging relationship:				
– currency derivatives	(3)	(3)	(22)	(22)
– commodity derivatives	(3)	(3)	(2)	(2)
– interest rate derivatives	–	–	(1)	(1)
DESIGNATED CASH FLOW HEDGING RELATIONSHIPS:				
Derivative financial liabilities designated and effective as cash flow hedging instruments:				
– currency derivatives	(26)	(26)	(34)	(34)
– commodity derivatives	(6)	(6)	(17)	(17)
TOTAL FINANCIAL LIABILITIES	(2,688)	(2,796)	(3,135)	(3,213)
NET FINANCIAL LIABILITIES	(1,171)	(1,288)	(1,571)	(1,649)

Notes forming part of the financial statements continued

for the 53 weeks ended 18 September 2010

25. Financial instruments continued

No trade and other receivables, cash and cash equivalents or trade and other payables are classified as held for sale at year end (2009 – £17m, £8m and £21m respectively).

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

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

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

Valuation of financial instruments carried at fair value

Financial instruments carried at fair value in the balance sheet comprise other non-current investments, other current investments and derivative assets and liabilities. The group classifies these financial instruments using a fair value hierarchy that reflects the relative significance of both objective evidence and subjective judgements on the inputs used in making the fair value measurements:

- Level 1: financial instruments are valued using observable inputs that reflect unadjusted quoted market prices in an active market for identical instruments. An example of an item in this category is a widely traded equity instrument with a normal quoted market price.
- Level 2: financial instruments are valued using techniques based on observable inputs, either directly (i.e. market prices and rates) or indirectly (i.e. derived from market prices and rates). This includes financial instruments valued using: quoted market prices in an active market for similar (rather than identical) instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data. An example of an item in this category is a currency derivative, where forward exchange rates and yield curve data which are observable in the market are used to derive fair value.
- Level 3: financial instruments are valued using techniques involving significant unobservable inputs. This includes all instruments where the valuation technique includes inputs which are not based on observable data and the unobservable inputs have a significant effect on the valuation. It also includes instruments that are valued based on quoted prices for similar instruments, but where significant unobservable adjustments or assumptions are required to reflect differences between the instrument being valued and the instrument for which the quoted price is being used. Given the nature of the group's use of financial instruments carried at fair value, few financial instruments are expected to be classified in this category.

The table below analyses financial instruments carried at fair value by the level in the fair value hierarchy into which the fair value measurement method is categorised:

	2010			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Currency derivative assets	–	25	–	25
Commodity derivative assets	7	1	–	8
	7	26	–	33
Currency derivative liabilities	–	(29)	–	(29)
Commodity derivative liabilities	(7)	(2)	–	(9)
	(7)	(31)	–	(38)

25. Financial instruments continued**b) Derivative financial instruments**

The carrying amount of derivative financial instruments at the reporting date set out below is classified as current on the face of the balance sheet. An analysis of derivatives that are designated in a formal hedging relationship, and those that are not, is shown in the table on page 93.

	2010			2009		
	Contractual/ notional amounts £m	Assets £m	Liabilities £m	Contractual/ notional amounts £m	Assets £m	Liabilities £m
Currency derivatives	1,489	25	(29)	1,159	8	(56)
Commodity derivatives	192	8	(9)	180	4	(19)
Interest rate derivatives	–	–	–	109	–	(1)
		33	(38)		12	(76)

c) Cash flow hedging reserve movements

The following table indicates the cash flow hedging reserve balance at 18 September 2010 and the periods in which the cash flows are expected to occur. The periods in which the cash flows are expected to impact profit or loss are materially the same.

	2010			2009		
	Currency derivatives £m	Commodity derivatives £m	Total £m	Currency derivatives £m	Commodity derivatives £m	Total £m
Within six months	16	(5)	11	13	4	17
Between six months and one year	(10)	1	(9)	6	9	15
Unrecognised losses/(gains)	6	(4)	2	19	13	32

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

	2010			2009		
	Currency derivatives £m	Commodity derivatives £m	Total £m	Currency derivatives £m	Commodity derivatives £m	Total £m
Opening balance	19	13	32	(24)	(1)	(25)
(Gains)/losses recognised in the hedging reserve	(10)	10	–	33	46	79
Amount removed from the hedging reserve and included within the income statement due to settlement of contracts – recognised in:						
– revenue	7	(20)	(13)	(34)	(1)	(35)
– cost of sales	(14)	(3)	(17)	5	(11)	(6)
– ineffectiveness recognised in the income statement	(1)	(1)	(2)	–	–	–
Amount removed from the hedging reserve and included within a non-financial asset due to settlement of contracts – recognised in:						
– property, plant & equipment	1	–	1	–	–	–
– inventory	(6)	(4)	(10)	54	(17)	37
Deferred tax associated with movement in the hedging reserve	10	1	11	(15)	(3)	(18)
Closing balance	6	(4)	2	19	13	32

The closing balance of £2m is attributable £4m to equity shareholders and £(2)m to non-controlling interests. Movements in the year (net) of £(30)m are attributable £(28)m to equity shareholders and £(2)m to non-controlling interests. The opening balance was attributable entirely to equity shareholders.

Notes forming part of the financial statements continued

for the 53 weeks ended 18 September 2010

25. Financial instruments continued

d) Financial risk identification and management

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

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

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

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

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

e) Foreign currency translation

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

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

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

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

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

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

	2010 £m	2009 £m
Euro	50	229
US dollar	300	279
	350	508

The foreign exchange loss of £11m (2009 – £27m) on retranslation of these loans has been taken to the translation reserve on consolidation. Of this balance, £9m was attributable to equity shareholders and £2m to non-controlling interests (2009 – £27m to equity shareholders).

25. Financial instruments continued**f) Market risk**

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

(i) Commodity price risk

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

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

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

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

Sensitivity analysis

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

The sensitivity chosen is a 20% increase in the forward curves for various commodity prices as if it had occurred on 18 September 2010. For as long as the group continues to make limited use of options, a 20% decrease in forward prices would produce a broadly equal and opposite impact on profit and equity to that shown. The movement of forward price curves by 20% is considered to be a reasonable approximation of how much markets might typically move, on average, over any given year, notwithstanding that the increases in some commodity prices in recent years have been significantly greater than this.

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

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

- all qualifying cash flow hedges at 18 September 2010 will continue to be fully effective in achieving cash flow hedge accounting; and
- commodity contracts that qualify for the 'own use' treatment continue to do so. This sensitivity therefore has no impact for these contracts.

	2010 impact on profit for the year +/- £m	2010 impact on total equity +/- £m	2009 impact on profit for the year +/- £m	2009 impact on total equity +/- £m
20% increase in commodity prices	–	(7)	1	(8)

(ii) Interest rate risk

Interest rate risk comprises two primary elements:

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

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

Notes forming part of the financial statements continued

for the 53 weeks ended 18 September 2010

25. Financial instruments continued

At 18 September 2010, £600m (52%) (2009 – £592m and 43%) of total debt was subject to fixed rates of interest. The group's fixed rate debt includes the US Private Placement loan of £397m (2009 – £378m) and the £150m 10³/₄% secured redeemable debenture stock 2013 (2009 – £150m).

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

Sensitivity analysis

Applying a 100 basis point parallel increase in the interest rate yield curve as if it had occurred on 18 September 2010 results in no impact on profit for the year or total equity (2009 – no impact on profit or total equity). The following assumptions have been applied in the calculation of this sensitivity, which is presented before taxation and minority interests:

- the impact of this sensitivity has only been recorded for changes in the fair value of derivative financial instruments which have their fair value gains and losses recorded within the financial statements, assets available for sale and other current investments, as the group does not designate any other financial assets at fair value through profit or loss and these are the only significant financial instruments whose carrying amounts change as a result of changes in interest rates. All other financial instruments are carried at amortised cost;
- no impact is recorded in respect of changes in interest rates on employee benefits (including pensions), or discount rates applied to financial instruments to record them at present value; and
- all qualifying cash flow hedges at 18 September 2010 will continue to be fully effective in achieving cash flow hedge accounting.

A second sensitivity analysis calculates the impact on profitability of a 100 basis point increase in interest rates on floating rate loans and overdrafts, and on cash and cash equivalents balances on which variable rates of interest are earned. The year end cash balance is deducted from the year end floating rate loans and overdrafts balance. The resultant net floating rate borrowing figure is multiplied by 1%. In 2010, this equated to an interest expense of £2m before taxation and non-controlling interests (2009 – £4m).

(iii) Foreign currency risk

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

Translation risk is discussed in section e) above.

Transaction risk

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

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

Economic (forecast) risk

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

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

The group's most significant currency transaction exposures are:

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

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

25. Financial instruments continued

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

	2010				
	Sterling £m	US dollar £m	Euro £m	Other £m	Total £m
FINANCIAL ASSETS					
Cash and cash equivalents	4	30	18	4	56
Trade and other receivables	–	19	32	12	63
	4	49	50	16	119
FINANCIAL LIABILITIES					
Trade and other payables	(1)	(72)	(24)	(15)	(112)
Secured bank loans	–	(2)	(1)	–	(3)
Unsecured bank loans and overdrafts	–	(303)	(53)	(1)	(357)
Non-currency derivatives	–	(3)	–	–	(3)
	(1)	(380)	(78)	(16)	(475)
CURRENCY DERIVATIVES					
Gross amounts receivable	19	717	66	53	855
Gross amounts payable	(11)	(26)	(571)	(19)	(627)
	8	691	(505)	34	228
	11	360	(533)	34	(128)
	2009				
	Sterling £m	US dollar £m	Euro £m	Other £m	Total £m
FINANCIAL ASSETS					
Cash and cash equivalents	5	48	13	8	74
Trade and other receivables	2	21	45	6	74
Non-currency derivatives	–	1	–	–	1
	7	70	58	14	149
FINANCIAL LIABILITIES					
Trade and other payables	(2)	(28)	(10)	(7)	(47)
Secured bank loans	–	(3)	(1)	(34)	(38)
Unsecured bank loans and overdrafts	(2)	(284)	(232)	(1)	(519)
Provisions	–	–	(1)	–	(1)
Non-currency derivatives	–	(1)	–	–	(1)
	(4)	(316)	(244)	(42)	(606)
CURRENCY DERIVATIVES					
Gross amounts receivable	17	500	92	55	664
Gross amounts payable	(9)	(14)	(455)	(19)	(497)
	8	486	(363)	36	167
	11	240	(549)	8	(290)

Notes forming part of the financial statements continued

for the 53 weeks ended 18 September 2010

25. Financial instruments continued

The following significant exchange rates applied during the year:

	Average rate		Closing rate	
	2010	2009	2010	2009
US dollar	1.56	1.56	1.56	1.67
Euro	1.15	1.15	1.20	1.14
Rand	11.68	14.09	11.17	12.39
Renminbi	10.65	10.66	10.50	11.38
Australian dollar	1.74	2.15	1.67	1.93

Sensitivity analysis

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

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

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

	2010 impact on profit for the year +/- £m	2010 impact on total equity +/- £m	2009 impact on profit for the year +/- £m	2009 impact on total equity +/- £m
10% STRENGTHENING AGAINST OTHER CURRENCIES OF				
Sterling	1	3	–	1
US dollar	11	36	10	(54)
Euro	(1)	(53)	5	16
Other	–	3	(3)	(4)

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

	2010 impact on profit for the year +/- £m	2009 impact on profit for the year +/- £m
10% STRENGTHENING OF STERLING AGAINST		
US dollar	(6)	4
Euro	(7)	(3)
Rand	(6)	(7)
Renminbi	2	3
Australian dollar	(1)	(4)

25. Financial instruments continued**g) Credit risk**

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

The immediate credit exposure of financial instruments is represented by those financial instruments that have a net positive fair value by counterparty at 18 September 2010. The group considers its maximum exposure to credit risk to be:

	2010 £m	2009 £m
Cash and cash equivalents	345	391
Loans and receivables (refer to note 25a)	1,139	1,161
Financial assets at fair value through profit and loss		
– derivative assets	7	5
Designated cash flow hedging relationships		
– derivative assets	26	7
	1,517	1,564

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

As at 18 September 2010, there were no significant financial guarantees or third-party obligations that increased the credit risk of the financial assets set out above.

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

Trade and other receivables

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

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

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

Notes forming part of the financial statements continued

for the 53 weeks ended 18 September 2010

25. Financial instruments continued

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

	2010 £m	2009 £m
UK	315	330
Europe & Africa	189	251
The Americas	129	141
Asia Pacific	315	299
	948	1,021

Trade receivables can be analysed as follows:

	2010 gross £m	2009 gross £m
Not overdue	716	638
Up to 1 month past due	94	186
Between 1 and 2 months past due	20	31
Between 2 and 3 months past due	10	8
More than 3 months past due	33	31
Provision for doubtful debts	(38)	(38)
At 18 September 2010	835	856

In 2009, £9m of trade receivables were classified as held for sale at year end.

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

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

	2010 £m	2009 £m
Opening balance	38	43
Amounts provided for during the year	9	8
Amounts released during the year	(2)	(2)
Amounts utilised during the year	(8)	(12)
Acquisitions	–	1
Effect of movements in foreign exchange	1	–
Closing balance	38	38

No trade and other receivables (2009 – none) were written off directly to the income statement in the year.

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

Cash, cash equivalents and other current investments

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

Other financial assets

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

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

25. Financial instruments continued**h) Liquidity risk**

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

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

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

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

		2010						
	Note	Due within 6 months £m	Due between 6 months and 1 year £m	Due between 1 and 2 years £m	Due between 2 and 5 years £m	Due after 5 years £m	Contracted amount £m	Carrying amount £m
NON-DERIVATIVE FINANCIAL LIABILITIES								
Trade and other payables	19	(1,240)	(44)	–	–	–	(1,284)	(1,284)
Secured redeemable debenture stock	18	(5)	(8)	(16)	(166)	–	(195)	(150)
Secured bank loans	18	(38)	(33)	(52)	(21)	–	(144)	(140)
Unsecured bank loans and overdrafts	18	(253)	(61)	(56)	(406)	(242)	(1,018)	(859)
Finance leases	26	(1)	–	(1)	(2)	(40)	(44)	(12)
Provisions	20	(51)	(48)	(17)	(90)	(14)	(220)	(205)
DERIVATIVE FINANCIAL LIABILITIES								
– Currency derivatives (net payments)		(28)	(4)	–	–	–	(32)	(29)
– Commodity derivatives (net payments)		(4)	6	–	–	–	2	(9)
TOTAL FINANCIAL LIABILITIES		(1,620)	(192)	(142)	(685)	(296)	(2,935)	(2,688)

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

The above tables do not include forecast data for liabilities which may be incurred in the future but which were not contracted at 18 September 2010.

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

Notes forming part of the financial statements continued

for the 53 weeks ended 18 September 2010

25. Financial instruments continued

i) Borrowing facilities

The group has substantial borrowing facilities available to it. The undrawn committed facilities available at 18 September 2010 in respect of which all conditions precedent have been met amounted to £1,219m (2009 – £840m):

	2010			2009		
	Facility £m	Drawn £m	Undrawn £m	Facility £m	Drawn £m	Undrawn £m
£1.15bn syndicated facility	1,150	33	1,117	–	–	–
US\$1.2bn syndicated facility	–	–	–	719	211	508
US private placement	397	397	–	378	378	–
£320m syndicated facility	–	–	–	320	–	320
British Sugar secured redeemable debenture stock	150	150	–	150	150	–
European Investment Bank	120	120	–	120	120	–
Zambia Sugar facilities	59	59	–	77	77	–
Other	270	168	102	83	71	12
	2,146	927	1,219	1,847	1,007	840

Uncommitted facilities available at 18 September 2010 were:

	2010			2009		
	Facility £m	Drawn £m	Undrawn £m	Facility £m	Drawn £m	Undrawn £m
Money market lines	60	43	17	80	–	80
Illovo facilities	192	44	148	203	113	90
China banking facilities	262	126	136	295	138	157
Other	115	21	94	275	119	156
	629	234	395	853	370	483

In addition to the above facilities there are also £66m (2009 – £67m) of undrawn and available credit lines for the purposes of issuing letters of credit and guarantees in the normal course of business.

The group also has £12m (2009 – £13m) of finance lease liabilities which are not included in the tables above, but which are included in the group's loans and overdrafts in note 18.

In July 2010 the Company negotiated a £1.15bn revolving credit facility, with maturity in July 2015, which replaced the existing US\$1.2bn and £320m facilities that were due to mature in October 2011.

In addition to the bank debt, the Company has £397m of private placement notes in issue to institutional investors in the US and Europe. At 18 September 2010, these had an average remaining duration of 5.2 years and an average fixed coupon of 7.1%. The other significant core committed debt facilities comprise a £150m debenture loan and a £120m EIB loan which mature in 2013 and 2015 respectively.

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

Refer to note 9 for details of the group's capital commitments and to note 27 for a summary of the group's guarantees. An assessment of the group's current liquidity position is given in the Financial review on page 29.

25. Financial instruments continued**j) Capital management**

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

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

From time to time the trustee of the Employee Share Ownership Plan Trust purchases the Company's shares in the market to satisfy awards under the group's share option scheme and long-term incentive plan. Once purchased, shares are not sold back into the market. The group does not have a defined share buy-back plan.

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

26. Lease commitments**Operating leases**

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

Sublease receipts of £3m (2009 – £2m) were recognised in the income statement in the period, the majority relating to operating leases. The total of future minimum sublease receipts expected to be received is £35m (2009 – £34m).

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

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

	2010 £m	2009 £m
Within one year	113	100
Between one and five years	394	333
After five years	1,391	1,224
	1,898	1,657

Finance leases

Finance lease liabilities are payable as follows:

	2010 minimum lease payments £m	2010 interest £m	2010 principal £m	2009 minimum lease payments £m	2009 interest £m	2009 principal £m
Within one year	1	1	–	1	1	–
Between one and five years	3	2	1	3	2	1
After five years	40	29	11	41	29	12
	44	32	12	45	32	13

Notes forming part of the financial statements continued

for the 53 weeks ended 18 September 2010

27. Contingencies

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

The group has adopted the amendments to IAS 39 in relation to financial guarantee contracts which apply for periods commencing on or after 1 January 2006. Where group companies enter into financial guarantee contracts to guarantee the indebtedness of other group companies, the group considers these to be insurance arrangements and has elected to account for them as such in accordance with IFRS 4. In this respect, the guarantee contract is treated as a contingent liability until such time as it becomes probable that the relevant group company issuing the guarantee will be required to make a payment under the guarantee.

As at 18 September 2010, group companies have provided guarantees in the ordinary course of business amounting to £403m (2009 – £597m).

28. Related parties

The group has a controlling related party relationship with its parent company, which is also its ultimate parent company (see note 29). The group also has a related party relationship with its associates and joint ventures (see note 29) and with its directors. In the course of normal operations, related party transactions entered into by the group have been contracted on an arm's length basis.

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

	Sub note	2010 £000	2009 £000
Charges to Wittington Investments Limited in respect of services provided by the Company and its subsidiary undertakings		240	201
Dividends paid by Associated British Foods and received in a beneficial capacity by:			
(i) trustees of the Garfield Weston Foundation	1	6,447	6,142
(ii) directors of Wittington Investments Limited who are not trustees of the Foundation		858	806
(iii) directors of the Company who are not trustees of the Foundation and are not directors of Wittington Investments Limited	2	7	12
(iv) a member of the Weston family employed within the Associated British Foods group	3	634	596
Sales to fellow subsidiary undertakings on normal trading terms	4	3,296	2,246
Sales to a company with common key management personnel	5	5,439	4,448
Amounts due from fellow subsidiary undertakings on normal trading terms	4	243	193
Amounts due from a company with common key management personnel	5	588	508
Sales to joint ventures and associates on normal trading terms	6, 7	191,239	328,915
Purchases from joint ventures and associates on normal trading terms	6	264,225	221,774
Amounts due from joint ventures and associates	6	153,364	95,068
Amounts due to joint ventures and associates	6	23,092	23,321

1. The Garfield Weston Foundation ('the Foundation') is an English charitable trust, established in 1958 by the late W Garfield Weston. The Foundation has no direct interest in the Company, but as at 18 September 2010 was the beneficial owner of 683,073 shares (2009 – 683,073 shares) in Wittington Investments Limited representing 79.2% (2009 – 79.2%) of that company's issued share capital and is, therefore, the Company's ultimate controlling party. At 18 September 2010 trustees of the Foundation comprised two children and two grandchildren of the late W Garfield Weston and five children of the late Garry H Weston.
2. Details of the directors are given on pages 32 and 33. Their interests, including family interests, in the Company and its subsidiary undertakings are given on page 50. Key management personnel are considered to be the directors, and their remuneration is disclosed within the Remuneration report on page 48.
3. A member of the Weston family who is employed by the group and is not a director of the Company or Wittington Investments Limited and is not a trustee of the Foundation.
4. The fellow subsidiary undertaking is Fortnum and Mason plc.
5. The company with common key management personnel is George Weston Limited, in Canada.
6. Details of the group's principal joint ventures and associates are set out in note 29.
7. In 2009, sales were made by ACH to Stratas Foods under the transitional supply agreement entered into on creation of the joint venture. This agreement came to an end in February 2010.

Amounts due from joint ventures and associates comprise £20m (2009 – £19m) of finance lease receivables due from a joint venture (see note 14) and £126m (2009 – £50m) of loan receivables due from joint ventures. The remainder of the balance is trading balances. The loan receivables are all non-current, and all but £2m (2009 – £1m) of the finance lease receivables are non-current.

29. Group entities

Control of the group

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

At 18 September 2010 Wittington Investments Limited together with its subsidiary, Howard Investments Limited, held 431,515,108 ordinary shares (2009 – 431,515,108) representing in aggregate 54.5% (2009 – 54.5%) of the total issued ordinary share capital of Associated British Foods plc.

Significant subsidiaries

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

MANUFACTURING ACTIVITIES	COUNTRY OF INCORPORATION	MANUFACTURING ACTIVITIES	COUNTRY OF INCORPORATION
AB Agri Limited	UK	Illovo Sugar (Malawi) Limited (39%)	Malawi
AB Brasil Industria e comercio de Alimentos LTDA	Brazil	Jacksons of Piccadilly Limited	UK
AB Enzymes GmbH	Germany	Kilombero Sugar Company Limited (28%)	Tanzania
AB Enzymes Oy	Finland	Liaoning Liaohe Aimin Feed Co., Ltd	China
ABF Grain Products Limited	UK	Maragra Acucar SARL (38%)	Mozambique
AB Food & Beverages Australia Pty Ltd	Australia	Mauri Fermentos II, SA (96%)	Portugal
AB Food & Beverages Philippines, Inc.	Philippines	Mauri Lanka (Private) Limited	Sri Lanka
AB Food & Beverages (Thailand) Limited	Thailand	Mauri Maya Sanayi A.S.	Turkey
AB Mauri Food, S.A.	Spain	Mauri Products Limited	UK
AB Mauri India (Private) Limited	India	Patak's Breads Limited	UK
AB Mauri Vietnam Ltd (66%)	Vietnam	Patak's Foods Limited	UK
Abitec Corporation	US	Premier Nutrition Products Limited	UK
ABNA Feed (Liaoning) Co., Ltd	China	R. Twining and Company Limited	UK
ABNA (Shanghai) Feed Co., Ltd	China	Serrol Ingredients Pty Limited	Australia
AB World Foods Limited	UK	Shanghai AB Food & Beverages Co., Ltd	China
ACH Food Companies, Inc.	US	SPI Pharma Inc.	US
Alimentos Capullo.S.de R.L.de C.V.	Mexico	SPI Pharma S.A.S.	France
Anzchem Pty Limited	Australia	The Billington Food Group Limited	UK
Azucarera Ebro, S.L.U.	Spain	The Jordans & Ryvita Company Limited (73%)	UK
Bo Tian Sugar Industry Company Limited (65%)	China	Twinings North America Inc.	US
British Sugar (Overseas) Limited	UK	Ubombo Sugar Limited (31%)	Swaziland
British Sugar plc	UK	Wander AG	Switzerland
Calsa de Colombia S.A.	Colombia	Yeast Products Company	Republic of Ireland
Cereform Limited	UK	Zambia Sugar plc (46%)	Zambia
Compañia Argentina de Levaduras S.A.I.C	Argentina		
Food Investments Limited	UK	RETAILING ACTIVITIES	
Foods International S.A.	France	Lojas Primark Portugal-Exploracao, Gastao e Administracao de Espacos Comerciais S.A.	Portugal
G. Costa and Company Limited	UK	Primark	Republic of Ireland
George Weston Foods Limited	Australia	Primark Deutschland GmbH	Germany
George Weston Foods (NZ) Limited	New Zealand	Primark Netherlands NV	Netherlands
Germain's Seed Technology, Inc.	US	Primark NV	Belgium
Germain's Technology Group Polska Sp. z o.o.	Poland	Primark Stores Limited	UK
Guangxi Bo Hua Food Co., Ltd (71%)	China	Primark Tiendas S.L.U.	Spain
Guangxi Boqing Food Co., Ltd (60%)	China		
Guangxi Boxuan Food Co., Ltd (70%)	China	INVESTMENT AND OTHER ACTIVITIES	
Harbin Mauri Yeast Co., Ltd (85%)	China	ABF European Holdings & Co SNC	Luxembourg
Hebei Mauri Food Co., Ltd	China	ABF Investments plc	UK
Illovo Sugar Limited (51%)	South Africa	Talisman Guernsey Limited	Guernsey, Channel Islands

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

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

Notes forming part of the financial statements continued

for the 53 weeks ended 18 September 2010

29. Group entities continued

Interest in joint ventures and associates

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

	Country of incorporation	Issued ordinary share capital Total	Group %
Australasian Lupin Processing Pty Ltd	Australia	A\$2	50
C. Czarnikow Limited	UK	£1,000,000	43
Chiltern Bakeries Limited	UK	£100	44
Compania de Melazas S.A.	Spain	€10,000	50
Frontier Agriculture Limited	UK	£36,000,104	50
Harper-Love Adhesives Corporation	US	US\$13,200	50
Levaduras Collico S.A.	Chile	CLP1,834,390,000	50
Murray Bridge Bacon Pty Ltd	Australia	A\$12,000,000	20
New Food Coatings Pty Ltd	Australia	A\$150,000	50
Qingdao Xinghua Cereal Oil & Foodstuff Co., Ltd	China	CNY24,844,000	25
Roal Oy	Finland	€3,196,000	50
Stratas Foods LLC	US	US\$2	50
Uniferm Verwaltungs GmbH	Germany	€2	50
Vivergo Fuels Limited	UK	£60,800,000	45

Each joint venture and associate carries out manufacturing and food processing activities and operates mainly in its country of incorporation.

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

30. Accounting estimates and judgements

Key sources of estimation uncertainty

In applying the accounting policies detailed on pages 61 to 67, management has made appropriate estimates in many areas and the actual outcome may differ from those calculated. The key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing material adjustment to the carrying value of assets and liabilities within the next financial year are:

Forecasts and discount rates

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

- the carrying value of goodwill must be assessed for impairment at least annually and also when there is an indication that it may be impaired. This assessment involves comparing the book value of goodwill with its recoverable amount (being the higher of its value in use and its fair value less costs to sell). Value in use is determined with reference to projected future cash flows discounted at an appropriate rate. Both the projected future cash flows and the discount rate applied involve a significant degree of estimation uncertainty; and
- the realisation of deferred tax assets recognised in the balance sheet is dependent on the generation of sufficient future taxable profits in the jurisdictions in which the deferred tax assets arise. The group recognises deferred tax assets when it is more likely than not that they will be recovered, based on an assessment of the likelihood of there being sufficient taxable profits in the future. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Post-retirement benefits

The group's defined benefit pension schemes and similar arrangements are assessed annually in accordance with IAS 19. The accounting valuation, which has been assessed using assumptions determined with independent actuarial advice, resulted in a net liability of £99m being recognised as at 18 September 2010. The size of this net liability is sensitive to the market value of the assets held by the schemes, to the discount rate used in assessing actuarial liabilities, to the actuarial assumptions which include price inflation, rates of pension and salary increases, mortality and other demographic assumptions and to the level of contributions. Further details are included in note 12.

Provisions

As described in the accounting policies on pages 61 to 67, provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date. These estimates are made taking into account a range of possible outcomes.

30. Accounting estimates and judgements continued

Property, plant and equipment residual values and useful lives

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

Biological assets

Cane roots valuation – the escalated average cost, using appropriate inflation-related indices, of each year of planting adjusted for the remaining expected life. This requires an estimation by management of the average number of ratoons expected from the crop. The carrying value of cane roots is disclosed in note 10.

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

Cash flow hedge accounting

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

Exceptional items

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

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

Taxation

The income tax expense recorded in the income statement is dependent on the tax rates enacted or substantively enacted during the period, together with any adjustments to tax payable in respect of previous years.

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

Fair values on acquisition

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

Company balance sheet

at 18 September 2010

	Note	2010 £m	2009 £m
FIXED ASSETS			
Intangible assets	1	34	39
Investments in subsidiaries	2	629	626
		663	665
CURRENT ASSETS			
Debtors			
– due within one year	3	3,057	2,478
– due after one year	3	963	1,432
Cash at bank and in hand		13	29
		4,033	3,939
CREDITORS: amounts falling due within one year			
Bank loans and overdrafts – unsecured		(80)	(216)
Other creditors	4	(1,520)	(1,136)
Provisions	5	–	(122)
		(1,600)	(1,474)
NET CURRENT ASSETS		2,433	2,465
TOTAL ASSETS LESS CURRENT LIABILITIES		3,096	3,130
CREDITORS: amounts falling due after one year			
Bank loans – unsecured		(511)	(496)
Amounts owed to subsidiaries	4	(2,463)	(2,421)
		(2,974)	(2,917)
NET ASSETS EXCLUDING PENSION LIABILITY		122	213
Net pension liability		(11)	(8)
NET ASSETS		111	205
CAPITAL AND RESERVES			
Issued share capital	6	45	47
Capital redemption reserve	6	2	–
Profit and loss reserve including pension reserve	6	64	158
EQUITY SHAREHOLDERS' FUNDS		111	205

The financial statements on pages 110 to 114 were approved by the board of directors on 9 November 2010 and were signed on its behalf by:
Charles Sinclair, *Chairman* and **John Bason**, *Director*.

Reconciliation of movements in equity shareholders' funds

for the 53 weeks ended 18 September 2010

	2010 £m	2009 £m
Profit for the financial year	77	91
Redemption of deferred shares	(2)	–
Net movement in own shares held	5	(10)
Actuarial losses on defined benefit pension scheme	(3)	(1)
Dividends	(171)	(161)
NET REDUCTION IN EQUITY SHAREHOLDERS' FUNDS	(94)	(81)
Opening equity shareholders' funds	205	286
CLOSING EQUITY SHAREHOLDERS' FUNDS	111	205

Accounting policies

for the 53 weeks ended 18 September 2010

Basis of preparation

The financial statements are presented in sterling, rounded to the nearest million. They are prepared under the historical cost convention, except that derivative financial instruments are stated at their fair value, and in accordance with applicable United Kingdom accounting standards (UK GAAP) and the Companies Act 2006.

As permitted by section 408(4) of the Companies Act 2006, a separate profit and loss account for the Company has not been included in these financial statements. As permitted by FRS 1, no cash flow statement for the Company has been included on the grounds that the group includes the Company in its own published consolidated financial statements. As permitted by FRS 8, no related party disclosures in respect of transactions with wholly owned subsidiaries have been included.

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

Intangible assets – goodwill

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

Investments in subsidiaries

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

Financial instruments

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

Pensions and other post-employment benefits

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

Share-based payments

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

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

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

Shares in the Company are held in a separate trust and are deducted in arriving at equity shareholders' funds.

Notes to the Company financial statements

for the 53 weeks ended 18 September 2010

1. Intangible assets – goodwill

	£m
COST	
At 12 September 2009 and 18 September 2010	71
AMORTISATION	
At 12 September 2009	32
Provided during the year	5
AT 18 SEPTEMBER 2010	37
NET BOOK VALUE	
Net book value at 12 September 2009	39
NET BOOK VALUE AT 18 SEPTEMBER 2010	34

2. Investments in subsidiaries

	£m
At 12 September 2009	626
Additions	3
AT 18 SEPTEMBER 2010	629

The additions relate to the allocation of shares under the Share Incentive Plan to employees of the Company's subsidiaries.

There were no provisions for impairment in either year.

3. Debtors

	2010 £m	2009 £m
AMOUNTS FALLING DUE WITHIN ONE YEAR		
Amounts owed by subsidiaries	3,004	2,430
Other debtors	5	3
Corporation tax recoverable	48	45
	3,057	2,478
AMOUNTS FALLING DUE AFTER ONE YEAR		
Amounts owed by subsidiaries	963	1,406
Amounts owed by joint ventures	–	26
	963	1,432

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

4. Other creditors

	2010 £m	2009 £m
AMOUNTS FALLING DUE WITHIN ONE YEAR		
Other taxation and social security	1	1
Accruals and deferred income	17	17
Amounts owed to subsidiaries	1,502	1,118
	1,520	1,136
AMOUNTS FALLING DUE AFTER ONE YEAR		
Amounts owed to subsidiaries	2,463	2,421

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

5. Provisions

	£m
At 12 September 2009	122
Utilised	(122)
AT 18 SEPTEMBER 2010	-

The deferred consideration of £122m received in 2008/9 in respect of the disposal of the group's Polish sugar business was transferred to the disposing company in 2009/10.

6. Capital and reserves

	Deferred shares of £1 each 000	Ordinary shares of 5 ¹⁵ / ₂₂ p each 000	Nominal value £m
ISSUED AND FULLY PAID			
At 12 September 2009	2,000	791,674	47
Redeemed	(2,000)	-	(2)
AT 18 SEPTEMBER 2010	-	791,674	45

At 18 September 2010, the Company's issued share capital comprised 791,674,183 ordinary shares at 5¹⁵/₂₂p each, carrying one vote per share. The two million deferred shares of £1 each were redeemed by the Company at par on 15 September 2010.

	Share capital £m	Capital redemption reserve £m	Profit and loss reserve £m	Total £m
At 12 September 2009	47	-	158	205
Redemption of deferred shares	(2)	2	(2)	(2)
Net movement in own shares held	-	-	5	5
Actuarial losses on defined benefit pension scheme	-	-	(3)	(3)
Profit for the year	-	-	77	77
Dividends	-	-	(171)	(171)
AT 18 SEPTEMBER 2010	45	2	64	111

Capital redemption reserve

The capital redemption reserve arose in the year following redemption of the two million £1 deferred shares.

Dividends

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

Own shares held reserve and share-based payments

Ordinary shares already issued and subject to option under the Associated British Foods plc 1994 Share Option Scheme and the Executive Share Option Scheme 2000, or subject to allocation under the Associated British Foods plc Executive Share Incentive Plan 2003, are held in a separate Employee Share Ownership Plan Trust. The Trust is funded by the Company. Voting rights attached to shares held by the Trust are exercisable by the trustee, who is entitled to consider any recommendation made by a committee of the Company. At 18 September 2010, the Trust held 3,502,583 (2009 – 3,906,757) ordinary shares of the Company. The market value of these shares at the year end was £37m (2009 – £33m). The Trust has waived its right to dividends. Refer to note 23 of the consolidated financial statements for further information on the group and Company's share-based payment plans.

7. Contingent liabilities

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

The Company has provided £52m of guarantees in the ordinary course of business as at 18 September 2010 (2009 – £283m).

Notes to the company financial statements continued

for the 53 weeks ended 18 September 2010

8. Related parties

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

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

	Sub note	2010 £000	2009 £000
Charges to Wittington Investments Limited in respect of services provided by the Company		240	201
Charges to a fellow subsidiary	1	1	1
Dividends paid by the Company and received in a beneficial capacity by:			
(i) trustees of the Garfield Weston Foundation	1	6,447	6,142
(ii) directors of Wittington Investments Limited who are not trustees of the Foundation	1	858	806
(iii) directors of the Company who are not trustees of the Foundation and are not directors of Wittington Investments Limited	1	7	12
(iv) a member of the Weston family employed within the Associated British Foods group	1	634	596
Charges to non-wholly owned subsidiaries	2	1,030	19
Interest income earned from non-wholly owned subsidiaries	2	–	2,172
Interest paid to non-wholly owned subsidiaries	2	52	–
Amounts due from non-wholly owned subsidiaries	2	–	114,891
Amounts due to non-wholly owned subsidiaries	2	639	10
Other income from joint ventures and associates on normal trading terms	2	4	14
Interest income earned from joint ventures	2	1,360	231
Amounts due from joint venture (debtor due after more than one year)	2	–	26,331

1. Details of the nature of the relationships with these bodies are set out in notes 28 and 29 of the consolidated financial statements.
2. Details of the Company's subsidiaries, associates and joint ventures are set out in note 29 of the consolidated financial statements.

9. Other information

Emoluments of directors

The remuneration of the directors of the Company is shown in the Remuneration report for the group on page 48.

Employees

The Company had an average of 103 employees in 2010 (2009 – 98).

The Company is a member of the Associated British Foods Pension Scheme, providing benefits based on final pensionable pay. Because the Company is unable to identify its share of the scheme's assets and liabilities on a consistent basis, as permitted by FRS 17, the scheme is accounted for by the Company as if it were a defined contribution scheme.

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

The last actuarial valuation of the Associated British Foods Pension Scheme was carried out as at 5 April 2008. At the valuation date the total market value of the assets of the scheme was £2,223m and represented 93% of the benefits that had accrued to members after allowing for expected future increases in earnings. Following completion of the actuarial valuation, the Company agreed to make five annual payments of £30m in order to eliminate the deficit at 5 April 2008. The first two of these payments were made in March 2009 and March 2010.

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

Auditors' fees

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

Progress report

Saturday nearest to 15 September

	2006 £m	2007 £m	2008 £m	2009 £m	2010 £m
Revenue	5,996	6,800	8,235	9,255	10,167
Adjusted operating profit	561	622	664	720	909
Exceptional items	(97)	–	(46)	–	–
Amortisation of non-operating intangibles	(41)	(74)	(74)	(82)	(81)
Profits less losses on disposal of non-current assets	10	8	10	(1)	(9)
Inventory fair value adjustment	–	–	–	(12)	–
Profits less losses on sale and closure of businesses	(4)	(39)	5	(65)	28
Provision for loss on termination of an operation	(8)	–	–	–	–
Finance income	32	20	21	17	12
Finance expense	(46)	(55)	(74)	(95)	(88)
Other financial income/(expense)	12	26	21	13	(8)
Profit before taxation	419	508	527	495	763
Income tax expense	(111)	(108)	(136)	(112)	(194)
Profit after taxation	308	400	391	383	569
Basic and diluted earnings per ordinary share (pence)	38.1	46.7	45.2	45.5	69.3
Adjusted earnings per share (pence)	50.9	52.9	54.9	57.7	72.2
Dividends per share (pence)	18.75	19.5	20.25	21.0	23.8

Company directory

Associated British Foods plc

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Weston Centre
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London W1K 4QY

Company registered in England, number 293262

Company secretary

Paul Lister

Registrars and transfer office

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Aspect House
Spencer Road
Lancing BN99 6DA

Auditors

KPMG Audit Plc Chartered Accountants

Bankers

Barclays Bank plc
Citibank N.A.
Lloyds Banking Group plc
The Royal Bank of Scotland plc

Brokers

Credit Suisse Securities (Europe) Limited
One Cabot Square
London E14 4QJ

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

Timetable

Interim dividend paid

2 July 2010

Final dividend to be paid

14 January 2011

Annual general meeting

10 December 2010

Interim results to be announced

27 April 2011

Website

www.abf.co.uk

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

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