

A JOURNEY THROUGH OUR BUSINESS

Associated
British Foods
plc

ANNUAL REPORT AND ACCOUNTS 2012



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THE YEAR'S HIGHLIGHTS

Group revenue

£12.3bn

Up 11%

Adjusted operating profit*

£1,077m

Up 17%

Adjusted profit before tax**

£974m

Up 17%

Adjusted earnings per share**

87.2p

Up 18%

Dividends per share

28.5p

Up 15%

Net capital investment

£707m

Net debt

£1,061m

Operating profit

£873m

Up 4%

Profit before tax

£761m

Level

Basic earnings per share

70.3p

Up 2%

- A very good set of results
- Major restructurings undertaken
- Banner year for AB Sugar
- Primark accelerates
- Further growth from Twinings Ovaltine
- Difficult year for meat business in Australia and in yeast
- Strong group cash flow

* before amortisation of non-operating intangibles, profits less losses on disposal of non-current assets and exceptional items.

** before amortisation of non-operating intangibles, profits less losses on disposal of non-current assets, profits less losses on the sale and closure of businesses and exceptional items.

All adjustments to profit measures are shown on the face of the consolidated income statement.

WHO WE ARE

ASSOCIATED BRITISH FOODS IS A DIVERSIFIED INTERNATIONAL FOOD, INGREDIENTS AND RETAIL GROUP WITH SALES OF £12.3BN, AND 106,000 EMPLOYEES IN 47 COUNTRIES.

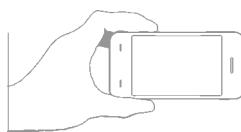
WE AIM TO ACHIEVE STRONG, SUSTAINABLE LEADERSHIP POSITIONS IN MARKETS THAT OFFER POTENTIAL FOR PROFITABLE GROWTH, AND DELIVER QUALITY PRODUCTS AND SERVICES THAT ARE CENTRAL TO PEOPLE'S LIVES.

ABF.CO.UK/AR2012



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SUGAR

REVENUE: £2,666M (2011, £2,134M)

THE LARGEST BEET PROCESSING FACTORY IN THE WORLD

Over 3 million tonnes of sugar beet are processed each year at the Wissington factory.

RECORD CROP YIELDS IN THE UK

Excellent growing conditions and sustained improvement in seed varieties and agronomy delivered record yields this year.





[GO TO PAGE 20 FOR MORE INFORMATION](#)[ABF.CO.UK/AR2012/AGRICULTURE](#)

AGRICULTURE

REVENUE: £1,265M (2011, £1,127M)

ONE OF THE LARGEST
ANIMAL FEED SUPPLIERS
IN THE UK

AB Agri is also fast expanding its global operations to become a major international agri business.

ADDING VALUE RIGHT
ACROSS THE AGRI FOOD
CHAIN

AB Agri's unique breadth and experience enables it to add value and drive profit for businesses all along the food, drink and biofuel supply chain.





WELL VERSED IN GETTING MORE FROM LESS

Our mission is to help global agriculture businesses develop by supplying leading-edge, technology-based products and services.



RETAIL

REVENUE: £3,503M (2011, £3,043M)

Welcome to
PRIMARK
Stratford



NEW STORES THAT DO JUSTICE TO THE PRIMARK BRAND

Our new store design aims to provide an inspirational, exciting, fashionable and fun shopping experience for all customers.



EMBRACING INNOVATIVE WAYS OF MERCHANDISING

Strategically placed mannequins combine with video screens to inspire customers to choose outfits that are readily available on adjacent fixtures.

G

This floor

Womens
Accessories
Shoes
Lingerie
Hosiery
Home

-1

Mens
Kids
Customer
Services

Customer lifts

NEW
SEASON

A GROWING INTERNATIONAL PRESENCE

Primark has 47 stores in continental Europe with plans for further expansion.





GROCERY

REVENUE: £3,726M (2011, £3,671M)



BRANDS THAT CUSTOMERS LOVE, ACROSS THE GLOBE

Twinings Ovaltine sells its premium tea and malted beverages in more than 100 countries.



ENCOURAGING HEALTHIER HABITS TO BECOME THE NORM

Kingsmill 50/50 is made with 50% white flour and 50% wholemeal flour to provide more fibre in people's diets.



MAKING SUSTAINABILITY CENTRAL TO OUR STRATEGY

Jordans Ryvita changed its crispbread production process, saving 60,000 litres of water a year.

GO TO PAGE 28 FOR MORE INFORMATION

ABF.CO.UK/AR2012/INGREDIENTS 

INGREDIENTS

REVENUE: £1,092M (2011, £1,090M)



SHARING IDEAS AND BEST PRACTICE RIGHT ACROSS THE GROUP

Our Innovation Centre in the Netherlands supports the bakery ingredients business around the world.



LISTENING TO OUR CUSTOMERS ACROSS THE GLOBE

Products and solutions are tailored to meet our customers' requirements wherever they operate.



MAKING FOOD TASTIER AND LAST LONGER

Enzymes ensure that bread stays fresh longer and yeast extracts are used as natural flavour enhancers.



OUR GROUP AT A GLANCE

THE GROUP OPERATES THROUGH FIVE STRATEGIC BUSINESS SEGMENTS: SUGAR; AGRICULTURE; RETAIL; GROCERY AND INGREDIENTS.

ABF ONLINE: A NEW CORPORATE WEBSITE AND ONLINE PRESENCE



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SUGAR 22%

of total revenue

Revenue
£2,666m (2011, £2,134m)

Adjusted operating profit
£510m (2011, £315m)

Adjusted operating profit margin
19.1% (2011, 14.8%)

Return on average capital employed
26.5% (2011, 17.3%)



AGRICULTURE 10%

of total revenue

Revenue
£1,265m (2011, £1,127m)

Adjusted operating profit
£40m (2011, £40m)

Adjusted operating profit margin
3.2% (2011, 3.5%)

Return on average capital employed
16.5% (2011, 19.0%)

Sugar, Europe

Our UK beet sugar factories produce over one million tonnes of sugar annually. Azucarera in Spain produces over 400,000 tonnes of beet sugar each year and has a cane refining capacity of a further 400,000 tonnes.

Sugar, China

We operate five cane sugar mills in Guangxi Province and 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. Annual sugar production is 1.8 million tonnes.

AB Agri operates at the heart of the agricultural industry with activities that stretch from field to fork. Its unique breadth and experience enable it to add value all along the food, drink and biofuel industry supply chains.

AB Agri supplies products and services to farmers, feed and food manufacturers, processors and retailers. It also buys grain from farmers and supplies crop inputs through its joint venture arable operation, Frontier Agriculture.

We employ over 2,000 people in the UK and China and market products in 55 countries worldwide.



RETAIL

29%

of total revenue

Revenue

£3,503m (2011, £3,043m)

Adjusted operating profit

£356m (2011, £309m)

Adjusted operating profit margin

10.2% (2011, 10.2%)

Return on average capital employed

19.2% (2011, 18.2%)

Primark

Primark is a major retail group employing 43,000 people. It operates stores in the UK, Republic of Ireland, Spain, Portugal, Germany, the Netherlands, Belgium and Austria.

It offers customers quality, up-to-the-minute fashion at value-for-money prices.

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

GROCERY

30%

of total revenue

Revenue

£3,726m (2011, £3,671m*)

Adjusted operating profit

£187m (2011, £244m*)

Adjusted operating profit margin

5.0% (2011, 6.6%*)

Return on average capital employed

12.2% (2011, 17.6%)

International

Twinings and Ovaltine are our global hot beverage brands.

Europe

Market leader in UK sugar with Silver Spoon and Billington's. Jordans cereals, Ryvita, Kingsmill, Patak's and Blue Dragon.

The Americas

Mazola is the leader in corn oil in the US. Capullo is a premium canola oil in Mexico. Tone's, Spice Islands and Durkee are US herbs and spices brands.

Australia

Ham, bacon and smallgoods under Don and KRC brands. Tip Top Bakeries produce a range of well-known breads and baked goods.

INGREDIENTS

9%

of total revenue

Revenue

£1,092m (2011, £1,090m*)

Adjusted operating profit

£32m (2011, £61m*)

Adjusted operating profit margin

2.9% (2011, 5.6%*)

Return on average capital employed

4.3% (2011, 8.3%)

Yeast and bakery ingredients

AB Mauri operates globally in yeast and bakery ingredient production with 49 plants in 26 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 worldwide with manufacturing facilities in Europe, the US and China.

* Reclassified – see note 1

CHAIRMAN'S STATEMENT

BY ANY STANDARDS, AN INCREASE OF 11% IN REVENUE AND 17% IN ADJUSTED OPERATING PROFIT IN THE CURRENT CLIMATE IS A FINE PERFORMANCE.



Charles Sinclair
Chairman

I concluded my statement last year with the expectation that we would achieve growth in sales and adjusted operating profit this year with the latter weighted towards the second half.

I am therefore pleased that we have been able to report results throughout the course of the year that have met those expectations, despite the enduring challenges of subdued economic growth and continued pressure on consumer disposable incomes in the world's developed economies. By any standards, an increase of 11% in revenue and 17% in adjusted operating profit in the current climate is a fine performance. This resulted in an 18% increase in adjusted earnings per share to 87.2p.

AB Sugar delivered a first-class result, exceeding last year's record profit following the investment made in recent years. The business benefited from an excellent UK campaign, a strong European commercial market and better sugar yields across southern Africa. Primark's rate of growth increased this year with sales of £3.5bn, more than double those of five years ago. It was particularly exciting to see new store openings in Germany greeted with the same degree of customer enthusiasm as that experienced in the UK, with Berlin setting a new Primark record for sales made on the first day of trading. AB Agri also had a very good year. In recent years this business has evolved successfully from selling traditional animal feeds in the UK to producing high-value premixes, enzymes and technical ingredients and providing value-adding advisory and marketing services to the global agricultural market.

This year was not without its challenges, however, as evidenced by the results of our Grocery and Ingredients business segments. Although Twinings Ovaltine delivered another good result with continued growth, particularly in its developing markets, a mix of strong competition, a continued strain on consumer spending and high costs for a number of commodities led to lower profitability in both of these segments. A combination of management action to reduce the cost base together with increased investment in marketing and new product development, enabled most of the businesses in these segments to enter the new financial year on a sound footing. It was, nevertheless, disappointing that earlier this year we announced that these actions were not sufficient to avoid a non-cash impairment of the Don KRC assets in Australia. However this business has already made substantial operational improvements and a recovery plan is in place. It is noteworthy that even if adjusted earnings are reduced by this exceptional charge they still show a 6% increase over last year.

Recent years have seen substantial capital investment in the food businesses with a number of projects spanning several years. These have now largely come to an end and our capital expenditure was lower as a result. Investment during the year included construction of the relocated sugar factory at Zhangbei in China and a new yeast plant in Mexico. As we continued to pursue the big retail expansion opportunity in continental Europe, capital expenditure on Primark reached £326m last year, and we expect a high level of expenditure on Primark to continue.

FOLLOWING LAST YEAR'S CASH OUTFLOW, THE LOWER LEVEL OF CAPITAL INVESTMENT TOGETHER WITH THE HIGHER PROFIT AND LOWER WORKING CAPITAL RESULTED IN A STRONG CASH FLOW THIS YEAR.

Following last year's cash outflow, the lower level of capital investment together with the higher profit and lower working capital resulted in a strong cash flow this year. Even taking into account the acquisition of Elephant Atta for £34m, net debt at the year end was £224m lower at £1,061m.

Directors

As announced last November, we welcomed Emma Adamo to the board at the conclusion of last year's annual general meeting. Emma was educated at Stanford University and INSEAD and is a director of Witton Investments Limited.

Employees

The trading environment for many of our businesses has been difficult this year and, while credit is clearly due to those who have made progress, those working in the businesses most affected by adverse market conditions are, perhaps, all the more deserving of our thanks and appreciation for their strenuous efforts. On behalf of shareholders, I thank all our employees for the contribution they have made to the group's success in the past year.

Primark has created 10,000 new jobs across the UK and continental Europe this year at a time of high unemployment, particularly for young people. The average number of people employed by the group worldwide increased during the year to 106,000.

Dividends

I am pleased to report that a final dividend of 20.0p is proposed, to be paid on 11 January 2013 to shareholders on the register on 7 December 2012. Together with the interim dividend of 8.5p paid on 6 July 2012, this will make a total of 28.5p for the year, an increase of 15%.

Outlook

Global economic uncertainty looks set to remain a feature of the new financial year and in recent months we have seen an increase in some of our commodity costs, notably cereals. We expect a reduction in profit from AB Sugar, as a result of lower EU production, to be more than offset by further growth at Primark and some recovery in Grocery. We therefore expect the group to make some further progress in this new financial year but, in contrast to last year, this will be weighted towards the first half.

Charles Sinclair
Chairman

OPERATING REVIEW

THESE ARE VERY GOOD RESULTS FOR THE GROUP AND INCLUDE EXCEPTIONAL PERFORMANCES FROM AB SUGAR AND PRIMARK. GLOBAL ECONOMIC UNCERTAINTY REMAINS BUT WE HAVE OPPORTUNITIES FOR FURTHER INVESTMENT AND THE STRENGTH OF THE GROUP BALANCE SHEET AND A STRONG CASH FLOW WILL ENABLE US TO PURSUE THEM WITH CONFIDENCE.

George Weston
Chief Executive



In 2012 the group's revenue increased by 11% to £12.3bn and adjusted operating profit was 17% ahead of the previous year exceeding the one billion pound mark for the first time at £1,077m.

This was an extremely good year but it shouldn't be considered in isolation. The compound annual growth of revenue and profit achieved over the last 10 years is 10% and 11% respectively. This long-term performance is a direct result of our business model. Our businesses are organised so that they are close to the markets and customers they serve and the corporate centre is consequently small. Operational decisions are made by the businesses and strategy is

agreed between the businesses and the centre. Business performance is closely monitored by the centre and capital is allocated to businesses where returns meet or exceed clearly defined criteria.

AB Sugar delivered a further significant improvement in profit this year driven by its European businesses and Illovo. AB Agri matched last year's record performance. Primark delivered excellent growth with a substantial increase in retail selling space and like-for-like growth at the top of its peer group. In Grocery, Twinings Ovaltine, Jordans Ryvita and Silver Spoon achieved good growth but overall profit was held back by restructuring charges taken to

lower the cost base, and a difficult trading environment for George Weston Foods. The further decline in Ingredients' profit was disappointing.

The major investment in our sugar businesses in recent years has been an important driver of the substantial growth in Sugar profits. The acquisition of Azucarera in Iberia has proved to be a very sound investment and has been a key contributor to the increased profitability over the last two years. The investment in capacity expansion across southern Africa is now delivering better returns for Illovo and the development of our presence in China, in both cane and beet sugar, has built a platform for future growth. Our European businesses have benefited from firmer pricing and higher sugar production this year. Although we expect prices in the EU to remain firm, profit in the coming year will be affected by reduced European production, as a consequence of lower yields, and higher beet costs for British Sugar.

Primark's result reflects continued growth in the UK, including the opening of a flagship store in Edinburgh, and a major step forward in continental Europe. Retail selling space in Iberia was increased by almost half, our presence in Germany was strengthened by the opening of four large stores, and we continue to develop our regional distribution network with the opening of the Mönchengladbach distribution centre. The excitement that continues to be generated by each new store opening and the sales densities that we are achieving in continental Europe afford us the confidence to believe that Primark is capable of much further growth.

Once again, Twinings Ovaltine demonstrated its ability to generate strong revenue growth for both the Twinings and Ovaltine brands which resulted in higher profit. However, the continued pressure on consumer disposable incomes in the world's developed economies created a challenging environment for the businesses in Grocery. To succeed in this environment it is important to be a low-cost supplier and the management teams in George Weston Foods and Allied Bakeries made good progress in reducing their cost base. The financial results reflect the cost of this management action. It was a difficult year for the meat business in Australia but the new factory is now operating more efficiently and the focus for the coming year will be on increasing volumes.

SUGAR

The effects of a combination of high input costs and increased competition for yeast this year contributed to a further decline in margin for Ingredients. We are committed to this business and have focused our attention on the need to develop a more differentiated bakery ingredients proposition. We made a number of management changes during the year, including the appointment of a new chief executive, and the strengthened team will drive the implementation of the new business proposition across the group.

Net capital investment in the group was £707m this year which included a higher level of expenditure for Primark on new stores, and on the refit and extension of existing stores, as we increased the retail selling space by 13%. Continental Europe accounted for the vast majority of this investment but selling space in the UK still increased by 5%. We completed construction of the Vivergo bioethanol plant in Hull and continued the investment in efficient production at Allied Bakeries. We made good progress with construction of the new yeast factory in Mexico and the relocation of the Zhangbei sugar factory in China will be completed in time for processing the new season's beet later this year. In the coming financial year we expect to maintain the level of investment in new stores for Primark but will see some reduction in the level of expenditure in the rest of the group.

Summary

The last financial year presented us with a number of challenges, and continued weakness in the economies of our developed markets suggests that 2013 will also be challenging. However, the diversity of the group's operations, our commitment to new product development, an exciting new store opening programme for Primark, the strength of the group balance sheet and a strong cash flow give us every reason to believe that we can meet the challenges ahead with confidence.

George Weston
Chief Executive

AB SUGAR IS A LEADING MULTINATIONAL IN THE GROWING MARKET FOR SUGAR AND SUGAR DERIVED PRODUCTS AND CO-PRODUCTS.



In the EU, Azucarera is the major producer in Iberia and British Sugar is the sole processor of the UK sugar beet crop and Europe's most efficient producer. Illovo is the largest sugar processor in Africa and is one of the world's foremost low-cost producers. The group also has substantial businesses in China producing cane sugar in the south and beet sugar in the north east. The group currently operates 34 plants in ten countries and is capable of producing some 5.5 million tonnes of sugar and 600 million litres of ethanol each year. It also has the capacity to generate power sufficient to meet most of its internal needs. AB Sugar aims to achieve growth through excellence in agriculture and operations, the application of new technologies for the sustainable processing of beet and cane, and the further development of co-products.

AB Sugar made significant advances during the year with revenue ahead by 25% and profit up 62% reflecting higher sugar production and strong commercial markets in the EU and Africa, and a continued focus on performance improvement in agriculture and processing. Profit in China was lower as a result of a weakening of sugar prices during the year.

In the UK, profit from British Sugar was well ahead of last year reflecting the excellent campaign, higher sugar production and firmer prices. The absence of the weather-related challenges of last year resulted in the production of 1.3 million tonnes of sugar compared with just under 1.0 million tonnes in 2011. 2012 marked the centenary of the UK beet sugar industry and also saw British growers delivering record beet yields. While growers benefited from excellent conditions, the achievement of record yields for the fifth year out of the last seven confirms the progress the industry has made in harnessing applied science and innovation.

SUGAR CONTINUED

Investment in processing and a continuing programme of business improvement enabled a strong factory performance in the year. This included the successful commissioning of the CO₂ liquefaction facility at the Wissington sugar factory which utilises the CO₂ produced during fermentation by the existing bioethanol plant.

Improvements made by Azucarera's growers contributed to record Spanish beet yields. Combined with a continued focus on raising factory performance and extraction rates, this resulted in the northern factories producing a total of 388,000 tonnes of sugar from beet in the 2011/12 campaign. The southern beet campaign, which commenced in early June and finished in August, produced 80,000 tonnes of sugar. The Guadalete refinery again increased its output, processing 303,000 tonnes of cane sugar against last year's 248,000 tonnes. A further 70,000 tonnes of co-refined cane sugar was produced at the three northern factories.

The advances made in recent years by both Azucarera and British Sugar in manufacturing productivity and agricultural development have made a major contribution to their financial performance and underscore the importance of continued investment in efficiency improvement. However, further improvements are required if these businesses are to become globally competitive and we believe the ending of sugar quotas in 2015, as proposed by the European Commission, is premature and is likely to jeopardise further investment in the European industry. AB Sugar is engaged with policymakers in the EU to explore alternative options for sugar reform. The tariffs for sugar imports into the EU are not affected by these proposals.

Construction of Vivergo's bioethanol plant in Hull is now complete with production coming on stream by the end of this calendar year. The plant uses feed wheat and has the capacity to produce up to 420 million litres of bioethanol and up to 500,000 tonnes of high-protein, high-fibre animal feed.

Illovo made good progress, recovering from the impact of low sucrose levels in the cane across the region and the severe drought in South Africa last year. Sugar production increased to 1.8 million tonnes compared to 1.6 million tonnes last year. The increased volumes in South Africa enabled the Umzimkulu mill to be reopened in March 2012 following last season's closure.

because of a shortfall in cane supplies. In Zambia and Swaziland, which have both seen recent investment in production and agricultural expansion, operations ran close to design capacity. Positive market conditions, combined with a more favourable rand/dollar exchange rate, led to higher domestic sugar revenues. However, the economic environment in Malawi remains challenging and the kwacha was devalued on 7 May 2012. Local sugar prices were increased as a result of the devaluation which, together with higher export earnings, more than offset increased operating costs

in local currency terms. The devaluation had no material effect on profit when translated into sterling.

As announced in July, the Mali government was unable to fulfil its undertaking to fund the agricultural component of a project to develop Illovo's sugar business in the country. When combined with the deteriorating security situation, the project risk was considered to have increased to an unsupportable level and the decision was taken to terminate further involvement in the project. Illovo's investment in pre-project expenditure of £15m has been written off and charged as a loss on closure of businesses in the income statement. This charge was largely offset by the realisation of deferred profit on the disposal, in November 2009, of the group's former Polish sugar operations.

Illovo also markets a number of co-products which have become an increasingly important contributor to its results. These range from food-grade, industrial and agricultural products manufactured at the Sezela plant and at its ethanol distilleries in South Africa, to the export of electricity to the Swaziland national grid by the Ubombo sugar mill. A potable alcohol distillery at Kilombero in Tanzania is currently under construction and is due to be commissioned in 2013.

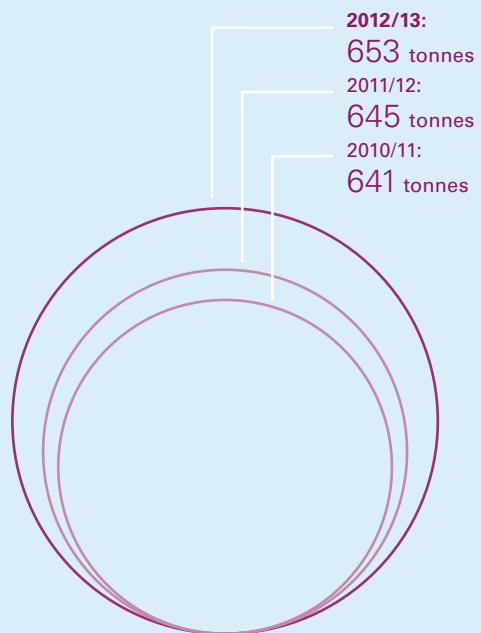
In China, further progress was made in the north, both in factory efficiency and in beet plantings and yield, with sugar production increasing from 210,000 tonnes to 287,000 tonnes. Factories concentrated on improving manufacturing performance through higher energy efficiency and extraction rates, and previous investment in beet handling drove record throughput at the Yi'an factory. Heavy rains in January 2012 constrained output in south China with volumes almost level with last year at 405,000 tonnes. China's national 2011/12 sugar production was 1.0 million tonnes higher than last year which, combined with lower prices for sugar imports, led to weaker domestic selling prices and consequently lower operating profit for our Chinese operations. Relocation of the Zhangbei beet sugar factory is almost complete and will be operational in time for the new season campaign.



AB SUGAR: WORKING HARD TO ENSURE CONTINUOUS IMPROVEMENT

Performance improvement is central to AB Sugar's commitment to delivering operational excellence through sustainable intensification and advanced manufacturing. Its performance improvement and people development programmes operate across all of the business regions. »

Zambia hourly crush rate



These programmes bring together experts from within the businesses to exchange and translate technical information into cost advantage ensuring the application of best practice and the extension of technical knowledge boundaries.

AB Sugar has invested in continuous improvement programmes designed to utilise more fully the latest tools and techniques. For example, Illovo has initiated a new programme 'Towards Illovo Best Practice' which introduces standardised management processes that deliver improvement projects efficiently and effectively with more predictable and consistent outcomes. In British Sugar, a core team provides continuous improvement expertise and programme management skills, enabling the business to build capability and deliver improvements to both operational and transactional processes. A recent success has been the implementation of a revised and streamlined financial budgeting process, releasing significant resource back into the business.

A key area of focus for all of our sugar businesses is the operation of our plants at full capacity. Benchmarking identifies opportunities and group-wide technical and logistical knowledge provides solutions. Illovo's Nakambala site in Zambia has benefited from this cross-group expertise, with the operation significantly improving its performance following its two-year expansion project. By identifying bottlenecks, the team re-engineered the plant and is achieving an average hourly crush rate for the 2012/13 season that is well above its design capacity.

During the year AB Sugar launched its Sugar Beet Centre of Excellence, which aims to increase crop yields by improving agricultural processes, harnessing developments in agronomics and crop genetics, and by working with growers to apply best practice. The Beet Centre of Excellence brings together global specialists from the entire beet supply chain, including seed and input experts, research scientists, growers and process technologists. It is supporting our beet sugar businesses in north China, Spain and the UK in the delivery of their yield growth plans. This approach is being replicated in Africa and south China with the recent launch of a Sugar Cane Centre of Excellence.



AGRICULTURE

AB AGRI IS AN ESTABLISHED MAJOR FORCE IN UK AGRICULTURE AND IS INCREASINGLY OPERATING ON A GLOBAL SCALE. IT SUPPLIES TECHNOLOGY-BASED PRODUCTS AND SERVICES TO FARMERS, FEED AND FOOD MANUFACTURERS, PROCESSORS AND RETAILERS.

It also buys grain from UK farmers and supplies them with crop inputs through its joint venture, Frontier. Operating across the agricultural supply chain, AB Agri manufactures high-performance compound feeds, provides world-leading analytical services, nutritional advice and poultry marketing services for customers. It provides an added-value service to food, drink and bioethanol companies internationally, by marketing their co-products as animal feed, which in turn helps to reduce the costs of production for its farming customer base. It also supplies the livestock and pet industries with premixes, enzymes and other technical ingredients which are increasingly important growth drivers for the business.

AB Agri delivered another good performance with revenues 12% ahead and profit in line with last year's strong result. The UK feed business benefited from higher volumes of sugar beet feed but saw some margin erosion in the pig and poultry feed markets reflecting another difficult year for the UK livestock industry.

Frontier continued to trade well. Earnings from grain trading were at more normal levels which reflected less movement in wheat prices during the year. High crop prices underpinned good farm profitability and Frontier benefited from continued high demand for fertiliser, seed and crop protection products.

Premier Nutrition increased its UK market share in broiler and ruminant premixes but

suffered margin erosion in Eastern Europe. The weakening of the euro affected the competitiveness of exported piglet starter feed and pet premixes into the Eurozone. The major building and engineering operations for UK expansion are now complete and plant commissioning is well under way.

AB Vista continued to expand its geographic presence and share of the feed enzyme market, with a particularly good performance in the Asia Pacific region. The main growth driver was the Quantum phytase range including the recently launched product, Quantum Blue. AB Vista also recently finalised an arrangement that will see it become a major global supplier of betaine to the animal nutrition sector.

During the year, AB Sustain acquired a small UK-based business, specialising in the development, implementation and auditing of systems which promote continuous improvement in agricultural supply chains across the world. AB Sustain also won the Sainsbury's Supplier 'Making it Happen' award in recognition of its outstanding customer support and service.

Progress was made in China with increased compound and sugar beet feed sales volumes together with new products for the feed ingredients market. Agreement was reached recently with a major US multinational to build a new feed mill in China to service its local poultry feed requirements.



QUANTUM BLUE: A CROSS-DIVISIONAL COLLABORATION SUCCESS STORY



In January 2012, a new phytase product Quantum Blue was launched to the global animal nutrition market. This was the result of a highly effective partnership between AB Enzymes and AB Vista, in collaboration with Roal, our manufacturing joint venture in Finland. »

First created in 2004 as the feed ingredients arm of AB Agri, AB Vista has since grown to be the third largest enzyme supplier to the global feed industry. AB Vista works closely with sister company AB Enzymes, based in Darmstadt, Germany, and with Roal. This collaboration created a winning combination of market-leading technologies and expertise in R&D, manufacturing and marketing for the Quantum Blue product launch.

In March 2008, the two ABF sister companies worked together on the successful acquisition of a start-up phytase business under the brand name, Quantum. In animal nutrition, phytases are added to feed to release phosphorus and other nutrients that are bound to indigestible plant phytate. Releasing these nutrients reduces feed cost and also reduces pollution risk from manure. Over the last four years, sales of the original Quantum phytase product have increased substantially, resulting in significant market share gains. Building on this success, superior variants of Quantum were screened for enhanced thermostability and phytate degradation and in August 2009 a new variant, now known as Quantum Blue, was selected.

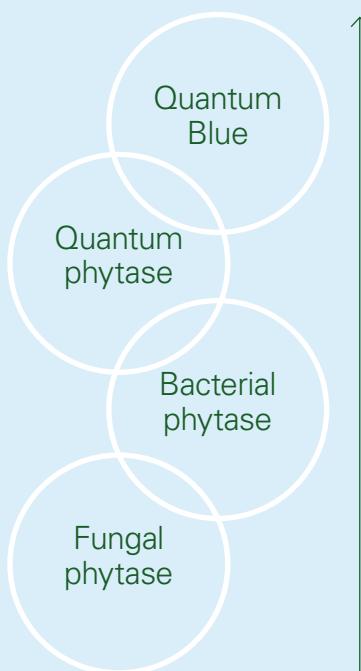
The companies are justifiably proud of their 'molecule to market' time span of around half the industry standard of six to eight years, utilising innovative technologies and expertise to achieve superior performance.

As an enhanced E.coli phytase, Quantum Blue goes beyond the capabilities of its predecessors to deliver greater phosphorus release, more consistently than any other commercially available phytase. Quantum Blue is intrinsically thermostable and therefore does not need to be coated, enabling quick release of the active enzyme in the animal's digestive system.

In January 2012, Quantum Blue was launched at the International Poultry Exhibition in Atlanta, USA. Regional launch events and seminars have taken place across the globe in Thailand, Korea, Brazil and Mexico supporting the local regulatory approvals of the product. Nine months after the launch, Quantum Blue is already sold in 17 countries across North America, Latin America, Asia and the Indian subcontinent, and has grown to represent a significant proportion of total AB Vista phytase sales.

This is a great example of how close collaboration and effective teamwork can bring new product innovations to the market efficiently. In early 2012, a global survey was conducted by AB Vista among customers and non-customers and 54% of respondents ranked AB Vista as the most innovative phytase supplier in the market. The global phytase market is estimated to be worth over £250 million and is growing at 7–8% per annum.

The Phytase revolution



RETAIL

PRIMARK IS A MAJOR CLOTHING RETAILER WITH STORES IN THE UK, IRELAND, SPAIN, PORTUGAL, GERMANY, THE NETHERLANDS, BELGIUM AND AUSTRIA.

It offers customers quality, up-to-the-minute fashion at value-for-money prices. Further expansion saw the creation of 10,000 new jobs during the year with the business employing more than 43,000 people by the year end.

Revenue was 17% ahead of last year at constant exchange rates. As a result of the weakening of the euro in the second half of the year, the increase was 15% when translated at actual exchange rates. This excellent result was driven by an increase in retail selling space and like-for-like sales growth of 3% for the full year. UK trading was particularly strong during the summer and sales in continental Europe remained buoyant. Trading in newly opened stores exceeded expectations and the opening of the new store in Berlin in July saw our most successful first day's sales ever. Sales of the autumn/winter range in the new financial year are encouraging.

Revenue
£3,503m
+15%

Adjusted operating profit
£356m
+15%

Adjusted operating profit margin
10.2%
2011, 10.2%

Return on average capital employed
19.2%
2011, 18.2%



The operating profit margin at 10.2% was level with that achieved last year. In the first half margins were lower than last year reflecting the absorption of high cotton costs and the increase in VAT in the UK, which we chose not to pass on to customers. As expected, margins in the second half increased reflecting the fall in cotton prices. Operating margins are expected to improve further in the first half of the new financial year with the benefit of lower cotton prices but will be partly constrained by the three percentage point increase in VAT rates in Spain from 1 September 2012. Operating profit at constant currency was 17% higher than last year reflecting the strong revenue growth. At actual exchange rates profit was 15% ahead.

Primark continued to make significant progress with its ethical trade programme during the year. A member of the Ethical

Trading Initiative (ETI) since 2006, it is now ranked at 'Leader' level which is the highest status achievable. The ETI classifies a Leader as "tackling the root causes of labour rights problems beyond individual workplaces with collaborative initiatives aimed at the sectorial level and in raw material or component supply". Achievement of this ranking demonstrates the hard work and commitment made by Primark to ensuring that workers making our products are paid fairly, treated well, and work in decent conditions. The impact of our in-country teams of ethical trading specialists has been significant in supporting sustainable improvements within supplier factories, providing greater visibility across the supply chain as well as improving the management of our audit programme. We conducted 1,795 audits in the last calendar year and ethical trade training continues to be provided to every new Primark employee.

Our new store design aims to provide an inspirational, exciting, fashionable and fun shopping environment for all customers. Strategically placed mannequins combine with video screens to inspire customers to choose outfits that are readily available on adjacent fixtures. Prominent directional signage allows easy navigation through the store and the confident expression of our Primark brand on building facades and at various focal points encourages customers to feel engaged with the brand. Customer service has been enhanced by providing a higher ratio of fitting rooms and cash registers to ensure a smoother experience when trying outfits on and paying for them.

The pace of store and retail selling space expansion increased this year. By the financial year end we had opened 19 new stores and added 0.9 million sq ft of selling space bringing the total to 242 stores and 8.2 million sq ft. Three new stores were



NEW STORE OPENINGS:

Alicante (Spain)
 Badajoz (Spain)
 Barcelona (Spain)
 Cordoba (Spain)
 Majadahonda (Spain)
 Malaga (Spain)
 Pamplona (Spain)
 Parque-sur, Madrid (Spain)
 Valencia (Spain)
 Braga Parque (Portugal)
 Coimbra (Portugal)
 Essen (Germany)
 Hannover (Germany)
 Saarbrucken (Germany)
 Schloss Strasse, Berlin (Germany)
 Zaandam (the Netherlands)
 Chelmsford (UK)
 Edinburgh (UK)
 Livingston (UK)

UK concessions:
 Selfridges, Birmingham
 Selfridges, Manchester

Relocations:
 Metro Centre, Gateshead (UK)

RETAIL CONTINUED

opened in the UK, 11 in Iberia and five in northern continental Europe. Highlights of the year included a major expansion in Iberia, particularly Spain, the opening of a flagship store on Princes Street in Edinburgh and four large stores in Germany. The new store in Berlin achieved the distinction of becoming Primark's highest grossing store on an opening day.

The momentum of our store opening programme has continued into the new financial year with our second store on

London's Oxford Street and our first store in Austria, in Innsbruck, during September. The new Oxford Street store has 82,000 sq ft of selling space over four floors and showcases Primark's latest design concept incorporating enhanced visual merchandising, branding, fixtures, lighting and state-of-the-art video screens showing the latest campaigns. A further 12 stores will have opened before Christmas, including a second store in Austria. By the spring of next year we will also have completed the expansion of our city centre stores in Manchester,

Newcastle and Mary Street in Dublin, featuring the new store design.

We have invested further to improve the efficiency, and increase the capacity, of our logistics network. In August we opened a new, purpose-built depot in Mönchengladbach in the west of Germany with 425,000 sq ft of warehouse space. This increases our total warehouse capability to 2.7 million sq ft, adding to the footprint of our existing depots in Ireland, the UK and Spain and enabling a more flexible response to the needs of our customers in northern Europe.

Store expansion by region

	UK		Iberia		Republic of Ireland		Northern Continental Europe		Total	
	sq ft 000	stores	sq ft 000	stores	sq ft 000	stores	sq ft 000	stores	sq ft 000	stores
September 2011	5,190	154	760	24	1,010	38	320	7	7,280	223
Change in year	235	3	340	11	–	–	345	5	920	19
September 2012	5,425	157	1,100	35	1,010	38	665	12	8,200	242
	+5%		+45%		–		+108%		+13%	

MÖNCHENGLADBACH DEPOT: THE HEART OF OUR NORTHERN EUROPEAN OPERATIONS

Operating a supply chain that delivers over two million items to stores every single day of the year requires an eye for detail and a relentless focus on efficiency and effectiveness. »

A key part of this is to ensure the network is synchronised with the store estate and its service requirements.

As our store numbers in northern continental Europe expanded, there came a point where the estate could justify its own distribution depot. Previously, deliveries to Rotterdam, Berlin and all points in between were made from our warehouse in Naas, Republic of Ireland – efficient for stock holding but not for delivery economics.

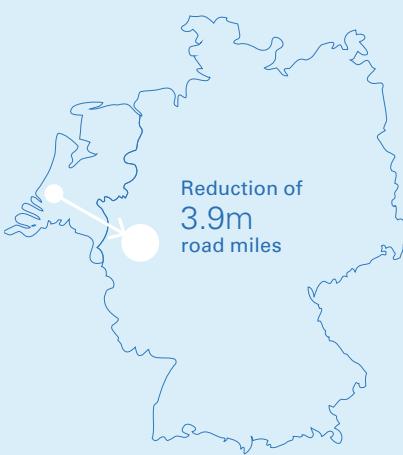
Working with our distribution partner, we undertook a detailed study to determine the optimum location from which to serve our stores, and then to design and construct the depot at the chosen location, Regiopark, Mönchengladbach in Germany.

The result is a 425,000 sq ft distribution centre that commenced operations in August this year. The building has an additional 175,000 sq ft of mezzanine floor for a state-of-the-art mechanised garment-on-hanger system. Overall this gives us the capacity to hold 60,000 sets and 700,000 cartons in stock. The latest systems technology is deployed with a warehouse management system that includes leading-edge voice-picking technology.

Inbound freight now arrives at Rotterdam and travels by train or barge for most of its journey to the Mönchengladbach site. The close proximity of the depot to our stores means that next day delivery is now a reality – we will get product to stores some eight to nine days faster than at present, a lifetime in the world of fast fashion. It also means a saving of 3.9 million road miles per annum.

This new distribution centre completes another phase of our supply chain transformation, supporting geographical expansion and ending a substantial, and complex, period of restructuring. Last year we completed an extension and new garment-on-hanger system for our warehouse in Torija, Spain. This year has seen an extension of 140,000 sq ft to our Thrapston, UK depot and the completion of an extension and new garment-on-hanger system at the new Naas distribution depot – optimum facilities, in the right locations, driving an efficient supply chain every day.

Freight delivery to new centre



GROCERY

GROCERY COMPRISES OUR CONSUMER-FACING BUSINESSES THAT MANUFACTURE AND MARKET A VARIETY OF GROCERY BRANDS BOTH NATIONALLY AND INTERNATIONALLY.

Twinings Ovaltine has the broadest geographic reach selling its premium teas and malted beverages in more than 100 countries. The UK grocery businesses produce well-known household brands including Kingsmill, Silver Spoon, Jordans, Ryvita, Patak's and Blue Dragon. ACH is a speciality food business operating across North America and Mexico. Among its market-leading products are Mazola corn oil, Karo corn syrup and the leading corn starch brand, Argo. George Weston Foods in Australia produces a range of meats, breads and baked goods including Tip Top, the country's leading food brand.

Grocery revenue increased by 1% but adjusted operating profit declined by 23% reflecting primarily the cost of restructuring at George Weston Foods in Australia and Allied Bakeries in the UK, together with the difficult retail and competitor environment in Australia.

Twinings Ovaltine, our most profitable grocery business, maintained the momentum of last year achieving sales growth and share gains in its four largest tea markets. Marketing investment was substantially increased throughout the business. In the UK, we launched the very successful 'Gets you back to you' television campaign which contributed to our market share increase. In the US, growth was driven by the K-cup single-serve format which has expanded beyond foodservice into the grocery channel where we are now the leading tea brand in this format. Twinings had a particularly successful year in Australia, increasing its market share with an effective marketing campaign including consumer trial. Following last year's factory expansion in China and completion of the new factory in Poland, the final stages of investment in the Andover factory, which supplies the UK market, is due to complete before the end

of the calendar year. New production lines enabled further improvements to be made in tea packaging. Ovaltine achieved strong growth in Thailand and other developing markets with particular success in Brazil, where we have now also introduced a 'ready to drink' format, and Indochina.

UK consumers have continued to seek value from product choice, promotions and price in response to sustained pressure on household incomes. The market remained competitive for Allied Bakeries with promotional activity reducing margins and the recent increase in wheat costs will give rise to further margin pressure in the coming year. However, good progress was made during the year in reducing the cost base with the closure of two small bakeries and a re-engineering of business processes to reduce overheads. Whilst delivering a significant change agenda the business has continued to focus on both understanding and meeting customer and consumer needs. This was recognised by The Grocer magazine which named Allied Bakeries as its branded bakery supplier of the year for the fourth year in succession. Kingsmill's largest sub-brand, 50/50, continues to be a key driver of Allied Bakeries' performance having become the number one brand in the healthier white bread segment last year, and its range has been successfully extended into wraps, pitta pockets and muffins. The capital expenditure programme to upgrade and modernise the equipment in the bakeries was accelerated during the year to realise, more quickly, the benefits of greater reliability, improved consistency and lower costs. The upgraded bread plant and new silos at Stockport came on stream in September creating one of the most advanced bakeries in the UK.

Jordans and Ryvita performed strongly in the UK with both brands responding well to effective advertising. Ryvita Thins won the

Revenue

£3,726m
+1%

Adjusted operating profit
£187m
-23%

Adjusted operating profit margin
5.0%
2011, 6.6%*

Return on average capital employed
12.2%
2011, 17.6%

* Restated – see note 1



REDUCING OUR WATER USAGE AT JORDANS RYVITA

Jordans Ryvita wins first ever 'Waitrose Way' Environmental Sustainability award for saving 60,000 litres of water a year. »

The 'Waitrose Way' awards are the first ever awards issued by UK supermarket chain, Waitrose to its suppliers for environmental sustainability projects that mirror the values of their business. They were judged by leading independent environmentalists and corporate social responsibility experts in the UK.

Ryvita crispbread is made using a traditional Scandinavian 'Iced Crispbread' recipe – where the dough is chilled before it is baked. This allows pockets of air to form in the mix and means that yeast is not required in the recipe.

Historically, Ryvita crispbread dough mix was chilled in vats using blocks of ice. This developed over time into a continuous process whereby wet dough was fed through machines called 'combinators' that cooled it down. These machines used a chemical refrigerant,

which took some time to achieve its optimum temperature from start-up. As a result every time the machine was started, approximately 500kg of dough and water mix was wasted as the temperature gradually reduced to the required level.

In 2011 a series of measures was taken to reduce the amount of water used in the process. In order to achieve this the business had to re-think the entire manufacturing process and identified that by using an improved flour blend and mixing the rye dough thoroughly at the outset it was possible to create the same pockets of air in the dough that had traditionally been achieved through 'icing'.

In what is only the third major change to the manufacturing process of Ryvita crispbread since it was first launched in 1925, the 'combinators' were removed and new mixers installed, entirely eliminating 60,000 litres of water waste overnight. It also meant we could stop using chemical refrigerants.



healthy product of the year award and Jordans saw continued success in granola where it is the leading brand in the segment. The business also had a good year internationally with particularly strong sales growth for both brands in Canada, driven by increased distribution following the move from two distributors to one, and the building of a dedicated sales and marketing team in Toronto. The transfer of crackerbread manufacture from Stockport to Poole was completed during the year and the new plant is now fully functioning. The business was recognised during the year for its commitment to sustainability, winning the 'Waitrose Way' award for its work on water conservation at the Poole factory.

Silver Spoon had a good year but volumes and margins came under pressure towards the end of the year from increased competition in the consumer sugar market. Growth in caster and icing sugar for home baking was offset by a decline in granulated and brown sugars as consumers sought cheaper alternatives. The Allinson flour brand continued to grow strongly, particularly as a result of increased distribution of its Nature Friendly plain and self-raising flours. In January, in partnership with Cargill, we launched the Truvia sweetener brand in the UK, the first stevia-based, zero calorie sweetener. The launch was supported with television and radio advertising as well as in-store promotional activity and has built a leading position in the sweetener category.

AB World Foods operated in a competitive trading environment throughout the year with an increased level of promotional activity which, although supporting volumes, had an adverse effect on margins. Blue Dragon became the UK's largest oriental ambient brand with strong sales growth following its successful relaunch last year and Patak's also achieved good growth albeit driven by promotional activity. The UK and Polish factories both performed well with Poland in particular benefiting from record volumes. Although the ethnic food industry remained weak, especially in the hard-pressed Chinese takeaway sector, Westmill's revenues held up well. The noodles business, spearheaded by our leading brand in the sector, Lucky Boat, continued to gain share with sales to industrial customers, as well as Chinese restaurants, ahead of last year. Investment in a third noodle line at the Trafford factory during the year consolidated our position as the largest and most efficient noodle

manufacturer in the UK. On 5 July we acquired the leading ethnic flour brand in the UK, Elephant Atta, together with a number of smaller related ethnic flour brands which are used to make chapatti and other unleavened flat breads. This business will complement Westmill's other leading ethnic brands including Tolly Boy rice and Rajah spices.

At ACH in the US, vegetable oil volumes increased benefiting from a recent price reduction, while home baking and spices volumes were level with last year. Oil costs remained high for most of the year but sales and margins recovered from last year's levels. Continued increases in raw material costs, with an inability to recover them fully, impacted margins in the flavours business. Significant investment was made during the year in new product launches in baking and in the sauces/marinades category, capitalising on the strength of the ACH brands. In Mexico, a weaker peso and continued competitive pressure

resulted in lower volumes and operating profit. Stratas achieved further margin improvement with better oil procurement and by reducing overheads.

In Australia, the difficult retail and competitor environment experienced by George Weston Foods led to lower revenues and an operating loss for the year. Retailer promotion of in-store bakery products, combined with continuing support for \$1 bread and range rationalisation, affected sales and margins in the bread business. Operationally, good progress was made with improved reliability and efficiencies delivered through supply chain optimisation. The successful launch during the year of 'The One', a nutritional loaf, strengthened the business in the key mainstream white bread segment of the market. The meat business performed well below expectations, driven by commissioning issues at the new Castlemaine factory, retailer pressure on prices, particularly in the first half of the

year, and competitors increased volumes. Following the closure of the plant in Altona, the transfer of production and commissioning of the new facilities at Castlemaine constrained volume throughput which affected service levels, revenues and operating costs. The throughput issues have now been addressed and we are engaging with our key customers to recover lost volumes and drive growth. Costs are also reducing and a significant programme of work is under way to simplify the structure of the group and improve efficiency. Restructuring charges were made during the year for the cost of reorganising sales distribution and warehousing and a general reduction in administration overheads. As a result of the difficult trading conditions and low volumes, the carrying value of the assets in the meat business was no longer supported by our forecasts of its discounted future cash flows and an exceptional impairment charge of A\$150m (£98m) has been taken.



ENCOURAGING THE DEMAND FOR HEALTHY OPTIONS

Bread has always been part of a staple diet and provides valuable nutrients such as calcium, iron and fibre to the diet. But we are always looking to make it even better! »

In the UK, as part of its commitment to the government's 'Public Health Responsibility Deal', Allied Bakeries has already implemented significant salt reduction measures across all its bread and roll products. However, the way people eat bread is changing. Consumers are looking for healthier recipes, different flavour varieties and they also want to minimise waste. Above all though, their bread must taste great too!

A number of products under the Kingsmill brand achieve exactly this balance. Kingsmill 50/50 is a white bread made with 50% white flour and 50% wholemeal flour to provide people with more fibre and is now available in a range of formats. The 'Little Big Loaf' range which was launched in 2009 has full-size slices, just fewer of them, so that people who don't eat a lot of bread, such as those living in one or two-person households, don't have to buy more than they actually need.

The team at Allied Bakeries also look for new ingredients to create products that can help people make interesting and healthy choices. For example, new Burgen Sunflower & Chia Seed bread is the first branded loaf launched in the UK with chia seed (a great source of Omega-3).

All in all, a great recipe for success!

INGREDIENTS

THE INGREDIENTS SEGMENT COMPRISES AB MAURI AND ABF INGREDIENTS.

AB Mauri has a major global presence in bakers' yeast, with significant market positions in the Americas, Europe and Asia, and is a technology leader in, and supplier of, bakery ingredients. It operates from 49 plants in 26 countries. ABF Ingredients markets enzymes, yeast extracts, speciality proteins and lipids worldwide with manufacturing facilities in Europe, the US and China.

Revenues were level with last year but operating profit was sharply lower reflecting restructuring charges and continuing operational challenges faced by AB Mauri. The European yeast market continued to be extremely competitive and our margins remained constrained by an inability to recover fully raw material cost increases. In Asia, sales volumes in China were disappointing and key raw material costs, primarily molasses, remained at a high level. Progress was made in improving productivity at the recently commissioned yeast factory in Harbin, making this one of our most efficient plants, and our factory in Vietnam was reopened in the second half of the year following completion of operational improvements. Latin America once again maintained strong revenue and profit growth across most markets although margins in Brazil came under pressure early in the year from higher molasses prices and increased competitor activity. As the Brazilian real has progressively weakened during the year our locally produced dry

yeast has been able to compete more effectively against higher priced imports.

We achieved further growth in bakery ingredients benefiting from continued investment in resources and technology. This was particularly notable in the creativity and flexibility brought to bear by our Innovation Centre which has enabled the bakery ingredients business to tailor solutions to meet changing customer requirements at appropriate price points. The Innovation Centre is now supporting the yeast business by developing total yeast and ingredient solutions.

In the past year, AB Mauri made substantial progress in identifying the capabilities needed to deliver a more differentiated bakery ingredients proposition. It is now applying this understanding to each of its businesses, ensuring that it is adapted to meet their distinctive market requirements.

Capital investment by AB Mauri during the year included the construction of new yeast plants in Mexico and Shandong province in China together with the expansion of dry yeast capacity at Xinjiang in China. The plants in China have been commissioned and the Mexican plant will be operational during the first half of next year.

ABF Ingredients delivered good growth in sales and operating profit. Growth in feed, bakery and speciality enzymes was driven by new product launches and, in response



to this sustained growth, the enzymes factory in Finland, which is now approaching capacity following its expansion in 2009, is to be expanded further. Management processes in the enzymes business were enhanced during the year with the installation of new information systems, and improved sales forecasting accuracy has enabled better inventory management.

In the US, extruded grain products enjoyed strong growth driven by an enhanced range

and customer service and an expanded customer base. Production at the existing facility in California is nearing capacity and with increasing demand, a new facility is to be built in Evansville, Indiana. The results of the US dairy business improved driven by high lactose and whey protein prices.

Yeast extracts are now supplied to Europe from the new, fully commissioned, factory in Harbin, China and new business is being developed in the Chinese and Asian markets. The yeast extracts facility in

Hamburg was upgraded during the year enabling it to expand into new market sectors and, after a period of operational challenge, the US business made a number of efficiency improvements and is back in growth.

AB ENZYMES AT THE HEART OF SUSTAINABLE DEVELOPMENT

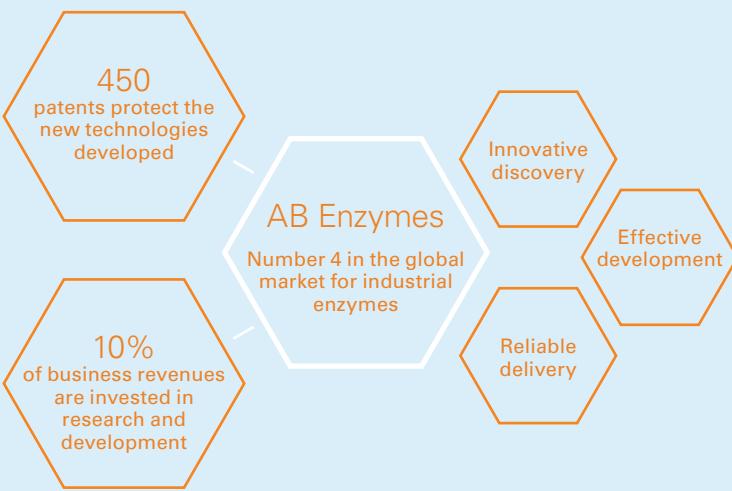
Enzymes are biological molecules that increase the rate of chemical reactions. Their unique folding pattern enables specific chemistry on a molecular level, i.e. using tiny quantities, and by employing enzymes many processes can be improved so as to use less energy and water with minimal waste. »

People have made use of enzymes in making bread, beer, wine and cheese for many centuries, often without realising that it was an enzyme that made all the difference to the product. In the last few decades there has been a dramatic change in the way enzymes are identified and optimised for use. Thanks to biotechnology it has become possible to isolate the gene that codes an enzyme and to introduce it into a host organism allowing the enzyme to perform more predictably and be produced more cost-effectively. Today enzymes have developed into a £2.5bn industry and we find them being used in a wide range of applications, from the traditional areas of baking, beverages and cheeses to detergents, textiles and even the conversion of waste into biofuels.

AB Enzymes is a well-established business, ranked fourth in the global market for industrial enzymes, and recognised for innovative discovery, effective development and reliable delivery of high-quality enzymes.

Each year, more than 10% of the business revenues are invested in research and development. The proprietary technology includes a series of exceptional skills, ranging from bioprospecting from nature to formulation of the final product. These technologies are protected by more than 450 patents worldwide and have been developed over many years, often in partnership with leading universities and institutes.

Our enzymes are successfully marketed to many well-known, international companies. Often leaders in their respective fields, these companies rely upon AB Enzymes as a versatile, trustworthy, innovation partner and a reliable supplier of high-quality products. Among these customers are several of AB Enzymes' sister companies in ABF, such as AB Vista, which sells enzymes within its portfolio of animal feed products, and AB Mauri, which uses the enzymes for application in the baking industry.



FINANCIAL REVIEW

WE RAISED \$626M THROUGH PRIVATE PLACEMENTS DURING THE YEAR. BY FURTHER DIVERSIFYING OUR SOURCES OF FUNDING AND LENGTHENING OUR DEBT MATURITY PROFILE THE FINANCIAL STRENGTH AND FLEXIBILITY OF THE GROUP HAS BEEN ENHANCED.

John Bason
Finance Director



Group performance

Group revenue increased by 11% to £12.3bn and adjusted operating profit was up 17% at £1,077m. Movements in foreign currency exchange rates had no material net effect on revenues but at constant exchange rates, adjusted operating profit was 19% ahead of last year.

In calculating adjusted operating profit, the amortisation charge on non-operating intangibles, any profits or losses on disposal of non-current assets and any exceptional items are excluded. On an unadjusted basis, operating profit was 4% ahead of last year at £873m after charging intangible amortisation of £100m and an exceptional impairment charge of £98m.

The exceptional charge was taken to impair property, plant and equipment at the meat business in Australia which has performed well below expectations. Although a recovery plan is in place and a number of operational improvements have been made during the year, the discounted cash flow forecasts for the business were not sufficient to support the carrying value of its assets and an impairment charge of A\$150m (£98m) was taken. Accounting standards do not permit the inclusion, in the impairment calculation, of cash flows that are expected to be generated from the future sale of the former meat processing sites in Western Australia and Victoria. These are being redeveloped and the net cash inflows in future years are expected to be substantial.

A net loss of £9m arose on the sale or closure of businesses this year relating primarily to the write off of Illovo's investment in pre-project expenditure in Mali following the decision not to pursue the development of this business, net of deferred profit realised on the disposal, in November 2009, of the group's former Polish sugar operations. The net loss is excluded from the calculation of adjusted earnings.

Finance expense less finance income of £105m compared with a net charge of £92m last year. This reflected the higher average net debt during the year and the incremental interest rate on the private placement financing completed in March.

Profit before tax increased from £757m to £761m. Adjusted to exclude the intangible amortisation and exceptional impairment charges, the losses on the sale of fixed assets and on the sale or closure of businesses, profit before tax increased by 17% to £974m.

Taxation

The tax charge of £178m included an underlying charge of £242m, at an effective rate of 24.8% (2011 – 24.6%) on the adjusted profit before tax. The small increase in the effective rate is a result of the mix of profits earned in different tax jurisdictions and would have been higher had it not been for the further reduction in the UK corporation tax rate. The UK tax charge included a credit of £12m from the calculation of deferred tax liabilities reflecting the enacted rate reduction from 25% to 23%. The group is a substantial UK tax payer and even at the lower tax rate, out of a total of £191m tax paid in the year, £107m was paid in the UK as a result of the higher profits earned by our UK businesses. The proposed future reduction in the UK tax rate to 22% will be reflected in the year that the relevant legislation is substantively enacted. However, with increasing profitability in jurisdictions with a higher corporate tax rate than the UK, we expect the group's effective tax rate to be higher in future years.

The overall tax charge for the year benefited from a £33m (2011 – £25m) credit for tax relief on the amortisation of non-operating intangible assets and goodwill arising from previous acquisitions. A tax credit of £2m arose on the property and business disposals and a deferred tax asset of £29m has been recorded in respect of the exceptional impairment charge.

Earnings and dividends

Earnings attributable to equity shareholders were £555m, £14m higher than last year, and the weighted average number of shares in issue during the year used to calculate earnings per share was 789 million (2011 – 788 million). Earnings per ordinary share were 2% higher than last year at 70.3p. Adjusted earnings per share which provides a more consistent measure of performance increased by 18% from 74.0p to 87.2p.

The interim dividend was increased by 8% to 8.5p and a final dividend has been proposed at 20.0p which represents an overall increase of 15% for the year. The proposed dividend is expected to cost £158m and will be charged next year. Dividend cover, on an adjusted basis, remains at three times.

Balance sheet

Non-current assets of £6,971m were broadly unchanged from last year. Intangible assets were £124m lower, mainly reflecting the amortisation charge of £122m for the year. Property, plant and equipment increased by £76m driven by the capital expenditure in the year, net of depreciation and the exceptional impairment charge.

Working capital at the year end was £73m lower than last year and average working capital across the year expressed as a percentage of sales showed an improvement. The inflation seen in commodity costs last year was not repeated and Primark delivered a substantial improvement with tight inventory management across the year. Net borrowings at the year end were £224m lower than last year at £1,061m as a consequence of the very strong cash flow.

A currency loss of £230m arose on the translation into sterling of the group's foreign currency denominated net assets. This resulted from a strengthening of sterling at the end of the year, particularly against the euro, US dollar and the rand. The group's net assets increased by £46m to £6,221m.

Return on capital employed (ROCE) for the group increased from 15.8% to 17.0% this year. Sugar and Primark both delivered an improvement through much higher profits but the lower profit at George Weston Foods and AB Mauri resulted in a reduction in the returns for Grocery and Ingredients. ROCE is calculated by expressing adjusted operating profit as a percentage of the average capital employed for the year.

Cash flow

Net cash flow from operating activities was very strong this year with a substantial increase from £736m to £1,240m. This mainly reflected a working capital inflow of £43m this year compared to an outflow of £199m last year, and higher operating profit adjusted for amortisation, depreciation and the exceptional item. The amortisation and depreciation charges were respectively £26m and £77m higher than last year, largely the consequence of capital investment in recent years on assets which are now operational, and also due to a foreshortening of the useful economic lives of certain assets in British Sugar, AB Mauri and Primark.

We continued to invest in the future growth of the group but the net £707m spent on property, plant and equipment and intangibles net of disposals during the year was a reduction on last year's investment of £825m. Primark spent £326m on the acquisition of new stores and the fit-out of new and existing stores. Elsewhere we continued the capital investment programme at Allied Bakeries and good progress was made with construction of the new yeast factory in Mexico and the relocation of the Zhangbei sugar factory in China.

We invested £45m on acquisitions, principally £34m on the acquisition of Elephant Atta, with the balance being deferred consideration payable on acquisitions made in previous years.

Financing

Cash and cash equivalents totalled £391m 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.

The group has total committed borrowing facilities amounting to £2.6bn, of which £1.15bn is provided under a syndicated, revolving credit facility which does not mature until July 2015. £1.2bn was drawn down on these facilities at the year end. 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 £874m of uncommitted credit lines under which £265m was drawn.

On 13 December 2011 we raised \$100m in a bi-lateral private placement with a ten year maturity and on 29 March 2012 we completed a private placement of senior notes to a number of UK and US institutional lenders raising \$526m with a range of maturities from 2019 to 2024. These issues provided funds, in addition to our existing committed bank facilities, some of which will be used to refinance debt maturing next year. The average fixed interest coupon on these notes of 4.5% and 3.66% respectively, while historically attractive, are higher than prevailing variable interest rates on shorter term bank borrowings. This increased the group's interest expense in the second half of the year. However, by further diversifying our sources of funding and lengthening our debt maturity profile the financial strength and flexibility of the group has been enhanced.

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 £95m compared with last year's deficit of £44m. The UK scheme accounts for 90% of the group's total pension assets and the increase in the market value of these assets during the year was slightly less than the increase in the present value of scheme liabilities which resulted from a further reduction in long-term bond yields during the year. By agreement with the Trustees, the Company agreed to eliminate the deficit identified at the time of the triennial actuarial valuation of the UK pension scheme in 2008 with five annual payments of £30m each. The last triennial valuation was undertaken in 2011 and revealed a funding surplus of £17m. However, following the fall in bond yields after the date of that valuation, the Company agreed to continue to make the remaining two payments, the last of which will be in March 2013. Total contributions to defined benefit plans in the year amounted to £71m (2011 – £70m).

For defined contribution schemes the charge for the year is equal to the contributions made which amounted to £53m (2011 – £51m).

John Bason
Finance Director

CORPORATE RESPONSIBILITY

AS A RESULT OF OUR ONGOING EFFORTS, THE NUMBER OF REPORTABLE INJURIES FELL FOR THE FOURTH YEAR RUNNING.

Our people and the environment are at the very heart of our business. We strive to provide a safe place of work for all of our people and to manage carefully our environmental impacts and use of scarce resources. This is a business priority and is embedded in the four core principles upon which our approach to Corporate Responsibility (CR) is founded:

- managing our environmental impact;
- taking care of our people;
- fostering ethical business relationships; and
- being good neighbours.

CR is a journey for Associated British Foods, and we are well aware that there are many areas in which we need to continue to improve our performance. We have a decentralised approach to managing our businesses – each business is encouraged to put in place improvements to minimise any negative social or environmental impacts and to maximise the positive contributions they can make. Typically this is achieved by sharing examples of good practice, increasing the level of importance attached to monitoring and reporting CR performance and to ensuring that senior management in the businesses are held accountable.

Reporting

We remain committed to publishing a full CR report every three years and provide further information via our annual Health, Safety & Environment (HS&E) report on our website.

2012 summary

In 2012, our CR work focused on the following areas:

- investing in the training of our HS&E specialists to ensure they continue to help embed a safe working culture and good environmental risk management;
- improving the way we measure HS&E performance, in particular water use, waste generation and recycling;
- strengthening our network of CR specialists across the group and improving communication among them to share good practice and risk management approaches; and
- continuing to strengthen our ethical sourcing programmes at Primark and Twinings Ovaltine, with a focus on training our staff and suppliers, and NGO partnerships.

Environment

Many of our businesses are closely linked to agriculture and are therefore sensitive to changes in weather. Following a year of unusual weather patterns in 2011, the weather in 2012 in most countries in which we operate has been more stable. This resulted in some of our businesses, particularly our sugar operations, increasing output. We are pleased that our total energy use decreased by 4% despite an increase in production of 9%, showing the very positive impact of our focus on energy improvement measures.

Our businesses have the greatest impact on the environment through their use of energy and the resultant emission of carbon dioxide (CO₂), the abstraction of water and the disposal of waste.

During the year we invested £19m in environmental improvements including effluent treatment, waste reduction, increased energy generation and greater energy efficiency.

Our full HS&E report for 2012 is available at www.abf.co.uk but highlights of our environmental performance in 2012 include:

- 47% of our energy was derived from renewable resources;
- we increased the amount of electricity we export from our sites by 9% to a total of 837 GWh. This equates to supplying 150,000 UK homes for a year;
- our sugar operations reduced the energy needed to produce sugar by 6%;
- British Sugar Cantley has implemented a water efficiency programme, resulting in a significant reduction in water use of 17% from 2011 (see case study);
- Primark collected 16,000 tonnes of waste cardboard in 2011, some 61% of total packaging, which reappeared as 179 million paper shopping bags.

REDUCING WATER ABSTRACTION AT OUR SUGAR FACTORY IN CANTLEY

Situated in Norfolk, Cantley sugar factory has a special place in the history of this country's sugar industry. Built in 1912, and as the first British beet sugar factory, it marks the birth of the homegrown sugar industry. »



For over 100 years, the factory has been a landmark on the banks of the River Yare, from where it can be seen for miles around.

Water plays a significant role at Cantley and in all British Sugar factories, where it is used for cleaning, heating, cooling and transportation (sugar beet float in water). The manufacturing sites operate under ISO 14001, the internationally recognised standard for environmental management and they undergo independent audits to review performance against continuous improvement targets. As part of this process, each site identifies and maximises opportunities for the reuse and recycling of water.

Over the past five years, British Sugar's factory at Cantley has been making steady progress in reducing the volume of water it uses to manufacture sugar, electricity and other co-products. Improvements were achieved by instigating many small-scale measures and behavioural initiatives, but it was identified that to make a significant step change, more radical thinking was required.

Cantley factory abstracts water under licence from three sources:

- potable water for boiler feed and site amenities;
- borehole water for process and cleaning duties; and
- river water for cooling duties.

In 2011, the factory used some 40,000m³ of river water, which was abstracted from the River Yare into a small reservoir, from where it was pumped to the factory for cooling purposes. It was identified that a pond nearby was filled with process condensate awaiting permitted discharge to the river. This condensate had already been cooled to below 25°C to meet the discharge temperature limit. A small project team examined the feasibility of using this cooled condensate to replace river water. The outcome of the study was the installation of 200 metres of pipeline and a condensate pump which now feeds cooled condensate via the original system, removing the need to use any river water.

A feasibility study is now planned to investigate similar reduction opportunities for borehole water.

Our people

Our business priority is to safeguard the wellbeing, development and safety of our people and those who work with us. With 106,000 employees we put significant effort into ensuring that our businesses are safe places in which to work and we aim to offer our people the support most suitable for their needs.

Despite health and safety being an absolute priority, we deeply regret having to report five fatalities of contractors on our sites during 2012. Four of these deaths occurred in Africa and one in China. Loss of life in our operations is entirely unacceptable.

Whenever there is a death on our sites or linked to our operations, we alert all our businesses and re-emphasise the requirement for safe working practices.

In 2012 we invested £32m to improve working conditions and the safety of equipment. We are pleased that as a result of our ongoing efforts, reportable injuries fell for the fourth year running, down 13% from 2011. Another highlight was Illovo Sugar's safety transportation programme, which almost halved the number of injuries over the last year incurred during our agricultural workers' commute to work.

In 2012, we developed and ran an extensive training and support programme for nearly 200 HS&E specialists. This was delivered through face-to-face group training days, online training sessions and one-to-one advice. This training included an introduction to new key performance indicators, a reminder of the sources of information, calculations and parameters required to reach our final data and technical training on the global system we use for data collection and approval.

CORPORATE RESPONSIBILITY CONTINUED

Our suppliers

Our core business principles as they relate to our suppliers are available at www.abf.co.uk/principles. They include requirements to:

- carry out our business honestly, ethically and with respect for the rights and interests of our suppliers;
- settle our bills promptly, being a signatory to the Prompt Payment Code, co-operating with suppliers to improve quality and efficiency;
- develop relationships with supplier companies consistent with these basic principles, and specifically with respect to internationally recognised human rights and conditions of employment; and
- encourage a programme of improvement, where shortcomings are identified through our supplier audit programme.

Both Primark and Twinings Ovaltine have continued to build on their ethical sourcing programmes during the last year. Primark's focus on building in-country teams of ethical sourcing specialists has had significant impact in supporting sustainable improvements within supplier factories, giving greater visibility across the supply chain, as well as improving the management of the extensive audit programme.

Primark conducted 1,795 ethical audits last year, and unannounced 'spot-checks' continue to be an important part of our monitoring protocol. We encourage suppliers to make investment in internal 'compliance' teams to help support sustainable change where needed. However, a challenge for the whole industry is that the pool of qualified people to fill these roles is relatively small.

To try and support this situation, Primark has begun a 'train the trainer' project in China. This forms part of the Company's efforts to develop and build on its already extensive range of training tools that suppliers can use to make improvements.

Among the many projects that Primark runs with NGOs, we were particularly impressed by the fast and dramatic results achieved by the HERproject (Health Enables Returns) in Bangladesh this year which provided health education to 4,500 female factory workers in Bangladesh on hygiene, sexual and reproductive health, maternal health and nutrition (image on page 35). In addition to the obvious benefits of workers receiving health education, improvement in overall workplace communication was significant, and we plan to roll out the project across the supply base in Bangladesh as well as introducing the project in both China and India.

Over 97% of the factories that supply Primark also supply other high street retailers and this gives us an opportunity to collaborate on tackling supply chain issues. Further details can be found at www.primark.co.uk.

Similarly, over the last year, Twinings Ovaltine has continued to scale up its ethical sourcing programme across its supply chain from ingredients to packaging. Risk assessments have been carried out on all areas, and ethical audits have been conducted in Europe, China, South East Asia and South America to ensure that products are made at sites that meet the requirements of our ethical code of conduct. Through the work of the Ethical Tea Partnership, 100 of the estates from which Twinings sources its teas have been audited.

In addition, Twinings has developed an ethical sourcing training programme for employees. This has been rolled out worldwide to ensure that all procurement and marketing teams are aware of the requirements of our code and how to purchase ingredients ethically.

HELPING MAJOR SUPERMARKETS TO TRACK AND REDUCE THEIR CARBON FOOTPRINT

AB Sustain designed and now operates an award-winning Carbon Footprint Initiative for Sainsbury's. The model used in this initiative is accredited by the UK Carbon Trust to its highest quality tier and is the only model of its kind to have achieved this level of accreditation across the globe. The initiative began in 2007 with 325 dairy herds and has since expanded across eight other livestock and produce sectors to include almost 3,000 UK producers. It follows the proven methodology of 'measure – improve – measure' to support and drive continuous improvement at every participating farm. Through accurate on-farm data capture

and our understanding of the key drivers of carbon and production efficiencies, we are able to deliver tangible cost and environmental benefits across the supply chain.

This initiative has been consistently acknowledged for its effectiveness and has won several high-profile awards, including the Guardian 2012 Carbon Award won by Sainsbury's for its work with UK farmers to reduce their environmental impact by using the AB Sustain Carbon Footprint model.

By the end of 2011, carbon emissions had been reduced by 48,000 tonnes and £21.4m of farm improvements had been identified. As a result of this success AB Sustain is delighted to have received the Sainsbury's Supplier 'Making it Happen' award.



During 2012, Twinings worked in partnership with three development NGOs to support tea communities: with Save the Children in China, and Unicef and Mercy Corp in India on challenges including child mortality, anaemia and access to water and sanitation. More detail on these projects can be found at www.twinings.co.uk.

Our products and customers

We are very aware of our responsibility for our products and to our customers and this year we have focused on:

- product and food safety;
- product nutritional labelling;
- sourcing, which includes palm oil, soya and GM products;

- engaging with our customers to meet their needs and provide them with information;
- Allied Bakeries has implemented its 2012 salt reduction targets across all of its bread and roll products, with the majority introduced in the first quarter of 2012; and
- we continue to progress towards our target of purchasing Certified Sustainable Palm Oil across the group by 2015. The Jordans & Ryvita Company already uses 100% certified sustainable palm oil. Allied Bakeries also purchase Green Palm Certificates to encourage sustainable palm oil production and has committed to using 100% sustainable palm oil by 2014. Both businesses scored maximum points in a survey of palm oil usage by the World Wildlife Fund in 2011.

Our communities

We recognise our responsibilities as a member of the communities in which we operate and encourage our businesses to engage with their local communities as and how they wish. However, the group's contribution to communities comes principally via the Garfield Weston Foundation, which was set up by the late W. Garfield Weston in 1958.

It is one of the UK's foremost philanthropic organisations and derives a substantial proportion of its funds from its interests in the group's ultimate holding company, Wittoning Investments Limited. More detail can be found at www.garfieldweston.org.

If you have any feedback on our CR information here or on our website, please contact us via www.abf.co.uk.



Reportable injury rates

Percentage of employees having a reportable injury



BOARD OF DIRECTORS



1



2



3



4

1 Charles Sinclair

Chairman (age 64)

Charles was appointed a non-executive director in October 2008 and as Chairman in April 2009. With wide business experience of both the UK and overseas, his executive career was latterly with Daily Mail and General Trust plc, where he was chief executive from 1989 until he retired from that role and the board in September 2008.

Other appointments: He is a non-executive director of SVG Capital plc.

Committee membership: Chairman of the Nomination and Remuneration committees.

2 George G Weston

Chief Executive (age 48)

George was appointed to the board in 1999 and took up his current appointment as Chief Executive in April 2005. In his former roles at ABF, he was Managing Director of Westmill Foods, Allied Bakeries and George Weston Foods Ltd (Australia).

Other appointments: He is a non-executive director of Wittington Investments Limited and a trustee of the Garfield Weston Foundation.

3 John Bason

Finance Director (age 55)

John was appointed as Finance Director in May 1999. He was previously the finance director of Bunzl plc and is a member of the Institute of Chartered Accountants for England and Wales.

Other appointments: He is a non-executive director of Compass Group PLC, a trustee of Voluntary Service Overseas and deputy chairman of the charity FareShare.

4 Peter Smith

Independent non-executive director (age 66)

Peter was appointed a director in February 2007 and brings extensive experience of international financial matters. Formerly, he was senior partner at PricewaterhouseCoopers (PwC) in the UK. He served for two years as chairman of Coopers & Lybrand International and as a member of the global leadership team of PwC. He was also chairman of RAC plc and a non-executive director of Safeway plc.

Other appointments: He is chairman of Savills plc and Templeton Emerging Markets Investment Trust plc, and a member of the supervisory board of Paris Orléans SCA. He is also chairman of the Land Restoration Trust.

Committee membership: Chairman of the Audit committee and a member of the Nomination and Remuneration committees.



5



7



8

5 Lord Jay of Ewelme GCMG

Independent non-executive director (age 66)

Lord Jay was appointed a director in November 2006 and has broad experience of government and international business. During his career in public service he was British Ambassador to France from 1996 to 2001 and Permanent Under Secretary at the Foreign & Commonwealth Office from 2002 to 2006.

Other appointments: He is a non-executive director of Candover Investments plc, Valeo (the French-based automobile parts company) and of Électricité 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. He also chairs the Trustees of the international medical aid charity Merlin, and is a member of the British Library Advisory Council.

Committee membership: Member of the Audit, Nomination and Remuneration committees.

6 Timothy Clarke

Independent non-executive director (age 55)

Tim was appointed a director in November 2004 and has been Senior Independent Director since December 2007. Tim has extensive experience of retailing. Until 2009, he was chief executive of Mitchells & Butlers plc, following its demerger from Six Continents PLC where he also held the position of chief executive. Previously he had been a partner of Panmure Gordon & Co before joining Bass PLC in 1990.

Other appointments: He is a non-executive director of two pub and brewing companies, Hall & Woodhouse Limited, and Timothy Taylor & Company Limited, and also Triple Point VCT 2011 PLC.

Committee membership: Member of the Audit, Nomination and Remuneration committees.

7 Javier Ferrán

Independent non-executive director (age 56)

Javier was appointed a director in November 2006. He spent the earlier part of his career with Bacardi Group, where latterly he served as president and chief executive officer. He has extensive experience of consumer brands on an international basis and in international financing.

Other appointments: He is currently a partner at Lion Capital LLP, a London-based private equity firm.

Committee membership: Member of the Nomination and Remuneration committees.

8 Emma Adamo

Non-executive director (age 49)

Emma was appointed as a director in December 2011. She was educated at Stanford University and INSEAD in France.

Other appointments: She is a director of Wittingham Investments Limited.

CORPORATE GOVERNANCE

GOOD GOVERNANCE IS NOT JUST A MATTER FOR THE BOARD AND OUR AIM ALWAYS IS TO FOSTER A CULTURE OF STRONG GOVERNANCE THROUGHOUT THE GROUP.

Chairman's foreword

I am pleased to introduce this report on the work of the board over the last year. Effective corporate governance is central to the group's ability to operate successfully on a global basis and, as a board, we take seriously our responsibility for setting high standards of accountability and ethical behaviour. Good governance is not just a matter for the board, however, and our aim always is to foster a culture of strong governance throughout the group.

Compliance with the UK Corporate Governance Code

The principal governance rules applying to UK companies listed on the London Stock Exchange are contained in the UK Corporate Governance Code issued by the Financial Reporting Council and published in June 2010 (the 'Code') which is available from the FRC website (www.frc.org.uk). This corporate governance report aims to

I am keenly aware of the value to the business of an effective board. A key aspect of ensuring the board's effectiveness is the annual board and committee evaluation process and this year the evaluation was facilitated externally by an independent consultant. This exercise produced some valuable insights and we outline the process and some of the key outcomes on page 41 of this report.

The Company recognises the need for, and desirability of, diversity on the board and I have worked with the Nomination committee during the year to review the evolution of the board. As part of our succession planning, and as I mentioned in my statement on page 15, I am delighted to welcome to the board Emma Adamo, who joined as a non-executive director at the conclusion of the AGM in December 2011, following the retirement of Galen Weston. Emma's appointment adds diversity to the board and the consequent range of perspectives will undoubtedly have a positive effect on the board's deliberations.

We are reviewing our corporate governance practices in light of the updated version of the UK Corporate Governance Code which was published in September 2012 (the '2012 Code'). Although the 2012 Code will first apply to companies with financial years commencing on or after 1 October 2012, we will give consideration to reporting early under the 2012 Code in our annual report next year.

In the following pages we describe the approach the board has adopted to governing the group. The report is intended to give shareholders a clear picture of the group's governance arrangements and how those arrangements have operated during the year.

Charles Sinclair

Chairman

provide shareholders with an understanding of how the Company has applied the principles and complied with the provisions of the Code. The board considers that the Company has, throughout the year ended 15 September 2012, complied with the relevant provisions set out in the Code, with the following exceptions:

Code provision	Status	Explanation
B.3.2 – The terms and conditions of appointment of non-executive directors should be made available for inspection.	Galen Weston had not entered into a formal letter of appointment. Non-compliance with this provision ended on 9 December 2011 when Galen Weston retired as a director.	The board of Associated British Foods plc considered it appropriate due to his relationship with the Company's ultimate holding company, Wittoning Investments Limited of which he was a director and shareholder. Galen Weston received no fees, nor was he reimbursed for any expenses incurred for performing his role as a non-executive director of Associated British Foods plc.
D.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 considers that Charles Sinclair, due to his experience, is best suited to chair this committee. No director has any involvement in the determination of his own remuneration. The board believes that the Company has maintained robust governance while at the same time benefiting from having Charles Sinclair as the chairman of the Remuneration committee.

EFFECTIVE CORPORATE GOVERNANCE IS CENTRAL TO THE GROUP'S ABILITY TO OPERATE SUCCESSFULLY ON A GLOBAL BASIS AND, AS A BOARD, WE TAKE SERIOUSLY OUR RESPONSIBILITY FOR SETTING HIGH STANDARDS OF ACCOUNTABILITY AND ETHICAL BEHAVIOUR.

The board

As a board, we are collectively responsible to the Company's shareholders for the direction and oversight of the Company to ensure its long-term success. The board met regularly throughout the year to approve the group's strategic objectives, to lead the group within a framework of effective controls which enable risk to be assessed and managed and to ensure that sufficient resources are available to meet the objectives set.

The board has agreed the specific business and governance matters which are reserved for its decision to help it discharge these responsibilities and oversee control of the Company's affairs. This schedule of matters reserved for the board's approval, which was reviewed and updated during the year, includes:

- annual business strategy and objectives, budget and forecasts;
- monitoring delivery of the group's business strategy and objectives;
- changes to the Company's capital, management or control structures;
- dividend policy and dividend recommendation;
- treasury policies;
- trading statements, interim results, interim management statements, final results, annual report and accounts;
- the overall system of internal control and risk management;
- major capital projects, corporate actions or related actions and investment;
- communications policy including procedures for the release of price-sensitive information;
- changes to the structure, size and composition of the board;
- appointment of directors and the Company Secretary; and
- material changes to pension plans or the introduction of new schemes.

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. For further details, please see 'Board committees' section below.

Board composition

At the date of this report, the board comprised eight directors:

Chairman

Charles Sinclair

Executive directors

George Weston (Chief Executive)
John Bason (Finance Director)

Non-executive directors

Emma Adamo
Tim Clarke
Javier Ferrán
Lord Jay
Peter Smith

Galen Weston resigned from his role as a non-executive director of the Company with effect from the close of the 2011 annual general meeting held on 9 December 2011. Emma Adamo was appointed as a director with effect from the close of the same meeting on 9 December 2011.

With the exception of Emma Adamo, the board considers that the non-executive directors are independent in character and judgement and that they are each free from any business or other relationships which would materially interfere with the exercise of their independent judgement. Emma Adamo is not regarded as independent in view of her relationship with Wittington Investments Limited. Biographical and related information about the directors is set out on pages 36 and 37.

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 Company's recognised Senior Independent Director. The role of the Senior Independent Director is to act as a sounding board for the Chairman and to serve as an intermediary for other directors where necessary. He is also available to shareholders should a need arise to convey concerns to the board which they have been unable to convey through the Chairman or through the

CORPORATE GOVERNANCE CONTINUED

executive directors. During the year, led by the senior independent director, the non-executive directors have met once without the presence of the Chairman.

The non-executive directors

The non-executive directors play a key role in providing a solid foundation for good corporate governance and ensure that no individual or group dominates the board's decision-making. They each occupy or have occupied senior positions in industry or public life and bring a valuable external view to the board's deliberations through their experience and insight from other sectors enabling them to contribute significantly to board decision-making. The formal letters of appointment of non-executive directors are available for inspection at the Company's registered office.

Re-election of directors

In accordance with the Code's recommendations, all directors will be proposed for election or re-election at the 2012 annual general meeting to be held in December.

Board meetings

The board held ten meetings during the year. Periodically, board meetings take place overseas, and during the year under review, one of the meetings and a Remuneration committee meeting were held in Madrid. The board visited the Primark store in Majadahonda, Madrid, providing the non-executive directors in particular with the opportunity to extend their knowledge of the group and to meet local management and other employees. Non-executive directors may also make additional visits to our overseas businesses through the year. During the year under review Charles Sinclair visited Illovo in South Africa where he had meetings with management and reviewed its operations.

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. Papers for board and committee meetings are generally provided to directors for board and committee meetings a week in advance. This allows any director who is unable to attend a meeting 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 of the directors at board and committee meetings during the year to 15 September 2012 is shown in the table below.

	Board	Audit committee	Nomination committee	Remuneration committee
Charles Sinclair	10/10	–	1/1	5/5
George Weston	10/10	–	–	–
John Bason	10/10	–	–	–
Emma Adamo ¹	7/7	–	–	–
Tim Clarke	10/10	4/4	1/1	5/5
Javier Ferrán ²	9/10	–	1/1	4/5
Lord Jay	10/10	4/4	1/1	5/5
Peter Smith	10/10	4/4	1/1	5/5
Galen Weston ³	1/3	–	–	–

¹ Emma Adamo was appointed as a non-executive director with effect from the conclusion of the annual general meeting held on 9 December 2011.

² Javier Ferrán was unable to attend one board meeting and a Remuneration committee meeting due to other business and personal commitments. However, he reviewed the relevant papers and provided comments to the Chairman as appropriate.

³ Galen Weston retired as a non-executive director at the conclusion of the annual general meeting held on 9 December 2011.

Board committees

The board has established three principal board committees, to which it has delegated certain of its responsibilities. They are the Nomination committee, the Audit committee, and the Remuneration committee. The membership, responsibilities and activities of these committees are described later in this corporate governance report and, in the case of the Remuneration committee, in the Remuneration report on page 52. Membership of these committees is reviewed annually. Minutes of committee meetings are made available to all directors on a timely basis.

The full written terms of reference for the Nomination, Audit and Remuneration committees, each of which was reviewed and updated during the year, are available on the Company's website (www.abf.co.uk) and hard copies are available on request.

Information flow

The Company Secretary manages the provision of information to the board at 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, if this is thought necessary. Regular management updates are sent to directors to keep the non-executive directors informed of events throughout the group between board meetings and to ensure that they are kept fully informed of the latest issues affecting the group.

Conflicts of interest procedure

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 board:

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

The board has complied with these procedures during the year.

Board business

During the financial year, key activities of the board included:

Strategy	An annual meeting focusing on group strategy.
Governance and risk	<p>Approving the Company's full year and interim results.</p> <p>Making a recommendation on the 2011 final dividend and approving the 2012 interim dividend.</p> <p>Carrying out an annual review of the material financial and non-financial risks facing the group's businesses.</p> <p>Receiving regular divisional food safety updates and an annual groupwide update.</p> <p>Considering the report from the external facilitator following the board performance evaluation exercise.</p>
Performance monitoring	<p>Receiving regular reports to the board from the Chief Executive.</p> <p>Approving the group budget for the 2012/13 financial year.</p> <p>Undertaking goodwill and property, plant and equipment impairment reviews.</p> <p>Receiving, on a rolling basis, management presentations from each of the group business areas.</p> <p>Receiving feedback on meetings held with institutional investors.</p>
Corporate responsibility	<p>Receiving regular management reports on health, safety and environment issues.</p> <p>Receiving update reports on ethical sourcing processes.</p> <p>Receiving an update on the group's anti-bribery policy and procedures.</p>
People	<p>Appointed Emma Adamo as a non-executive director.</p> <p>Consideration of senior succession planning and people development.</p>
Various	<p>Receiving updates on pension-related matters.</p> <p>Meeting management team at Majadahonda Primark store in Madrid, Spain.</p>

Board performance evaluation

An evaluation to assess the performance of the board as a whole, its committees and that of the individual directors is conducted on an annual basis with the aim of improving the effectiveness of the board and its members and the performance of the group.

This year's review was undertaken by an independent external facilitator, Stephen Williams, who provided feedback to the Chairman. Stephen Williams was previously company secretary and general counsel of Unilever plc, senior independent director of Bunzl plc and Arriva plc and is currently senior independent director of Whitbread plc and a non-executive director of Croda International PLC. He has extensive experience of facilitating board evaluations. Independently of his services as a board facilitator, he has a consultancy appointment with Spencer Stuart. The Chairman sat on an advisory board of that company.

The review took place in the final quarter of the financial year. A discussion guide was prepared and circulated to each director and the Company Secretary. This included eight topics which formed the basic agenda around which each discussion was framed and these were as follows:

- board structure, organisation and dynamics, including the mix of skills and knowledge, diversity, how the board works as a unit and the tone set by the Chairman and Chief Executive;
- board efficiency and effectiveness, including individual performance, clarity of the purpose, direction and values of the Company, quality of leadership and key board relationships;
- risk management and governance;
- strategic review and resource allocation;
- people issues and succession planning;
- business performance, including level and quality of reporting measures;
- board committees; and
- key issues for 2013.

The external facilitator undertook a confidential, unattributable interview with each director and the Company Secretary based on the discussion guide. Following the meetings, the external facilitator produced a written report which was discussed with each of the Chairman, Senior Independent Director and the Chief Executive, before being sent to board members and discussed at the following board meeting.

There was a strong sense of progress in implementing proposals arising out of the 2011 evaluation.

CORPORATE GOVERNANCE CONTINUED

Actions implemented arising from 2011 evaluation include:

Objective	
Value creation	Investment returns reviewed.
Strategy development	A review of longer term growth opportunities.
Risk management	Amount of time devoted to risk issues on the board agenda increased.
Succession planning	Continuing.

Based on the results of the evaluation process in 2012, the board considered that overall it was operating effectively and that each of the directors continues to make a valuable contribution with proper commitment to their respective roles. The board's principal committees were also judged to be functioning efficiently and effectively.

A list of recommended action points was drawn up and agreed, which is being implemented under the direction of the Chairman including actions set out in the table below.

Areas identified for action from the 2012 evaluation include:

Objective	
Synergy	Extend the search for and reporting on synergy within the existing group.
Strategy	Continuing review of longer term growth opportunities.
Risk management	Additional understanding of non-financial risks in our businesses.
Succession planning	The need for diversity throughout the group, acknowledging its increasing geographical spread.

Board development

The Chairman, with the support of the Company Secretary, is responsible for the induction of new directors and the ongoing development of directors.

Emma Adamo, who joined the board as a non-executive director on 9 December 2011, undertook a comprehensive, tailored induction programme which included visits to a large number of the group's businesses in the UK and overseas. She also received a directors' information pack providing background information on the Company's businesses and operations, including matters relating to corporate governance and corporate responsibility.

Training and development is provided to all directors at board and committee meetings. In addition to any third-party training and development which all the directors have undertaken on their own behalf or as part of other non-executive directorships and business roles during the year under review, board members received regular corporate governance updates in their board packs and made visits to group operations on a regular basis.

Engaging with shareholders

The board is committed to maintaining and improving dialogue with shareholders so that the Company's objectives and those of shareholders are understood.

The Company communicates its achievements and prospects to its shareholders in an accurate and timely manner. The Company communicates with its shareholders by way of the interim and annual report and accounts, with significant matters relating to the trading or development of the business disseminated to the market by way of Stock Exchange announcements and by press release and postings on the Company's website.

The Company continues to promote effective engagement with its shareholders and on behalf of the board the Chairman, Chief Executive and Finance Director have met institutional shareholders and analysts on a regular basis throughout the year to discuss the Company's operation. At each board meeting, the directors are briefed on shareholder meetings that have taken place and on the feedback received.

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.

Annual general meeting

The annual general meeting (AGM) will be held on Friday, 7 December 2012 at 11.00 am at TUC Congress Centre in London. The board views the AGM as an opportunity to communicate with private shareholders in particular for whom it provides the 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. At this year's AGM, the film focuses on the group's Twinings Ovaltine business.

The Notice of meeting for the 2012 AGM, which sets out in full the resolutions for consideration by shareholders together with explanatory notes, has been sent to shareholders and is also available on the Investors section of the Company's website (www.abf.co.uk). 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 will be advised of the number of proxy votes lodged for each resolution. All resolutions will be voted on by poll and the results will be announced to the London Stock Exchange and posted on the Company's website as soon as practicable following the meeting.

Accountability and audit

The board is required by the UK Corporate Governance 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 62 of this annual report and accounts.

The independent auditors' report on page 63 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.

Business model

The Operating review on pages 16 to 29 includes a description of the Company's business model for sustainable growth for each division of the business. This provides an explanation of the basis on which the group generates value and preserves it over the long term and its strategy for delivering its objectives.

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 Directors of UK Companies 2009' published by the FRC, they continue to adopt the going concern basis in preparing the annual report and accounts.

Nomination committee report

Members

During the year and at the date of this report:

Charles Sinclair (Chairman)

Tim Clarke

Javier Ferrán

Lord Jay

Peter Smith

Key duties

In accordance with its terms of reference, the Nomination committee's key duties include:

- leading the process for board appointments and making recommendations to the board;
- regularly reviewing the board structure, size and composition (including the skills, knowledge, independence, experience and diversity), recommending any changes;
- considering plans for orderly succession for appointments to the board and to senior management to maintain an appropriate balance of skills and experience within the Company and to ensure progressive refreshment of the board;
- keeping under review the leadership needs of the group, both executive and non-executive, to ensure the continued ability of the group organisation to compete efficiently in the marketplace; and
- before any appointment is made by the board, evaluating the skills, knowledge, experience, independence and diversity on the board and, in light of this evaluation, preparing a description of the role and capabilities required for a particular appointment.

Governance

The Nomination committee comprises a minimum of three members at any time, a majority of whom are independent non-executive directors. A quorum shall consist of two members being either two independent non-executive directors or one independent non-executive director and the Chairman.

Executive directors, members of senior management and other parties may be invited to attend meetings as appropriate.

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 an independent non-executive director elected by the remaining members.

The committee may take independent professional advice on any matters covered by its terms of reference at the Company's expense.

The committee chairman reports the outcome of meetings to the board.

The committee's effectiveness is reviewed on an annual basis as part of the board's performance evaluation process.

The full terms of reference of the Nomination committee, which were reviewed and updated during the year, can be viewed on the Investors section of the Company's website (www.abf.co.uk).

Meetings

The committee met once during the year under review.

Activities during the year

The principal actions undertaken by the committee in the period under review are set out below.

Emma Adamo was appointed as a non-executive director from the conclusion of the Company's last AGM held on 9 December 2011. Ms Adamo is a director of Witton Investments Limited, the Company's majority shareholder, and she has been appointed to represent this shareholding on the board. She replaces Galen Weston in this role following his retirement as a non-executive director also at the conclusion of the Company's 2011 AGM. For this reason, neither an external search agency nor open advertising was used in Ms Adamo's appointment. Prior to her appointment, Ms Adamo had meetings with the Chairman, the Chief Executive and with the Nomination committee. She was then invited to meet the full board and attended a number of board meetings. Ms Adamo was educated at Stanford University and INSEAD in France. She spent six years working for George Weston Limited in Canada.

The committee reviewed the time needed to fulfil the roles of Chairman, Senior Independent Director and non-executive director and was satisfied, following the conclusion of the annual board evaluation, that all members of the board are devoting sufficient time to their duties.

CORPORATE GOVERNANCE CONTINUED

Audit committee report

Members

During the year and at the date of this report:

Peter Smith (Chairman)

Tim Clarke

Lord Jay

Key duties

In accordance with its terms of reference, the Audit committee's key duties include:

- monitoring the integrity of the group's financial statements and any formal announcements relating to the Company's performance, reviewing significant financial reporting judgements contained in them before their submission to the board for approval;
- reviewing the group's internal financial controls, including the policies and overall process for assessing established systems of internal financial control and timeliness and effectiveness of corrective action taken by management;
- overseeing the group's arrangements for the prevention and detection of fraud, and whistleblowing;
- monitoring and reviewing the role and effectiveness of the group's internal audit function in the context of the group's overall financial risk management system; and
- overseeing the relationship with the group's external auditors, including reviewing and monitoring their objectivity and independence, and agreeing the scope of their work and fees paid to them for audit and non-audit services.

Governance

The Audit committee comprises a minimum of three members, all of whom are independent non-executive directors of the Company. Two members constitute a quorum. Appointments are for a period of three years after which they are subject to annual review, extendable by two further three-year periods so long as members continue to be independent.

The 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 and 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.

The committee invites the Group Finance Director, Group Financial Controller, Director of Financial Control and senior representatives of the external auditors to attend 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.

During the year, the committee held three meetings with the external auditors without any executive member of the board being present.

The committee has unrestricted access to Company documents and information, as well as to employees of the Company and the external auditors.

The committee may take independent professional advice on any matters covered by its terms of reference at the Company's expense.

The committee chairman reports the outcome of meetings to the board.

The committee's effectiveness is reviewed on an annual basis as part of the board's performance evaluation process.

The full terms of reference of the Audit committee, which were reviewed and updated during the year, can be viewed on the Investors section of the Company's website (www.abf.co.uk).

Meetings

The Audit committee met four times during the year and has an agenda linked to events in the group's financial calendar.

Activities during the year

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 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 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 UK Corporate Governance 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 fraud perpetrated against the group.

The Audit committee is responsible for the development, implementation and monitoring of policies and procedures on the use of the external auditors 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 expenditure with the group auditors 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. No individually significant non-audit assignments that would require disclosure were undertaken in the financial year.

The Company has a policy that any recruits hired directly from the external auditors must be pre-approved by the Group HR Director, and the Group Finance Director or Group Financial Controller.

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 in accordance with their professional standards.

To fulfil its responsibility to ensure 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;
- reports highlighting the major issues that arose during the course of the audit;
- feedback from the businesses evaluating the performance of each assigned audit team; and
- a report from the Audit Inspection Unit of the Financial Reporting Council (FRC).

CORPORATE GOVERNANCE CONTINUED

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.

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 level of errors identified during the audit; and
- recommendations made by the external auditors in their management letters and the adequacy of management's response.

Consideration is also given by the Audit committee to the need to include the risk of the withdrawal of the external auditors from the market in its risk evaluation and planning.

Although KPMG Audit Plc has been the Company's auditor for many years, KPMG periodically changes its audit partners at a group, divisional and country level, in accordance with professional and regulatory standards in order to protect independence and objectivity and provide fresh challenge to the business. Such changes are carefully planned to ensure that the Company benefits from continuity of staffing without incurring undue risk or inefficiency.

Stephen Oxley completed his five-year term as KPMG lead audit partner, allowable under auditing standards, at the conclusion of the audit last year. His successor, Richard Pinckard, is expected to continue as lead audit partner until the conclusion of the 2016 audit. Mr Pinckard was required by the Audit committee to undertake a detailed review of the external audit arrangements across the group. This included a review of senior audit executives and he presented his findings and recommendations to the committee. As part of the normal partner rotation arrangements, four divisional audit executives changed during the year.

The Audit committee is satisfied with the auditors' effectiveness and independence and has not considered it necessary this year to conduct a tender process for the appointment of its auditors. Having carried out the review described above and having satisfied itself that the external auditors remain independent and effective, the Audit committee has recommended to the board that KPMG Audit Plc be reappointed as the Company's external auditor for 2012/2013.

The Audit committee has noted the changes to the UK Corporate Governance Code introduced by the FRC in September 2012 and, in particular, the requirement contained in the Guidance on Audit Committees to put the external audit contract out to tender at least every ten years. The new Code is effective for accounting periods beginning on or after 1 October 2012 but the FRC has proposed possible transitional arrangements with respect to audit tendering (including a suggestion that tendering should normally fit the five yearly cycle of partner rotation) which will be considered by the Audit committee.

The total fees paid to KPMG Audit Plc for the year ended 15 September 2012 were £8.7m of which £3.0m related to non-audit work. Further details are provided in note 2 to the financial statements.

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;
- the appointment of the replacement for the retiring Director of Financial Control;
- 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 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.

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

The directors confirm that there is a 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 bi-annually that it has complied with these policies and procedures.

High level controls

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

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

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.

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. He also meets at least annually with the Audit committee, without the presence of executive management.

Principal risks and uncertainties

Each business is responsible for its own risk management assessment which is reported to the group's Director of Financial Control annually. Our decentralised business model empowers the boards and management of our businesses to identify, evaluate and manage the risks they face on a timely basis. Key risks and internal control procedures are reviewed at group level by the board.

We require all businesses to implement appropriate levels of risk management to ensure compliance with all relevant legislation, our group health, safety and environment policies, our overriding business principles and group policies relating to them, taking into account business needs and local circumstances.

Each business is responsible for regularly assessing its health, safety and environmental risks with managers, operators, contracting companies and specialist staff working together to identify hazards. Appropriate operational procedures and controls are put in place to mitigate risks and all employees are provided with appropriate information, training and supervision. Further details of our risk mitigation activities can be found in our Corporate Responsibility report at www.abf.co.uk/cr-risks.

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 process and the resources that our individual businesses devote to them. The principal risks currently identified by our businesses and reviewed by the board are:

PEOPLE

Issue	Risk	Mitigation
Product safety	Reputational damage caused by food hygiene or safety incidents. Non-compliance with regulatory requirements.	Food safety put before economic considerations. Our businesses employ quality control specialists and operate strict policies to ensure consistently high standards are maintained in addition to the sourcing and handling of raw materials. Food safety systems regularly reviewed to ensure efficacy and legal compliance. Quality and food safety audits are undertaken at our manufacturing sites. Documented and tested product recall procedures are embedded in all our businesses and regularly reviewed. We proactively monitor the regulatory and legislative environment as well as emerging scientific research.
Health and nutrition	Health concerns over certain ingredients in food. Inappropriate advertising to children.	Our recipes are regularly reviewed and reformulation is conducted as necessary to optimise the nutritional profile of products. Our UK Grocery group has signed the UK government's 'Responsibility Deal on Public Health' and associated pledges to reduce salt, remove trans fats and promote healthy eating and lifestyle options to our employees. % Guideline Daily Amount labelling or equivalent nutritional information is provided to consumers in the UK and Australia. Our UK Grocery portfolio contains only a small number of products specifically intended for children. These products are marketed responsibly, following accepted codes of practice and within the parameters of a clear, operational business policy.
Workplace health and safety	Potential for fatal accidents and serious injuries to employees and visitors.	Group health and safety policy in place. Increased financial investment in health and safety management. Information and guidance provided to our businesses. Internal and external audits of health, safety and management reporting extended.
Employee rights	Non-compliance with internationally recognised standards. Inability to recruit and retain high-calibre people at all levels necessary to achieve business performance targets and maintain profitable growth.	International Labour Organization conventions are taken into account and we strive to observe the UN Universal Declaration of Human Rights in the management of all businesses. Staff throughout the group are recruited, trained and rewarded according to performance alone. Groupwide whistleblowing policy in place and kept under review.

PEOPLE

Issue	Risk	Mitigation
Management succession	Failure to plan for succession to key roles could lead to a lack of management continuity and sub-optimal operational or financial performance.	Each business has a succession plan which 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. 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.
Input costs, suppliers and supply chain reliability	Damage to brands caused by supply chain weakness e.g. poor conditions for workers. Disruption to raw material supplies and production caused by problems with suppliers, natural disasters and other incidents.	Extensive audit programme for labour standards of suppliers. Continued work, in partnership with suppliers and NGOs, to improve working conditions e.g. via training. Business continuity and disaster recovery planning regularly reviewed.
Ethical business practices	Penalties imposed or reputational damage suffered through bribery, corruption or unfair competition. Reputational damage.	All group businesses required to sign up to the group's Business Principles and Anti-Bribery and Corruption policy with training provided to all staff. Businesses work co-operatively to ensure visibility of reputational risk within supply chains and draw upon best practice management expertise across the group including Primark and Twinings.

ENVIRONMENT

Issue	Risk	Mitigation
Climate change	Long-term increase in energy prices. Physical threats to operations from climate change e.g. flooding. Altered weather patterns affecting crop productivity.	Compliance with the group's environment policy. Best available techniques employed to reduce energy consumption – statutory requirement for all sites subject to the EU's Pollution Prevention and Control regime. Own electricity generated where possible, e.g. through combined heat and power plants and use of bagasse (waste sugar cane fibre). Agricultural raw materials sourced from a wide range of geographical locations and suppliers. Substantial investment to improve environmental risk management and energy efficiency.
Air pollution	Unacceptable impact on environment and offence caused to local communities by emissions to air.	Plant and process changes assessed in advance before authorisation sought. As a minimum, comply with emission standards in country of operation.
Disposal of waste and waste water	Legal sanction and reputational damage because of non-compliance with regulations and licences.	Responsibility assigned to senior executives in all businesses and specialists employed. As a minimum, comply with standards in country of operation. Our UK Grocery group supports the Courtauld 2 Commitment to reduce packaging waste, the Food and Drink Federation 'Fivefold Environmental Ambition' and the Institute of Grocery Distribution 'Water Savings Initiative'. Waste reduced, re-used or recycled wherever practicable.
Water availability	Water shortages and increased cost of water.	Water-intensive sites in areas of water stress identified, and efforts focused on water reduction in these areas. Investing heavily in the quality of our water usage data to enable improved monitoring and management of our water use.

ENVIRONMENT		
Issue	Risk	Mitigation
Resource efficiency	Unnecessary costs from inefficient use of natural resources.	Use of raw materials optimised. Packaging waste minimised consistent with food safety and product protection. Fuel consumption in transport minimised.
Palm oil	Reputational damage from unsustainable sourcing of palm oil.	Group policy introduced to buy all palm oil from sustainable sources by 2015.
Genetically modified (GM) crops	Consumer concern over use of GM food ingredients.	Recognised as a sensitive issue for some consumers and trends monitored by market.

FINANCIAL AND REGULATORY		
Issue	Risk	Mitigation
Competition rules	Penalties for failing to comply with 1998 Competition Act, the 2003 Enterprise Act, relevant EU law and all relevant competition legislation.	Clear policy direction and close support from specialist in-house legal department. Compulsory awareness training.
Global economic slowdown and changing consumer demand	Demand for our products declines due to uncertainty over economic outlook and impact on disposable incomes.	Mitigated by diversity of business portfolio and geographic reach. Substantial investment in research and development, product quality, advertising and promotion, and focus on cost management.
Financial, currency and commodity risks	Loss sustained as a result of failure of internal controls or fraud, and exposure to foreign currencies, interest rates, counterparty credit risk, liquidity risk, and changes in market prices especially for energy and commodities.	Adherence to the group's financial control framework and anti-fraud policy. Treasury operations are conducted within a framework of board-approved policies and guidelines. Sufficient funding is maintained by way of external loans and committed bank facilities which are renewed or extended on a timely basis having regard to the group's projected funding needs. 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 associated quantitative and qualitative disclosures are set out in note 24 on pages [93-104].
Tax compliance	Failure to comply with local tax law resulting in underpayment of tax and exposure to related interest and penalties.	The group has a financial control framework and a board-adopted tax policy requiring all businesses to comply fully with all relevant local tax law. Provision is made for known issues based on management's interpretation of country-specific tax law and the likely outcome. Any interest and penalties on tax issues are provided for in the tax charge.
Loss of a major site	The loss of one of our key sites could present significant operational difficulties.	Our businesses have business continuity plans in place to manage the impact of such an event and group insurance programmes to mitigate the financial consequences.

FINANCIAL AND REGULATORY

Issue	Risk	Mitigation
Regulatory and political	Failure to recognise political or cultural differences in the many countries in which we operate could directly impact the success of our operations.	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.
	Proposals to end sugar quotas in 2015.	We are exploring alternative options with EU policymakers.
Major capital projects and acquisitions	Risk of overspending initial cost estimates, overrunning construction timelines and failure to meet design specifications.	All major projects are managed by dedicated teams who work in close liaison with business management. Project plans are reviewed and approved by group management and, for larger projects, by the board. Updates on progress are provided throughout the project.

REMUNERATION REPORT

Introduction

2011/12 was a very good trading year for the group with adjusted operating profit and adjusted earnings per share substantially ahead of last year. These excellent results have been achieved despite some continuing operational challenges and difficult trading conditions experienced by one or two of our businesses, as well as a non-cash charge of £98m for the impairment of assets in George Weston Foods in Australia.

The performance graph below illustrates the performance of the Company over the past five years from September 2007 to September 2012, 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 (2007 = 100)



At close of business on 14 September 2012, the last trading day before the end of the financial year, the market value of the Company's ordinary shares was 1275p. During the previous 12 months, the price ranged from 1069p to 1336p.

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.

The government has announced new remuneration reporting proposals, the aim of which is to improve transparency of reporting in the area of executive pay and to give shareholders greater power over future pay policy. The Remuneration committee welcomes these developments and, in the coming year, will be reviewing its remuneration practices and reporting in light of these proposed reforms. This report has been split into 'policy' and 'implementation' sections to reflect the proposed reforms.

The board has recently reviewed the remit of the Remuneration committee. In summary it has agreed that the Remuneration committee will:

- determine and agree the framework or broad policy for the remuneration of the Chairman and the executive directors of the Company;
- determine the framework or broad policy for the remuneration for the first line and second line reports to the Chief Executive and approve individual remuneration decisions when proposed arrangements fall outside the broad policy for remuneration;

- ensure that the executive directors and first line and second line executives are provided with appropriate, stretching incentives to encourage enhanced performance and are, in a fair and responsible manner, rewarded for their contributions to the long-term success of the Company;
- review the remuneration trends across the Company or group when determining the remuneration policy for executive directors;
- consider and determine all elements of the remuneration of the executive directors, receiving advisory information on the same in relation to the remuneration of the first line executives;
- approve the design, determine targets for and monitor the operation of any performance-related pay schemes operated by the Company, and approve total annual payments under such schemes; and
- consider and determine other provisions of the service agreements of the executive directors and ensure that contractual terms on termination, and any payments made, are fair to the individual and the Company and that failure is not rewarded and loss is mitigated.

Remuneration policy

The overall remuneration policy of the Company aims to:

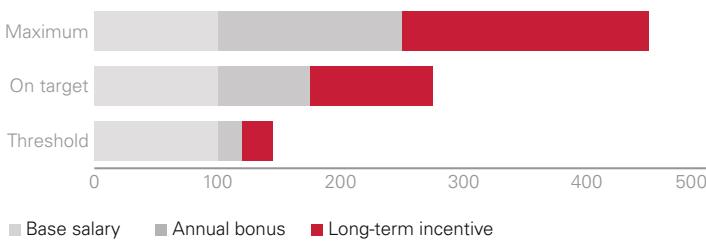
- provide alignment between remuneration and the Company's business objectives;
- align executive rewards with shareholder value;
- attract and retain high-calibre executive directors;
- motivate executive directors to achieve challenging performance levels and reward them for so doing;
- recognise both 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 performance and competitive market practice as well as the pay and conditions of the group's UK employees. The total annual remuneration of executive directors comprises base salary, a cash bonus, shares granted under a long-term incentive scheme, pension provisions and other benefits.

The Remuneration committee continues to believe that a substantial element of compensation should be 'at risk' in order to drive and reward 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 is unchanged at around 1.6 to 1 for 'on target' performance. No increase in incentive awards is proposed for 2012/13.

The composition of the executive directors' remuneration packages for 'on target' and maximum performance is set out below:

Executive directors – composition of overall package (%)



First line reports to the Chief Executive and other senior executives are also rewarded broadly within the same overall remuneration policy as executive directors, in order to ensure fairness and common purpose across the group. Other executives therefore participate in incentive arrangements similar to those of the executive directors, but with lower levels of potential payout. The proportion of variable pay to base salary for first line executives is unchanged at around 1 to 1 for 'on-target' performance. No changes to incentive yields or structures are proposed for 2012/13.

Base salary

Base salaries are reviewed in relation to median market data for comparable companies in terms of size, market sector and complexity. Other considerations are individual experience, performance, and scope of responsibility. The committee also receives an annual update from the Group HR Director concerning the level of increases awarded to UK employees across the group. Base salaries are normally reviewed on an annual basis or following a significant change in responsibilities.

Annual 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.

The group comprises a very diverse set of businesses which are required to deliver financial progress over both the short and long term. 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 across the group on a day-to-day basis to drive and monitor business performance.

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 average 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 2011/12 was 150% of base salary. Of that 150%, up to 130% of base salary may be paid for achievement of financial results as outlined above, and up to 20% of base salary may be paid for achievement of specific personal objectives. 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 appropriate financial year.

'On target' financial performance will yield a bonus of half the maximum financial payout, and two thirds of the potential personal performance element will be deemed 'on target', giving an overall total of around 78% of base salary for 'on target' performance.

The structure and value of the annual performance bonus is shown below:

Structure and value of executive directors' annual performance bonus				
		Financial results	Personal element	Total bonus
	Payout based on operating profit only	Modification to payout based on average working capital	Overall financial payout	
Maximum	108.3%	x 1.2	130.0%	
On target	65.0%	x 1.0	65.0%	Plus
Threshold	15.0%	x 0.8	12.0%	=
			20.0%	150.0%
			13.3%	78.3%
			0.0%	12.0%

The Remuneration committee regularly reviews the annual performance bonus plans for both executive directors and for other groups of executives below board level to ensure that remuneration packages remain at a level sufficient to attract and retain high-calibre individuals. No changes to annual performance bonus plans are proposed for 2012/13.

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. This plan provides for long-term awards to be made in the form of conditional allocations of shares, subject to agreed performance targets being satisfied over a specified three-year period.

Since 2006, annual allocations of conditional shares have been made to executive directors and other senior executives, thereby creating a series of overlapping three-year performance periods. The first four allocations to executive directors had a maximum face value of 125% of base salary. In December 2010, following agreement from shareholders at the annual general meeting, the maximum grant level under the Share Incentive Plan was increased to 200% of base salary. This increase was to ensure that long-term incentive plan opportunities remained competitive and commensurate with the increased size, complexity and international reach of the organisation. The share allocations made to executive directors in 2010 and 2011 were at 200% of base salary. No further changes to the long-term incentive plan yields are planned at the present time.

REMUNERATION REPORT CONTINUED

Since 2006 group performance for the Share Incentive Plan has been 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 reflects the group's objective of sustained long-term earnings growth;
- it is a measure which is well understood both by participants and shareholders;
- it is a published figure with limited adjustments; and
- it encompasses the diverse nature of the group.

An absolute, rather than a relative measure is used, as the group is a global business for which UK inflation factors are of limited impact.

Other financial 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.

Under the current terms of the Share Incentive Plan, the sixth allocation of conditional shares will be made on or after 23 November 2012 for the new performance period September 2012 to September 2015.

The Remuneration committee has reviewed the performance criteria and has determined that this allocation should again be measured against an absolute range of 5% to 11% compound annual growth in adjusted earnings per share. In setting long-term targets, the Remuneration committee has taken into account the volatility present in many of the markets in which the group operates, as well as the scale of investments made in the pursuit of long-term growth. The Remuneration committee believes that the 5% to 11% compound annual growth range remains achievable but stretching over the next three-year period.

When the LTIP arrangements were amended in 2006 and annual share allocations were introduced, the new Share Incentive Plan was designed to pay out an average of around 50% of the maximum long-term incentive plan opportunity each year over time. Given the results of the LTIP scheme to date, analysts' forecasts and the internal forecasts for the next few years, the Remuneration committee considers that this 'on target' expectation is achievable, and should provide a fair but stretching incentive for executives.

Structure and value of executive directors' long-term Share Incentive Plan

	Award as % of base salary	Adjusted earnings per share
Maximum	200%	11%
Cut in	20%	5%

Long-term incentives for first and second line executives with divisional responsibility are largely measured against adjusted operating profit and working capital targets, rather than group adjusted earnings per share, and individual business performance targets are set at the beginning of each three-year cycle by reference to the specific business for which each executive is directly responsible. The level of long-term share awards for divisional executives therefore depends on the level of performance achieved in each business.

Shareholding requirement

In 2010, at the same time as approving increases to the maximum grant levels under the Share Incentive Plan, the Remuneration committee also agreed that those executives who most closely influence the sustained long-term growth of the Company should 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 2013 executive directors and all first line reports to the Chief Executive are expected to build and maintain 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 reached and then to manage their shareholding in such a way as to continue to meet the requirement.

Other executives participating in the Share Incentive Plan are now encouraged to build up a beneficial interest in the Company, but are not required to do so. No further changes are planned at the present time.

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.

The Company provides a final salary, defined benefit arrangement for executives who were employed before the scheme was closed to new entrants in October 2002. This scheme is designed to provide retirement benefits of around two thirds of final pensionable salary at normal retirement age. Executives employed after this date benefit from defined contribution arrangements. Both schemes are HM Revenue & Customs approved.

Following recent governmental changes regarding the taxation of pensions and the potential impact that any proposals would have on high earners, the Company introduced flexible accrual and contribution options to enable executives to mitigate their tax liabilities.

The executive directors were both members of the defined benefit scheme, but opted out of this scheme on 5 April 2006, and since then have earned benefits in the Employer Financed Retirement Benefit Scheme (EFRBS). The EFRBS is unregistered, but is designed to broadly mirror the provisions of the final salary, defined benefit arrangements.

Benefits

Executive directors are also entitled to the provision of a fully expensed company car, private medical insurance, life assurance, home and mobile telephone costs and the reimbursement of reasonable business expenses.

Remuneration of 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. Non-executive directors receive no other benefits and take no part in any discussion or decision concerning their own fees.

Fees for both the Chairman and other non-executive directors were last increased on 1 December 2010, and will be reviewed again on 1 December 2012.

Directors' service contracts

It is the Company's policy that all executive directors have rolling contracts with 12 month notice periods and that, (with the exception of Galen Weston who retired as a director on 9 December 2011), all non-executive directors have rolling contracts with 6 month notice periods.

The Company's Articles of Association require that all directors retire from office if they have not retired at either of the preceding two annual general meetings. In any event, at this year's AGM, all directors are standing for re-election in compliance with the UK Corporate Governance Code.

Details of the contracts of service of directors who served during the year ended 15 September 2012 are set out below:

	Date of appointment	Effective date of current contract	Notice period from Company	Notice period from director	Unexpired portion of service contract
Charles Sinclair	01.10.08	21.04.09	6 months	6 months	Rolling contract
George Weston	19.04.99	01.06.05	12 months	12 months	Rolling contract
John Bason	04.05.99	16.03.99	12 months	12 months	Rolling contract
Tim Clarke	03.11.04	03.11.04	6 months	6 months	Rolling contract
Lord Jay	01.11.06	01.11.06	6 months	6 months	Rolling contract
Javier Ferrán	01.11.06	01.11.06	6 months	6 months	Rolling contract
Peter Smith	28.02.07	28.02.07	6 months	6 months	Rolling contract
Emma Adamo	09.12.11	09.12.11	6 months	6 months	Rolling contract

The Remuneration committee takes the view that the entitlement of the executive directors to 12 months' notice of termination of employment is in line with the practice of many comparable companies. Executive directors' service contracts also provide for payment in lieu of notice at the Company's discretion.

The Remuneration committee's aim is always to deal fairly with cases of termination whilst taking a robust line in minimising any compensation and ensuring that failure is not rewarded. The Remuneration committee has given due consideration to the recommendations contained in the UK Corporate Governance 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. In such situations, the Remuneration committee will consider the appropriate use of mitigation.

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.

REMUNERATION REPORT CONTINUED

Implementation report for 2011/12

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 (Senior Independent Director)
 Lord Jay
 Javier Ferrán
 Peter Smith

The committee met on five occasions during the year.

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.

Base salary

Executive directors' salaries were reviewed on 1 December 2011 in accordance with normal policy. The salaries of George Weston and John Bason were both increased by around 3.8% in line with average increases for UK executives across the group. George Weston's salary is now £950,000 per annum and John Bason's salary is £625,000 per annum.

Executive directors' salaries are next subject to review on 1 December 2012.

Annual bonus

There will be a payout of 78.3% of salary to executive directors in respect of the financial element of the annual bonus for the 2011/12 financial year. This reflects the very strong performance of the group when adjusted operating profit was well above expectations, although the working capital performance lowered the potential payout of the financial element of the bonus by around 15.5%.

Following a review of individual performance against specific objectives for the 2011/12 financial year, the Remuneration committee has determined that George Weston will receive 12.65% and John Bason 14.5% of base salary for the personal element of the annual bonus. These percentage awards both represent good overall performance with major objectives having been achieved.

Long-term incentives

For the three-year performance period ended September 2011 the compound annual growth in adjusted earnings per share was 10.46%, resulting in a release of 83.8% of the shares allocated in November 2008.

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 17.09.11	Conditional allocations of shares as at 15.09.12
George Weston	21.11.08	656.00	17.09.11	21.11.11	131,741	1073.7	1,414,503	157,203	—
	23.11.09	833.50	15.09.12	23.11.12	—	—	—	128,974	128,974
	20.12.10	1076.00	14.09.13	23.11.13	—	—	—	162,268	162,268
	23.11.11	1098.40	13.09.14	24.11.14	—	—	—	—	166,606
John Bason	21.11.08	656.00	17.09.11	21.11.11	87,827	1073.7	942,998	104,802	—
	23.11.09	833.50	15.09.12	23.11.12	—	—	—	86,608	86,608
	20.12.10	1076.00	14.09.13	23.11.13	—	—	—	108,922	108,922
	23.11.11	1098.40	13.09.14	24.11.14	—	—	—	—	109,614

For the three-year performance period ended September 2012, the compound annual growth in adjusted earnings per share was 14.76%. The Remuneration committee has, however, determined that as a result of the asset impairment charge of £98m in the 2012 financial statements in connection with the Don KRC business, it would be appropriate for them to apply their discretion under the Share Incentive Plan to reduce the vesting proportion from 100% to 97.42%. Therefore, in November 2012 executive directors will receive 97.42% of the conditional shares allocated in 2009.

As 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 depend on the level of performance achieved in each business. In 2012, 55 senior executives, excluding the executive directors, representing 77.5% of all eligible participants, will receive a release of shares in November.

Shareholding requirement

The requirement for executive directors and all first line reports to the Chief Executive to build up a shareholding in the Company to a value at least equal to their pre-tax base salary will come into force in 2013. At the date of this report, both George Weston and John Bason are already fully compliant with this requirement.

Directors' interests

The directors of the Company as at 15 September 2012 had the following interests in the shares of the Company notifiable under the Disclosure and Transparency Rules.

	As at 15 September 2012	As at 17 September 2011
Charles Sinclair Associated British Foods plc, ordinary shares of 5 ^{15/22} p	12,760	12,760
George Weston Witton Investments Limited, ordinary shares of 50p Associated British Foods plc, ordinary shares of 5 ^{15/22} p	23,681 3,324,369	2,367 3,261,340
John Bason Associated British Foods plc, ordinary shares of 5 ^{15/22} p	60,337	55,001
Tim Clarke Associated British Foods plc, ordinary shares of 5 ^{15/22} p	4,000	4,000
Lord Jay Associated British Foods plc, ordinary shares of 5 ^{15/22} p	500	500
Javier Ferrán Associated British Foods plc, ordinary shares of 5 ^{15/22} p	2,400	2,400
Peter Smith Associated British Foods plc, ordinary shares of 5 ^{15/22} p	2,000	2,000
Emma Adamo Witton Investments Limited, ordinary shares of 50p Associated British Foods plc, ordinary shares of 5 ^{15/22} p	1,322 466,234	n/a n/a

The interests above remained the same at 6 November 2012.

Pensions

The table below shows both the defined benefit pension entitlements from the ABF Scheme and EFRBS where appropriate, of executive directors of Associated British Foods plc who were members of the ABF Scheme during the year ended 15 September 2012. Pension entitlements and corresponding transfer values increased as follows during the year:

	Increase in accrued pension £000 pa (A)	Increase in accrued pension net of inflation £000 pa (B)	Total accrued pension at 15.09.12 £000 pa (C)	Director's contributions during period £000 (D)	Value of net increase in accrual over period £000 (E)	Value of accrued pension at 15.09.12 £000 (F)	Value of accrued pension at 17.09.11 £000 (G)	Total change in value during period £000 (H)
George Weston	33	25	406	20	283	5,105	3,787	1,298
John Bason	23	18	232	20	312	4,493	3,406	1,067

Notes:

1. Pension accruals (A) and (C) are the amounts which would be paid annually on retirement based on service to the end of the year, or earlier retirement.
2. The pension values (E), (F) and (G) are transfer values calculated in accordance with Occupational Pension Schemes (Transfer Values) Regulations 2008.
3. The increase in accrued pension net of inflation (B) uses a CPI based inflation figure as opposed to previous years which were based on RPI.
4. 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).
5. 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 are excluded from this value.
6. 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.
7. Voluntary contributions paid by directors and resulting benefits are not shown.
8. 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.
9. As in previous years the directors' contributions during the period (D) recognises the amount of salary sacrifice made by the directors in lieu of paying contributions. Both directors 'contribute' 15% of the scheme-specific salary cap so the amount is the same for both.

REMUNERATION REPORT CONTINUED

Benefits

The taxable value of a fully expensed company car, private medical insurance, life assurance, home and mobile telephone costs and the reimbursement of reasonable business expenses is included in the table of directors' remuneration below. Where benefits are taken in cash they are included in 'Other benefits'. Benefits which are taxed as 'Benefits in kind' are shown separately.

Summary of directors' remuneration

The remuneration paid to all directors for the year to 15 September 2012 was as follows:

	Salary or fees £000	Annual bonus ¹ £000	Benefits in kind £000	Other benefits £000	Total benefits £000	2012 total £000	2011 total £000
Non-executive directors							
Charles Sinclair	333	–	–	–	–	333	327
Tim Clarke	72	–	–	–	–	72	70
Lord Jay	60	–	–	–	–	60	58
Javier Ferrán	60	–	–	–	–	60	58
Peter Smith	72	–	–	–	–	72	70
Emma Adamo	46	–	–	–	–	46	–
Galen Weston	nil	–	–	–	–	–	–
Executive directors							
George Weston	918	864	1	13	14	1,796	1,337
John Bason	597	580	3	13	16	1,193	884

¹ Bonus will be paid in December 2012 for the financial year 2011/12.

Executive directors serving as non-executive directors

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

John Bason is a non-executive director and chairman of the Audit committee of Compass Group PLC, for which he received a total fee of £103,000 in the 2011/12 financial year. He also served as a trustee of Voluntary Service Overseas and as deputy chairman of the charity FareShare, but received no compensation in respect of either of these roles.

Compliance statement

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 Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, being the sections in the Implementation report for 2011/12 above entitled 'Directors' interests', 'Long-term incentives', 'Pensions' and 'Summary of directors' remuneration'.

By order of the board

Paul Lister

Company Secretary

6 November 2012

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 15 September 2012 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 14 and 15;
- Our group at a glance on pages 12 and 13;
- Operating review on pages 16 to 29, which includes a review of the external environment, key strategic aims and performance measures;
- Financial review on pages 30 and 31;
- Corporate responsibility on pages 32 to 35;
- Principal risks and uncertainties are described on pages 48 to 51;
- details of the principal operating subsidiaries are set out on page 109; and
- information on essential contracts or arrangements on page 61.

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 14 and 15 and the Operating review on pages 16 to 29.

The Company is the holding company for the Associated British Foods plc group ('the group'). Details of the principal operating subsidiaries are set out on page 109.

The audited financial statements of the group and Company appear on pages 64 to 115.

Results and dividends

The consolidated income statement is on page 64. Profit for the financial year attributable to equity shareholders amounted to £555m.

The directors recommend a final dividend of 20.0p per ordinary share, to be paid, if approved, on 11 January 2013 which, together with the interim dividend of 8.5p per share paid in July, amounts to 28.5p for the year. Dividends are detailed on page 80.

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 £3.4m (2011 – £2.7m). 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 24 on pages 96 to 107.

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. The suppliers are made aware of the terms of this policy. Further information concerning the Prompt Payment 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 in recruitment, training, career development and promotion to all people, including those with disabilities, having regard for their particular aptitudes and abilities. As a matter of policy, 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 and for continuation in employment. It is group policy that the training, career development and promotion of disabled persons should, as far as possible, be the same as that of other employees;
- health and safety – health and safety are considered as equal in importance to that of any other function of the group and its business objectives. The policy and a full global report is available on the Company's website at www.abf.co.uk;
- harassment – the group will not tolerate sexual, mental or physical harassment in the workplace. It expects incidents of harassment to be reported to the appropriate human resources director;
- human rights – managers must take account of the core International Labour 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. Information relevant to the employees will be provided systematically to employees; and

OTHER DISCLOSURES CONTINUED

- 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 28 on page 109.

As at 31 October 2012, 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
The Capital Group Companies, Inc.	24,295,000	3.0688	4 September 2012

Power to issue shares

At the last annual general meeting, held on 9 December 2011, 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 7 December 2012. No such shares have been issued. The directors propose to renew this authority at the annual general meeting to be held on 7 December 2012 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 2012 annual general meeting and the directors will seek to renew this authority for the following year.

Power to purchase own shares

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.

Directors

The names of the persons who were directors of the Company during the financial year and as at 6 November 2012 appear on pages 36 and 37 (with the exception of Galen Weston who resigned as a non-executive director of the Company with effect from the close of the last AGM held on 9 December 2011). All the current directors are standing for election or re-election at this year's AGM in December.

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 any event, the board has decided that all directors will stand for election or re-election at the AGM this year in compliance with the UK Corporate Governance Code.

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.

Articles of Association

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

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.

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 there were no drawdowns at the year end and the £120m loan from the European Investment Bank which was signed on 5 December 2007 and under which £120m was drawn down at the year end;
- in addition to these bank facilities, in March 2009 the Company issued US\$610m of private placement notes to institutional investors and, in December 2011 and March 2012, the Company issued a further US\$626m of private placement notes. 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; and
- in September 2010, the group entered into contracts for the supply to the UK business 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 business activities. Such contracts and arrangements may be deemed essential to one or more operating company but there are no contracts or arrangements considered to be essential to the group as a whole, save that British Sugar has collective bargaining agreements with UNITE and GMB unions and a contract with the National Farmers' Union, the Inter Professional Agreement ('IPA'). The IPA consists of approximately 4,000 identical but individual contracts with sugar beet growers. Similarly, AB Azucarera Iberia in Spain has some 4,800 individual contracts with sugar beet growers which are negotiated and signed with the four professional agricultural organisations (farmers' unions) in that country.

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 93; and
- details of share schemes set out on pages 94 and 95, 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 63.

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' responsibility statement

- the financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Company and the undertakings included in the consolidation taken as a whole; and
- pursuant to 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 14 and 15;
 2. Operating review on pages 16 to 29, which includes a review of the external environment, key strategic aims, future development and performance measures;
 3. Financial review on pages 30 and 31;
 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. 'Principal risks and uncertainties' on pages 48 to 51.

On behalf of the board

Charles Sinclair
Chairman

George Weston
Chief Executive

John Bason
Finance Director

6 November 2012

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

We have audited the financial statements of Associated British Foods plc for the 52 week period ended 15 September 2012 set out on pages 64 to 115. 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 Directors' responsibilities statement set out on page 62, 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, and express an opinion on, 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/private.cfm.

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 15 September 2012 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 43, in relation to going concern;
- the part of the Corporate governance statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on directors' remuneration.

Richard Pinckard

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

6 November 2012

CONSOLIDATED INCOME STATEMENT

for the 52 weeks ended 15 September 2012

	Note	Before exceptional items 2012 £m	Exceptional items ¹ 2012 £m	Total 2012 £m	2011 £m
Continuing operations					
Revenue	1	12,252	–	12,252	11,065
Operating costs before exceptional items	2	(11,302)	–	(11,302)	(10,265)
Exceptional items	2	–	(98)	(98)	–
		950	(98)	852	800
Share of profit after tax from joint ventures and associates	11	27	–	27	37
Profits less losses on disposal of non-current assets		(6)	–	(6)	5
Operating profit		971	(98)	873	842
Adjusted operating profit	1	1,077	–	1,077	920
Profits less losses on disposal of non-current assets		(6)	–	(6)	5
Amortisation of non-operating intangibles	8	(100)	–	(100)	(83)
Exceptional items	2	–	(98)	(98)	–
Profits less losses on sale and closure of businesses	21	(9)	–	(9)	–
Profit before interest		962	(98)	864	842
Finance income	4	9	–	9	9
Finance expense	4	(114)	–	(114)	(101)
Other financial income	4	2	–	2	7
Profit before taxation		859	(98)	761	757
Adjusted profit before taxation		974	–	974	835
Profits less losses on disposal of non-current assets		(6)	–	(6)	5
Amortisation of non-operating intangibles	8	(100)	–	(100)	(83)
Exceptional items	2	–	(98)	(98)	–
Profits less losses on sale and closure of businesses		(9)	–	(9)	–
Taxation – UK		(91)	–	(91)	(92)
– Overseas (excluding tax on exceptional items)		(116)	–	(116)	(88)
– Overseas (on exceptional items)		–	29	29	–
Profit for the period	5	(207)	29	(178)	(180)
Attributable to					
Equity shareholders		624	(69)	555	541
Non-controlling interests		28	–	28	36
Profit for the period		652	(69)	583	577
Basic and diluted earnings per ordinary share (pence)	7			70.3	68.7
Dividends per share paid and proposed for the period (pence)	6			28.50	24.75

¹ Refer to accounting policy on page 70.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the 52 weeks ended 15 September 2012

	2012 £m	2011 £m
Profit for the period recognised in the income statement	583	577
Other comprehensive income		
Actuarial (losses)/gains on defined benefit schemes	(99)	12
Deferred tax associated with defined benefit schemes	23	(4)
Effect of movements in foreign exchange	(241)	89
Net gain on hedge of net investment in foreign subsidiaries	11	2
Deferred tax associated with movements in foreign exchange	3	(1)
Current tax associated with movements in foreign exchange	(4)	(1)
Movement in cash flow hedging position	(21)	6
Deferred tax associated with movement in cash flow hedging position	4	(1)
Other comprehensive income for the period	(324)	102
Total comprehensive income for the period	259	679
Attributable to		
Equity shareholders	281	657
Non-controlling interests	(22)	22
Total comprehensive income for the period	259	679

CONSOLIDATED BALANCE SHEET

at 15 September 2012

	Note	2012 £m	2011 £m
Non-current assets			
Intangible assets	8	1,769	1,893
Property, plant and equipment	9	4,541	4,465
Biological assets	10	89	99
Investments in joint ventures	11	174	150
Investments in associates	11	40	44
Employee benefits assets	12	18	35
Deferred tax assets	13	189	150
Other receivables	14	151	203
Total non-current assets		6,971	7,039
Current assets			
Inventories	15	1,500	1,425
Biological assets	10	109	112
Trade and other receivables	14	1,236	1,259
Derivative assets	24	33	26
Cash and cash equivalents	16	391	341
Total current assets		3,269	3,163
Total assets		10,240	10,202
Current liabilities			
Loans and overdrafts	17	(538)	(729)
Trade and other payables	18	(1,752)	(1,627)
Derivative liabilities	24	(50)	(22)
Income tax		(150)	(133)
Provisions	19	(98)	(31)
Total current liabilities		(2,588)	(2,542)
Non-current liabilities			
Loans	17	(914)	(897)
Provisions	19	(38)	(105)
Deferred tax liabilities	13	(366)	(404)
Employee benefits liabilities	12	(113)	(79)
Total non-current liabilities		(1,431)	(1,485)
Total liabilities		(4,019)	(4,027)
Net assets		6,221	6,175
Equity			
Issued capital	20	45	45
Other reserves	20	175	175
Translation reserve	20	532	712
Hedging reserve		(17)	–
Retained earnings		5,099	4,816
Total equity attributable to equity shareholders		5,834	5,748
Non-controlling interests		387	427
Total equity		6,221	6,175

The financial statements on pages 64 to 110 were approved by the board of directors on 6 November 2012 and were signed on its behalf by:

Charles Sinclair

Chairman

John Bason

Director

CONSOLIDATED CASH FLOW STATEMENT

for the 52 weeks ended 15 September 2012

	2012 £m	2011 £m
Cash flow from operating activities		
Profit before taxation	761	757
Profits less losses on disposal of non-current assets	6	(5)
Profits less losses on sale and closure of businesses	9	–
Finance income	(9)	(9)
Finance expense	114	101
Other financial income	(2)	(7)
Share of profit after tax from joint ventures and associates	(27)	(37)
Amortisation	122	96
Depreciation	394	317
Exceptional impairment of property, plant and equipment	92	–
Exceptional impairment of operating intangibles	6	–
Net change in the fair value of biological assets	(28)	(21)
Share-based payment expense	8	8
Pension costs less contributions	(38)	(38)
Increase in inventories	(125)	(176)
Decrease/(increase) in receivables	3	(138)
Increase in payables	165	115
Purchases less sales of current biological assets	(3)	(2)
Decrease in provisions	(17)	(69)
Cash generated from operations	1,431	892
Income taxes paid	(191)	(156)
Net cash from operating activities	1,240	736
Cash flows from investing activities		
Dividends received from joint ventures and associates	11	9
Purchase of property, plant and equipment	(700)	(794)
Purchase of intangibles	(13)	(49)
Purchase of non-current biological assets	(1)	(1)
Sale of property, plant and equipment	6	18
Purchase of subsidiaries, joint ventures and associates	(45)	(24)
Sale of subsidiaries, joint ventures and associates	2	3
Loans to joint ventures	24	(25)
Purchase of non-controlling interests	–	(29)
Interest received	10	11
Net cash from investing activities	(706)	(881)
Cash flows from financing activities		
Dividends paid to non-controlling interests	(23)	(22)
Dividends paid to equity shareholders	(200)	(190)
Interest paid	(108)	(99)
Financing:		
(Decrease)/increase in short-term loans	(279)	342
Increase in long-term loans	44	105
Sale of shares in subsidiary undertakings to non-controlling interests	4	–
Movements from changes in own shares held	–	(16)
Net cash from financing activities	(562)	120
Net decrease in cash and cash equivalents	(28)	(25)
Cash and cash equivalents at the beginning of the period	291	309
Effect of movements in foreign exchange	(18)	7
Cash and cash equivalents at the end of the period	245	291

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the 52 weeks ended 15 September 2012

	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 19 September 2010		45	175	606	(4)	4,471	5,293	451	5,744
Total comprehensive income									
Profit for the period recognised in the income statement		–	–	–	–	541	541	36	577
Actuarial gains on defined benefit schemes		–	–	–	–	12	12	–	12
Deferred tax associated with defined benefit schemes		–	–	–	–	(4)	(4)	–	(4)
Effect of movements in foreign exchange		–	–	105	–	–	105	(16)	89
Net gain on hedge of net investment in foreign subsidiaries		–	–	1	–	–	1	1	2
Deferred tax associated with movements in foreign exchange		–	–	–	–	(1)	(1)	–	(1)
Current tax associated with movements in foreign exchange		–	–	–	–	(1)	(1)	–	(1)
Movement in cash flow hedging position		–	–	–	5	–	5	1	6
Deferred tax associated with movement in cash flow hedging position		–	–	–	(1)	–	(1)	–	(1)
Other comprehensive income		–	–	106	4	6	116	(14)	102
Total comprehensive income		–	–	106	4	547	657	22	679
Transactions with owners									
Dividends paid to equity shareholders	6	–	–	–	–	(190)	(190)	–	(190)
Net movement in own shares held		–	–	–	–	(8)	(8)	–	(8)
Deferred tax associated with share-based payments		–	–	–	–	2	2	–	2
Dividends paid to non-controlling interests		–	–	–	–	–	–	(22)	(22)
Changes in ownership of subsidiaries		–	–	–	–	(6)	(6)	(24)	(30)
Total transactions with owners		–	–	–	–	(202)	(202)	(46)	(248)
Balance as at 17 September 2011		45	175	712	–	4,816	5,748	427	6,175
Total comprehensive income									
Profit for the period recognised in the income statement		–	–	–	–	555	555	28	583
Actuarial losses on defined benefit schemes		–	–	–	–	(99)	(99)	–	(99)
Deferred tax associated with defined benefit schemes		–	–	–	–	23	23	–	23
Effect of movements in foreign exchange		–	–	(192)	–	–	(192)	(49)	(241)
Net gain/(loss) on hedge of net investment in foreign subsidiaries		–	–	12	–	–	12	(1)	11
Deferred tax associated with movements in foreign exchange		–	–	–	–	3	3	–	3
Current tax associated with movements in foreign exchange		–	–	–	–	(4)	(4)	–	(4)
Movement in cash flow hedging position		–	–	–	(21)	–	(21)	–	(21)
Deferred tax associated with movement in cash flow hedging position		–	–	–	4	–	4	–	4
Other comprehensive income		–	–	(180)	(17)	(77)	(274)	(50)	(324)
Total comprehensive income		–	–	(180)	(17)	478	281	(22)	259
Transactions with owners									
Dividends paid to equity shareholders	6	–	–	–	–	(200)	(200)	–	(200)
Net movement in own shares held		–	–	–	–	8	8	–	8
Deferred tax associated with share-based payments		–	–	–	–	(2)	(2)	–	(2)
Dividends paid to non-controlling interests		–	–	–	–	–	–	(23)	(23)
Changes in ownership of subsidiaries		–	–	–	–	(1)	(1)	5	4
Total transactions with owners		–	–	–	–	(195)	(195)	(18)	(213)
Balance as at 15 September 2012		45	175	532	(17)	5,099	5,834	387	6,221

SIGNIFICANT ACCOUNTING POLICIES

for the 52 weeks ended 15 September 2012

Associated British Foods plc ('the Company') is a company domiciled in the United Kingdom. The consolidated financial statements of the Company for the 52 weeks ended 15 September 2012 comprise those of the Company and its subsidiaries (together referred to as 'the group') and the group's interest in associates and joint ventures.

The financial statements were authorised for issue by the directors on 6 November 2012.

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 111 to 115.

Basis of preparation

The consolidated 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 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 accounting estimates and judgements detailed on page 74.

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.

The consolidated financial statements of the group are prepared to the Saturday nearest to 15 September. Accordingly, these financial statements have been prepared for the 52 weeks ended 15 September 2012. To avoid delay in the preparation of the consolidated financial statements, the results of certain subsidiaries, joint ventures and associates are included up to 31 August 2012. The results of Illovo are included for the period to 30 September 2012 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 Operating review on pages 16 to 29. The financial position of the group, its cash flows, liquidity position and borrowing facilities are described in the Financial review on pages 30 and 31. In addition, the principal risks and uncertainties on pages 48 to 51 and note 24 on pages 96 to 107 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 joint ventures and associates on an equity-accounted basis from the point at which joint control or significant influence respectively commences, to the date that it ceases.

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.

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

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

Business combinations

On the acquisition of a business or an interest in a joint venture or associate, fair values are attributed to the identifiable assets, liabilities and contingent liabilities acquired, reflecting conditions at the date of acquisition. Adjustments to fair values include those made to bring accounting policies into line with those of the group. Provisional fair values are finalised within 12 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 before 3 September 2004, goodwill is included on the basis of its deemed cost, represented by the net book value recorded under previous GAAP.

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.

SIGNIFICANT ACCOUNTING POLICIES CONTINUED

for the 52 weeks ended 15 September 2012

For business combinations executed 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 a liability or equity (usually as a liability), and subsequently accounted for in line with that classification. Changes in contingent consideration classified as a 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 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 directly attributable to the acquisition, construction or production of those qualifying assets as part of their cost. The group previously 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. They are discussed further in the accounting estimates and judgements detailed on page 74.

Adjusted profit and earnings measures

Adjusted operating profit is stated before amortisation of non-operating intangibles, profits less losses on disposal of non-current assets and exceptional items. Adjusted profit before tax is stated before amortisation of non-operating intangibles, profits less losses on disposal of non-current assets, profits less losses on sale and closure of businesses and exceptional items. Both are shown on the face of the income statement.

Adjusted earnings per share is shown in the notes and is stated before amortisation of non-operating intangibles, profits less losses on disposal of non-current assets, profits less losses on sale and closure of businesses and exceptional items.

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.

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 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 the group's expected return on pension plan assets offset by a charge equal to the expected interest on plan liabilities. For each plan, the difference between market value of assets and present value of liabilities is disclosed as an asset or liability in the balance sheet.

Any related deferred tax (to the extent recoverable) is disclosed separately in the balance sheet. Actuarial gains or losses are recognised immediately in other comprehensive income. Surpluses 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

The fair value of share awards at grant date is recognised as an employee expense with a corresponding increase in equity, spread over the period during which the employees become unconditionally entitled to the shares. The amount recognised is adjusted to reflect expected and actual levels of vesting except where the failure to vest is as a result of not meeting a market condition.

Income tax

Income tax on 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: initial recognition of goodwill; initial recognition of assets or liabilities affecting 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.

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

Financial assets and liabilities

Financial assets and financial liabilities, except for other non-current investments and derivatives, 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 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.

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 are included as a component of cash and cash equivalents for the purposes of the cash flow statement.

Derivatives

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

Derivatives are recognised in the balance sheet, at fair value, based on market prices or rates, or calculated using either discounted cash flow or option pricing models.

Changes in the value of derivatives are recognised in the income statement unless they qualify for hedge accounting, when recognition of any change in fair value 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.

Changes in the value of derivatives used as hedges of future cash flows are recognised through other comprehensive income in the hedging reserve, with any ineffective portion recognised immediately within operating profit in the income statement.

When the future cash flow results in the recognition of a non-financial asset or liability, the gains and losses previously recognised in the hedging reserve are included in the initial measurement of that asset or liability. Otherwise, gains and losses previously recognised in the hedging reserve are 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, 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 relating to an underlying exposure that no longer exists are taken to the income statement.

Hedges of the group's net investment in foreign operations comprise 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 derivative 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.

Intangible assets other than goodwill

Non-operating intangible assets are intangible assets that arise on business combinations and typically include technology, brands, customer relationships and grower agreements. Operating intangible assets are acquired in the ordinary course of business and typically include computer software, land use rights and emissions trading licences.

Intangible assets other than goodwill are stated at cost less accumulated amortisation and impairment charges.

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

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

SIGNIFICANT ACCOUNTING POLICIES CONTINUED

for the 52 weeks ended 15 September 2012

Goodwill

Goodwill is defined under 'Business combinations' on pages 69 and 70. 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

Research expenditure is expensed as incurred. Development expenditure is capitalised if the product or process is technically and commercially feasible but is otherwise expensed 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 in the income statement whenever the carrying amount of an asset or its cash-generating unit (CGU) exceeds its recoverable amount.

Impairment charges recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to that CGU and then to reduce the carrying amount of the other assets in the unit 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 their value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the CGU to which the asset belongs.

Reversals of impairment

An impairment charge in respect of goodwill is not subsequently reversed. For other assets, an impairment charge is reversed if there has been a change in the estimates used to determine the recoverable amount, but only to the extent that the new 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 estimated residual value.

Land is not depreciated. Estimated useful lives are generally deemed to be no longer than:

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

Leases

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, as is the benefit of lease incentives.

Where the group is a lessor under an operating lease, 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 on the following bases:

Cane roots – escalated average cost, using appropriate inflation-related indices, of each year of planting adjusted for remaining expected life, currently ten years in South Africa, seven years in Zambia and eight years elsewhere.

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

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

Inventories

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

Inventories for Primark are valued at the lower of cost and net realisable value using the retail method, calculated on the basis of selling price less appropriate trading margin. All Primark inventories are finished goods.

New accounting policies

The group has adopted the following new and amended IFRSs and IFRIC interpretations with no material impact (all effective from 18 September 2011):

- Amendments to IFRS 7 *Financial Instruments: Disclosures*;
- Revisions to IAS 24 *Related Party Disclosures*; and
- IFRIC 14 *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*.

The group is currently assessing the impact of the following revised standards and interpretations or amendments that are not yet effective. These changes will be adopted on the effective dates noted and are not expected to have a material impact on the group's reported profit, earnings per share, net assets or disclosures (all effective from 16 September 2012 unless otherwise stated):

- IAS 19 *Employee Benefits* effective 2014 financial year. The revised standard makes changes to the measurement of employee benefits and extensive changes to disclosure requirements. Most measurement requirements will have no impact on the group;
- Certain elements of *Annual Improvements to IFRSs 2011*; and
- Amendments to IAS 1 *Presentation of Financial Statements* effective 2013 financial year which amend the presentation of other comprehensive income.

The group is currently assessing the impact of the following revised standards and interpretations or amendments that are not yet effective. These changes have not yet been endorsed by the EU so will not necessarily be adopted by the effective dates noted:

- Certain elements of *Annual Improvements to IFRSs 2011* effective 2014 financial year;
- Amendments to IFRS 7 *Financial Instruments: Disclosures* effective 2014 and 2016 financial years;
- IFRS 9 *Financial Instruments: Classification and Measurement* effective 2016 financial year, which amends the classification and measurement for financial assets and liabilities;
- IFRS 10 *Consolidated Financial Statements* effective 2014 financial year;
- IFRS 11 *Joint Arrangements* effective 2014 financial year;
- IFRS 12 *Disclosure of Interests in Other Entities* effective 2014 financial year;
- IFRS 13 *Fair Value Measurement* effective 2014 financial year;
- Amendments to IAS 12 *Income Taxes* effective 2013 financial year;
- Amendments to IAS 32 *Financial Instruments: Presentation* effective 2015 financial year; and
- Amendments to IAS 34 *Interim Financial Reporting* effective 2014 financial year.

ACCOUNTING ESTIMATES AND JUDGEMENTS

for the 52 weeks ended 15 September 2012

In applying the accounting policies detailed on pages 69 to 73, management has made estimates in a number of areas and the actual outcome may differ from those calculated. Key sources of estimation uncertainty at the balance sheet date with a significant risk of material adjustment to the carrying value of assets and liabilities within the next financial year are set out below.

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.

Assessment for impairment involves comparing the book value of an asset with its recoverable amount (being the higher of value in use and fair value less costs to sell). Value in use is determined with reference to projected future cash flows discounted at an appropriate rate. Both the cash flows and the discount rate involve a significant degree of estimation uncertainty.

The realisation of deferred tax assets is dependent on the generation of sufficient future taxable profits. 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 £95m being recognised as at 15 September 2012. 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

Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, taking into account a range of possible outcomes.

Property, plant and equipment residual values and useful lives

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 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 – estimated sucrose content requires management to assess expected cane and sucrose yields for the following season considering weather conditions and harvesting programmes; estimated sucrose price requires management to assess into which markets the forthcoming crop will be sold and assess domestic and export prices as well as related foreign currency exchange rates. The carrying value of growing cane is disclosed in note 10.

Cash flow hedge accounting

In order to achieve and maintain cash flow hedge accounting, the group has 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 group. 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, separate disclosure is made of all exceptional items, with additional explanation in the notes.

Taxation

The level of current and deferred tax recognised is dependent on subjective judgements as to the outcome of decisions by tax authorities in various jurisdictions around the world.

Fair values on acquisition

Items of property, plant and equipment often have long operating lives, hence determination of fair values can require a significant degree of judgement. Acquisitions often result in significant intangible benefits for 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 is 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 21.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

for the 52 weeks ended 15 September 2012

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, derivative 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	
	2012 £m	2011 £m	2012 £m	2011 £m
Operating segments				
Grocery	3,726	3,671	187	244
Sugar	2,666	2,134	510	315
Agriculture	1,265	1,127	40	40
Ingredients	1,092	1,090	32	61
Retail	3,503	3,043	356	309
Central	—	—	(48)	(48)
	12,252	11,065	1,077	921
Businesses disposed:				
Grocery	—	—	—	(1)
	12,252	11,065	1,077	920
Geographical information				
United Kingdom	5,248	4,788	638	491
Europe & Africa	3,328	2,735	325	213
The Americas	1,241	1,176	100	118
Asia Pacific	2,435	2,366	14	99
	12,252	11,065	1,077	921
Businesses disposed:				
The Americas	—	—	—	(1)
	12,252	11,065	1,077	920

The comparative results for the Grocery and Ingredients segments have been reclassified following a change of management responsibility for the Australian cake business.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS CONTINUED

for the 52 weeks ended 15 September 2012

1. Operating segments continued

For the 52 weeks ended 15 September 2012

	Grocery £m	Sugar £m	Agriculture £m	Ingredients £m	Retail £m	Central £m	Total £m
Revenue from continuing businesses	3,734	2,808	1,275	1,163	3,503	(231)	12,252
Internal revenue	(8)	(142)	(10)	(71)	—	231	—
Revenue from external customers	3,726	2,666	1,265	1,092	3,503	—	12,252
Adjusted operating profit before joint ventures and associates	179	514	27	22	356	(48)	1,050
Share of profit after tax from joint ventures and associates	8	(4)	13	10	—	—	27
Adjusted operating profit	187	510	40	32	356	(48)	1,077
Profits less losses on disposal of non-current assets	—	1	—	—	—	(7)	(6)
Amortisation of non-operating intangibles	(16)	(22)	(1)	(61)	—	—	(100)
Exceptional items	(98)	—	—	—	—	—	(98)
Profits less losses on sale and closure of businesses	—	(6)	—	(3)	—	—	(9)
Profit before interest	73	483	39	(32)	356	(55)	864
Finance income						9	9
Finance expense						(114)	(114)
Other financial income						2	2
Taxation						(178)	(178)
Profit for the period	73	483	39	(32)	356	(336)	583
Segment assets (excluding investments in joint ventures and associates)	2,685	2,510	275	1,353	2,423	182	9,428
Investments in joint ventures and associates	24	47	87	56	—	—	214
Segment assets	2,709	2,557	362	1,409	2,423	182	9,642
Cash and cash equivalents						391	391
Deferred tax assets						189	189
Employee benefits assets						18	18
Segment liabilities	(573)	(413)	(104)	(204)	(526)	(118)	(1,938)
Loans and overdrafts						(1,452)	(1,452)
Income tax						(150)	(150)
Deferred tax liabilities						(366)	(366)
Employee benefits liabilities						(113)	(113)
Net assets	2,136	2,144	258	1,205	1,897	(1,419)	6,221
Non-current asset additions	153	160	14	96	329	3	755
Depreciation	105	95	7	47	132	8	394
Amortisation	33	24	3	62	—	—	122
Impairment of property, plant and equipment	92	—	—	3	—	—	95
Impairment of operating intangibles	6	—	—	—	—	—	6
Geographical information							
		United Kingdom £m	Europe & Africa £m	The Americas £m	Asia Pacific £m		Total £m
Revenue from external customers		5,248	3,328	1,241	2,435	12,252	
Segment assets		3,689	3,002	1,051	1,900	9,642	
Non-current asset additions		270	278	65	142	755	
Depreciation		184	95	25	90	394	
Amortisation		15	49	26	32	122	
Impairment of property, plant and equipment		—	—	—	95	95	
Impairment of operating intangibles		—	—	—	6	6	

1. Operating segments continued

For the 52 weeks ended 17 September 2011

	Grocery £m	Sugar £m	Agriculture £m	Ingredients £m	Retail £m	Central £m	Total £m
Revenue from continuing businesses	3,677	2,265	1,134	1,164	3,043	(218)	11,065
Internal revenue	(6)	(131)	(7)	(74)	–	218	–
Revenue from external customers	3,671	2,134	1,127	1,090	3,043	–	11,065
Adjusted operating profit before joint ventures and associates	237	308	27	51	309	(48)	884
Share of profit after tax from joint ventures and associates	7	7	13	10	–	–	37
Businesses disposed	(1)	–	–	–	–	–	(1)
Adjusted operating profit	243	315	40	61	309	(48)	920
Profits less losses on disposal of non-current assets	3	2	–	–	–	–	5
Amortisation of non-operating intangibles	(24)	(31)	(1)	(27)	–	–	(83)
Profit before interest	222	286	39	34	309	(48)	842
Finance income						9	9
Finance expense						(101)	(101)
Other financial income						7	7
Taxation						(180)	(180)
Profit for the period	222	286	39	34	309	(313)	577
Segment assets (excluding investments in joint ventures and associates)	2,824	2,503	280	1,441	2,310	124	9,482
Investments in joint ventures and associates	38	50	73	33	–	–	194
Segment assets	2,862	2,553	353	1,474	2,310	124	9,676
Cash and cash equivalents						341	341
Deferred tax assets						150	150
Employee benefits assets						35	35
Segment liabilities	(593)	(409)	(96)	(193)	(398)	(96)	(1,785)
Loans and overdrafts						(1,626)	(1,626)
Income tax						(133)	(133)
Deferred tax liabilities						(404)	(404)
Employee benefits liabilities						(79)	(79)
Net assets	2,269	2,144	257	1,281	1,912	(1,688)	6,175
Non-current asset additions	226	193	11	93	323	2	848
Depreciation	87	77	9	42	100	2	317
Amortisation	36	32	1	27	–	–	96
Geographical information		United Kingdom £m	Europe & Africa £m	The Americas £m	Asia Pacific £m		Total £m
Revenue from external customers		4,788	2,735	1,176	2,366		11,065
Segment assets		3,671	2,916	1,075	2,014		9,676
Non-current asset additions		290	320	61	177		848
Depreciation		146	74	24	73		317
Amortisation		12	47	15	22		96

NOTES FORMING PART OF THE FINANCIAL STATEMENTS CONTINUED

for the 52 weeks ended 15 September 2012

2. Operating costs

	Note	Before exceptional items 2012 £m	Exceptional items ¹ 2012 £m	Total 2012 £m	2011 £m
Operating costs					
Cost of sales (including amortisation of intangibles)		9,292	98	9,390	8,347
Distribution costs		1,273	–	1,273	1,217
Administration expenses		737	–	737	701
		11,302	98	11,400	10,265
Operating costs are stated after charging/(crediting):					
Employee benefits expense	3			1,760	1,613
Amortisation of non-operating intangibles	8			100	83
Amortisation of operating intangibles	8			22	13
Profits less losses on disposal of non-current assets				6	(5)
Depreciation of owned property, plant and equipment	9			394	317
Exceptional impairment of property, plant and equipment				92	–
Exceptional impairment of operating intangibles				6	–
Operating lease payments under property leases				122	110
Operating lease payments for hire of plant and equipment				14	13
Other operating income				(20)	(19)
Research and development expenditure				23	24
Fair value gains on financial assets and liabilities held for trading				(30)	(29)
Fair value losses on financial assets and liabilities held for trading				27	24
Foreign exchange gains on operating activities				(50)	(35)
Foreign exchange losses on operating activities				52	38

¹ Refer to accounting policy on page 70.

An exceptional charge of £98m has been made to impair property, plant and equipment (£92m) and operating intangibles (£6m) in the Australian meat business (see note 9 for further details). An exceptional tax credit of £29m arose on this item.

	2012 £m	2011 £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	0.6	0.5
Audit of the Company's subsidiaries pursuant to legislation	5.1	4.7
Total audit remuneration	5.7	5.2
Fees payable to the Company's auditor and its associates in respect of non-audit related services		
Other services pursuant to legislation	0.3	0.4
Tax services	1.9	2.0
Information technology services	0.3	0.3
All other services	0.3	0.5
Total non-audit related remuneration	2.8	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	0.2	0.1
	0.2	0.1

3. Employees

	2012	2011
Average number of employees		
United Kingdom	37,536	36,330
Europe & Africa	45,301	41,364
The Americas	3,822	3,731
Asia Pacific	19,584	20,828
	106,243	102,253

Employee benefits expense

	Note	£m	£m
Wages and salaries		1,507	1,385
Social security contributions		159	137
Contributions to defined contribution schemes	12	53	51
Charge for defined benefit schemes	12	33	32
Equity-settled share-based payment schemes	22	8	8
		1,760	1,613

Details of directors' remuneration, share options and pension entitlements are shown in the Remuneration report on pages 52 to 58.

4. Interest and other financial income and expense

	Note	2012 £m	2011 £m
Finance income			
Cash and cash equivalents		9	9
		9	9
Finance expense			
Bank loans and overdrafts		(52)	(48)
All other borrowings		(57)	(45)
Finance leases		(1)	(1)
Other payables		(1)	(3)
Unwinding of discount on provisions		(3)	(4)
		(114)	(101)
Other financial income/(expense)			
Expected return on employee benefit scheme assets	12	147	149
Interest charge on employee benefit scheme liabilities	12	(142)	(142)
Net financial income from employee benefit schemes		5	7
Net foreign exchange losses on financing activities		(3)	–
Total other financial income		2	7

NOTES FORMING PART OF THE FINANCIAL STATEMENTS CONTINUED

for the 52 weeks ended 15 September 2012

5. Income tax expense

	2012 £m	2011 £m
Current tax expense		
UK – corporation tax at 25.1% (2011 – 27.1%)	108	80
Overseas – corporation tax	110	88
UK – (over)/underprovided in prior periods	(6)	16
Overseas – overprovided in prior periods	(2)	(25)
	210	159
Deferred tax expense		
UK deferred tax	(14)	(5)
Overseas deferred tax	(20)	22
UK – underprovided in prior periods	3	1
Overseas – (over)/underprovided in prior periods	(1)	3
	(32)	21
Total income tax expense in income statement	178	180
Reconciliation of effective tax rate		
Profit before taxation	761	757
Less share of profit after tax from joint ventures and associates	(27)	(37)
Profit before taxation excluding share of profit after tax from joint ventures and associates	734	720
Nominal tax charge at UK corporation tax rate of 25.1% (2011 – 27.1%)	184	195
Benefit of lower tax rates	(19)	(35)
Expenses not deductible for tax purposes	3	22
Profits/losses on disposal of assets covered by tax exemptions or unrecognised capital losses	2	(2)
Deferred tax not recognised	14	5
Adjustments in respect of prior periods	(6)	(5)
	178	180
Income tax recognised directly in equity		
Deferred tax associated with defined benefit schemes	(23)	4
Deferred tax associated with share-based payments	2	(2)
Deferred tax associated with movement in cash flow hedging position	(4)	1
Deferred tax associated with movements in foreign exchange	(3)	1
Current tax associated with movements in foreign exchange	4	1
	(24)	5

The tax credit of £29m arising on the exceptional impairment charge in the year is included within the overseas deferred tax credit.

Following the enactment of legislation in the UK to reduce the corporation tax rate to 23% from 1 April 2013, 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 £12m reduction in the tax charge in the income statement. Proposed future reductions in the UK tax rate to 22% will be reflected when the relevant legislation is substantively enacted.

Deferred taxation balances are analysed in note 13.

6. Dividends

	2012 pence per share	2011 pence per share	2012 £m	2011 £m
2010 final	–	16.20	–	128
2011 interim	–	7.90	–	62
2011 final	16.85	–	133	–
2012 interim	8.50	–	67	–
	25.35	24.10	200	190

The 2012 interim dividend was declared on 24 April 2012 and paid on 6 July 2012. The 2012 final dividend of 20.0 pence, total value of £158m, will be paid on 11 January 2013 to shareholders on the register on 7 December 2012.

Dividends relating to the period were 28.5 pence per share totalling £225m (2011 – 24.75 pence per share totalling £195m).

7. Earnings per share

The calculation of basic earnings per share at 15 September 2012 was based on the net profit attributable to equity shareholders of £555m (2011 – £541m), and a weighted average number of shares outstanding during the year of 789 million (2011 – 788 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, exceptional items, and the associated tax credits, is shown to provide clarity on the underlying performance of the group.

The diluted earnings per share calculation takes into account the dilutive effect of share options and share incentives. The diluted, weighted average number of shares is 789 million (2011 – 788 million). There is no difference between basic and diluted earnings.

	2012 £m	2011 £m
Adjusted profit for the period	688	583
Disposal of non-current assets	(6)	5
Sale and closure of businesses	(9)	–
Exceptional items	(98)	–
Tax effect on above adjustments	31	–
Amortisation of non-operating intangibles	(100)	(83)
Tax credit on non-operating intangibles amortisation and goodwill	33	25
Non-controlling interests' share of amortisation of non-operating intangibles net of tax	16	11
Profit for the period attributable to equity shareholders	555	541
	2012 pence	2011 pence
Adjusted earnings per share	87.2	74.0
Disposal of non-current assets	(0.8)	0.6
Sale and closure of businesses	(1.1)	–
Exceptional items	(12.4)	–
Tax effect on above adjustments	3.9	–
Amortisation of non-operating intangibles	(12.7)	(10.5)
Tax credit on non-operating intangibles amortisation and goodwill	4.2	3.2
Non-controlling interests' share of amortisation of non-operating intangibles net of tax	2.0	1.4
Earnings per ordinary share	70.3	68.7

NOTES FORMING PART OF THE FINANCIAL STATEMENTS CONTINUED

for the 52 weeks ended 15 September 2012

8. Intangible assets

	Non-operating					Operating			Total £m
	Goodwill £m	Technology £m	Brands £m	Customer relationships £m	Grover agreements £m	Other £m	Other £m		
Cost									
At 18 September 2010	1,355	244	349	104	198	9	126	2,385	
Other acquisitions – externally purchased	–	–	–	–	–	–	60	60	
Other disposals	–	–	–	–	–	–	(12)	(12)	
Effect of movements in foreign exchange	8	4	–	5	(9)	–	8	16	
At 17 September 2011	1,363	248	349	109	189	9	182	2,449	
Other acquisitions – externally purchased	–	–	–	–	–	–	46	46	
Acquired through business combinations	8	–	34	2	–	–	–	44	
Other disposals	–	–	–	–	–	–	(14)	(14)	
Effect of movements in foreign exchange	(51)	(13)	(10)	(7)	(23)	(1)	(4)	(109)	
At 15 September 2012	1,320	235	373	104	166	8	210	2,416	
Amortisation and impairment									
At 18 September 2010	5	130	135	78	80	9	23	460	
Amortisation for the year	–	17	29	17	20	–	13	96	
Effect of movements in foreign exchange	–	1	–	1	(5)	–	3	–	
At 17 September 2011	5	148	164	96	95	9	39	556	
Amortisation for the year	–	47	32	4	17	–	22	122	
Impairment	–	–	–	–	–	–	6	6	
Other disposals	–	–	–	–	–	–	(2)	(2)	
Effect of movements in foreign exchange	–	(8)	(7)	(6)	(12)	(1)	(1)	(35)	
At 15 September 2012	5	187	189	94	100	8	64	647	
Net book value									
At 18 September 2010	1,350	114	214	26	118	–	103	1,925	
At 17 September 2011	1,358	100	185	13	94	–	143	1,893	
At 15 September 2012	1,315	48	184	10	66	–	146	1,769	

The impairment of operating intangibles relates to IT assets in the meat business in George Weston Foods. See note 9 for further details. The impairment is included in the Grocery and Asia Pacific segments.

The increase in the amortisation charge for the year reflects the decline in profitability of the AB Mauri business resulting in the need to foreshorten the useful economic lives of certain assets originally acquired with the business.

8. Intangible assets continued

Impairment of goodwill

As at 15 September 2012, the consolidated balance sheet included goodwill of £1,315m (2011 – £1,358m). Goodwill is allocated to the group's cash-generating units (CGUs), or groups of CGUs 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	2012	2011
		£m	£m
ACH	Grocery	237	245
AB Mauri	Ingredients	347	358
Twinings Ovaltine	Grocery	119	119
Capullo	Grocery	58	58
Illovo	Sugar	161	184
AB World Foods	Grocery	58	58
North China Sugar	Sugar	67	68
Other*	Various	268	268
		1,315	1,358

* 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, or more frequently if events or circumstances indicate that the carrying amount may not be recoverable.

The carrying value of goodwill is assessed by reference to its value in use to perpetuity reflecting the projected cash flows of each of the CGUs or group of CGUs. These projections are based on the most recent budget, which has been approved by the board and reflects management's expectations of sales growth, operating costs and margin, based on past experience and external sources of information. Long-term growth rates for periods not covered by the annual budget reflect the products, industries and countries in which the relevant CGU, or group of CGUs, operate.

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, budgeted cash flows are extended, generally to between three and five years, using specific growth assumptions and taking into account the specific business risks.

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 volumes, 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 country risk. The rates used were in a range between 8% and 12.8% (2011 – between 8% and 12%).

The growth rates to perpetuity beyond the initial budgeted cash flows, applied in the value in use calculations for goodwill allocated to each of the CGUs or groups of CGUs that are significant to the total carrying amount of goodwill, were in a range between 0% and 3% (2011 – between 0% and 2.5%).

Changes in volumes, selling prices 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 AB Mauri and the North China sugar business.

AB Mauri has experienced increased competitive pressure, higher molasses costs and an inability to recover inflationary cost increases through pricing in its different businesses around the world. This resulted in an indicator of impairment risk under the strict requirements of IFRS. Management has reviewed detailed forecasts for this business taking those issues into account, and has concluded that the assets are not impaired. Headroom was \$218m on a CGU carrying value of \$1,405m. The discount rate used was 11.5% and would have to increase to more than 12.7% before value in use fell below the CGU carrying value. Estimates of long-term growth rates beyond the forecast periods were 1.5%–2% per annum for all regions apart from China and the remainder of Asia, where 2.5% was used.

In North China Sugar, current forecasts continue to support the carrying value of the assets of the business, but the achievement of these forecasts depends on significant improvements in a variety of operational parameters, including agricultural yields, factory volumes and recovery of sugar price. Management has reviewed detailed forecasts for this business taking those issues into account, and has concluded that no impairment is required. Headroom was £17m on a CGU carrying value of £251m. The discount rate used was 12.8% and would have to increase to 13.4% to reduce value in use to below the CGU carrying value. The estimate of long-term growth beyond the forecast period was 2% per annum.

For all goodwill other than AB Mauri and 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 materially exceed value in use.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS CONTINUED

for the 52 weeks ended 15 September 2012

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 18 September 2010	1,951	2,779	1,055	296	6,081
Other acquisitions	164	225	232	162	783
Interest capitalised	–	–	–	2	2
Other disposals	(21)	(155)	(47)	–	(223)
Transfers from assets under construction	11	278	3	(292)	–
Effect of movements in foreign exchange	39	35	11	9	94
At 17 September 2011	2,144	3,162	1,254	177	6,737
Other acquisitions	100	146	267	196	709
Interest capitalised	–	–	–	2	2
Other disposals	(26)	(130)	(48)	–	(204)
Transfers from assets under construction	12	98	11	(121)	–
Effect of movements in foreign exchange	(54)	(103)	(31)	(4)	(192)
At 15 September 2012	2,176	3,173	1,453	250	7,052
Depreciation and impairment					
At 18 September 2010	341	1,431	368	–	2,140
Depreciation for the year	43	177	97	–	317
Other disposals	(24)	(147)	(45)	–	(216)
Effect of movements in foreign exchange	6	21	4	–	31
At 17 September 2011	366	1,482	424	–	2,272
Depreciation for the year	52	214	128	–	394
Impairment	38	57	–	–	95
Other disposals	(24)	(124)	(48)	–	(196)
Effect of movements in foreign exchange	(7)	(38)	(9)	–	(54)
At 15 September 2012	425	1,591	495	–	2,511
Net book value					
At 18 September 2010	1,610	1,348	687	296	3,941
At 17 September 2011	1,778	1,680	830	177	4,465
At 15 September 2012	1,751	1,582	958	250	4,541
				2012 £m	2011 £m
Net book value of finance lease assets				12	12
Land and buildings at net book value comprise:					
– freehold				1,365	1,385
– long leasehold				290	295
– short leasehold				96	98
				1,751	1,778
Capital expenditure commitments – contracted but not provided for				225	166

Impairment

In the Australian meat business, continuing retailer price competition, competitor activity, lower production volumes and higher costs at the new factory at Castlemaine, Victoria have led to poor trading results and the need for a restructuring of sales distribution and warehousing. This has given rise to an indicator of impairment risk and following a detailed assessment, management has concluded that the carrying value of the assets in the meat business is no longer supported by its discounted forecast cash flows. A discount rate of 10.5% was used. The key sensitivity in the value in use calculation is volume recovery.

An impairment charge of A\$150m (£98m) has been charged to exceptional items in the income statement. A\$140m (£92m) was taken against property, plant and equipment, comprising A\$56m (£37m) to land and buildings, and A\$84m (£55m) to plant and equipment. A\$10m (£6m) was provided against operating intangibles (see note 8). The net book value of property, plant and equipment and operating intangibles in the meat business prior to the impairment was A\$350m, and A\$200m afterwards. Accounting standards do not permit the inclusion, in the impairment calculation, of cash flows that are expected to be generated from the future sale of former meat processing sites in Western Australia and Victoria, which are being redeveloped, and where the net cash inflows are expected to be substantial. The impairment is included in the Grocery and Asia Pacific segments.

10. Biological assets

	Current			Non-current
	Growing cane £m	Other £m	Total £m	Cane roots £m
At 18 September 2010	92	8	100	97
Transferred to inventory	(102)	(23)	(125)	–
Purchases	–	2	2	1
Changes in fair value	118	21	139	7
Effect of movements in foreign exchange	(4)	–	(4)	(6)
At 17 September 2011	104	8	112	99
Transferred to inventory	(138)	(28)	(166)	–
Purchases	1	2	3	1
Changes in fair value	158	26	184	10
Effect of movements in foreign exchange	(24)	–	(24)	(21)
At 15 September 2012	101	8	109	89
Cane roots			2012	2011
Area under cane as at the end of the period (hectares)				
South Africa			8,477	7,990
Malawi			20,594	20,608
Zambia			17,113	17,153
Swaziland			8,646	8,657
Tanzania			9,676	9,776
Mozambique			6,000	5,570
			70,506	69,754

Growing cane

The following assumptions have been used in the determination of the estimated sucrose tonnage at 15 September 2012:

	South Africa	Malawi	Zambia	Swaziland	Tanzania	Mozambique
Expected area to harvest (hectares)	5,038	20,181	16,888	8,096	9,676	5,870
Estimated yield (tonnes cane/hectare)	72.0	109.9	111.0	105.6	81.0	93.6
Average maturity of cane	56.0%	66.7%	66.7%	66.7%	50%	66.7%

The following assumptions were used in the determination of the estimated sucrose tonnage at 17 September 2011:

	South Africa	Malawi	Zambia	Swaziland	Tanzania	Mozambique
Expected area to harvest (hectares)	5,010	20,173	16,944	8,029	9,776	5,484
Estimated yield (tonnes cane/hectare)	69.4	110.4	120.0	110.9	80.0	95.0
Average maturity of cane	56.0%	66.7%	66.7%	66.7%	50%	66.7%

NOTES FORMING PART OF THE FINANCIAL STATEMENTS CONTINUED

for the 52 weeks ended 15 September 2012

11. Investments in joint ventures and associates

	Joint ventures			Associates		
	Shares £m	Goodwill £m	Total £m	Shares £m	Goodwill £m	Total £m
At 18 September 2010	107	14	121	38	—	38
Acquisitions	4	1	5	—	—	—
Profit for the period	29	—	29	8	—	8
Dividends received	(6)	—	(6)	(3)	—	(3)
Effect of movements in foreign exchange	1	—	1	1	—	1
At 17 September 2011	135	15	150	44	—	44
Acquisitions	6	—	6	—	—	—
Profit for the period	25	—	25	2	—	2
Dividends received	(5)	—	(5)	(6)	—	(6)
Effect of movements in foreign exchange	(5)	3	(2)	(1)	1	—
At 15 September 2012	156	18	174	39	1	40

Details of principal joint ventures and associates are listed in note 28.

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	
	2012 £m	2011 £m	2012 £m	2011 £m
Non-current assets				
Current assets	233	206	22	22
Current liabilities	287	305	125	166
Non-current liabilities	(198)	(221)	(107)	(143)
Goodwill	(166)	(155)	(1)	(1)
Net assets	174	150	40	44
Revenue				
Expenses	1,273	1,221	85	96
Taxation	(1,243)	(1,185)	(81)	(84)
Profit for the period	(5)	(7)	(2)	(4)
	25	29	2	8

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 15 September 2012. 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 2011. At the valuation date the total market value of the assets of the Scheme was £2,559m and represented 101% of the benefits that had accrued to members after allowing for expected future increases in earnings. By agreement with the trustees, the Company agreed to eliminate the deficit identified at the time of the triennial actuarial valuation of the Scheme in 2008 with five annual payments of £30m. The fourth of these payments was made in March 2012, and although the fund was in surplus at the time of the most recent valuation, the Company has agreed to make the final payment in March 2013.

Overseas schemes

The group also operates defined benefit pension schemes in Australia and New Zealand, the United States, Canada, the Republic of Ireland, Spain, Switzerland, Germany, France, Italy, the Philippines, Thailand, Mexico, and South Africa. 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.

12. Employee entitlements continued

Assumptions

The UK pension schemes represent 90% (2011 – 90%) of the group's scheme assets and 88% (2011 – 88%) 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:

	2012 %	2011 %	2010 %
Discount rate	4.6	5.1	5.2
Inflation	3.1	3.3	3.5
Rate of increase in salaries	4.1	4.3	5.0
Rate of increase for pensions in payment	2.9	3.1	3.3
Rate of increase for pensions in deferment (where provided)	2.6	2.8	3.0

The mortality assumptions used to value the UK pension schemes are derived from the S1NA generational mortality tables with improvements in line with the projection model prepared by the Continuous Mortality Investigation of the UK actuarial profession, with no rating for males and a +0.2 year rating for females, with a long-term underpin of 1.5%. 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)	2012		2011	
	Male	Female	Male	Female
Member aged 65 in 2012 (2011)	22.6	24.7	22.5	24.6
Member aged 65 in 2032 (2031)	24.8	27.1	24.7	27.0

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

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

Balance sheet

The expected rates of return on plan assets were 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 £4m (2011 – £16m asset) plus the overseas schemes' net pension liability of £91m (2011 – £60m liability) totals a liability of £95m (2011 – £44m). This equates to the employee benefits asset of £18m (2011 – £35m) and liability of £113m (2011 – £79m) shown on the face of the consolidated balance sheet.

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

UK schemes	2012 %	2012 £m	2011 %	2011 £m	2010 %	2010 £m
Expected long-term rates of return:						
Equities	6.3	961	6.7	827	7.1	831
Government bonds	3.3	896	3.7	631	4.1	542
Non-government bonds	4.6	638	5.1	939	5.2	919
Property	4.8	103	5.2	102	5.6	90
Other	0.5	117	0.5	7	0.5	23
Total market value of plan assets		2,715		2,506		2,405
Present value of scheme liabilities		(2,719)		(2,490)		(2,434)
Net pension (liability)/asset		(4)		16		(29)
Unfunded liability included in the present value of scheme liabilities above		(19)		(17)		(15)

The plan assets, scheme liabilities and aggregate net deficit of the plans were respectively £2,135m, £2,211m and £76m in 2009 and £2,202m, £2,117m and £85m surplus in 2008.

The sensitivities regarding the principal assumptions used to measure UK scheme liabilities at 15 September 2012 are:

	Change in assumption	Impact on scheme liabilities
Discount rate	decrease/increase by 0.5%	increase/decrease by 9.0%
Inflation	increase/decrease by 0.5%	increase/decrease by 7.9%
Rate of increase in salaries	increase/decrease by 0.5%	increase/decrease by 1.6%
Rate of mortality	reduce by one year	increase by 2.7%

NOTES FORMING PART OF THE FINANCIAL STATEMENTS CONTINUED

for the 52 weeks ended 15 September 2012

12. Employee entitlements continued

Overseas schemes	2012 %	2012 £m	2011 %	2011 £m	2010 %	2010 £m
Expected long-term rates of return:						
Equities	7.2	139	8.0	128	7.7	112
Government bonds	3.7	33	4.7	36	4.3	34
Non-government bonds	3.7	56	3.5	53	2.9	41
Property	4.3	4	5.2	6	7.1	5
Other	4.0	56	5.9	59	6.3	93
Total market value of plan assets		288		282		285
Present value of scheme liabilities		(371)		(334)		(342)
Aggregate net deficit of the plans		(83)		(52)		(57)
Irrecoverable surplus (a)		(8)		(8)		(13)
Net pension liability		(91)		(60)		(70)
Unfunded liability included in the present value of scheme liabilities above		(38)		(34)		(36)

The plan assets, scheme liabilities and aggregate net deficit of the plans were respectively £238m, £242m and £4m in 2009 and £222m, £211m and £11m surplus in 2008.

(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.

Income statement

The charge to the income statement comprises:

	2012 £m	2011 £m
Charged to operating profit:		
Defined benefit plans		
Current service cost	(34)	(39)
Gain on curtailment	1	7
Defined contribution plans	(53)	(51)
Total operating cost	(86)	(83)
Reported in other financial income/(expense):		
Expected return on assets	147	149
Interest charge on liabilities	(142)	(142)
Net financial income from employee benefit schemes	5	7
Net impact on the income statement (before tax)	(81)	(76)

The actual return on scheme assets was a gain of £294m (2011 – gain of £153m).

12. Employee entitlements continued

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 2012, the benefits paid in respect of unfunded plans was £nil (2011 – £1m). Company contributions to funded defined benefit plans are subject to periodic review. In 2012, contributions to funded defined benefit plans amounted to £71m (2011 – £70m). Contributions to defined contribution plans amounted to £53m (2011 – £51m).

Total contributions to funded plans and benefit payments by the group in respect of unfunded plans are currently expected to be approximately £67m in 2013 (2012 – £70m).

Other comprehensive income

Amounts recognised in other comprehensive income:

	2012 £m	2011 £m
Actual return less expected return on pension scheme assets	147	4
Experience gains and losses arising on scheme liabilities	204	67
Changes in assumptions underlying the present value of scheme liabilities	(450)	(62)
Change in unrecognised surplus	(99)	9
Net actuarial (loss)/gain recognised in other comprehensive income (before tax)	(99)	12

Cumulative actuarial losses from 19 September 2004 reported in other comprehensive income are £434m (2011 – cumulative actuarial losses of £335m).

Reconciliation of change in assets and liabilities

	2012 assets £m	2011 assets £m	2012 liabilities £m	2011 liabilities £m	2012 net £m	2011 net £m
Asset/(liability) at beginning of year	2,788	2,690	(2,824)	(2,776)	(36)	(86)
Current service cost	–	–	(34)	(39)	(34)	(39)
Employee contributions	9	10	(9)	(10)	–	–
Employer contributions	71	70	–	–	70	70
Benefit payments	(137)	(141)	137	142	–	1
Gain on curtailments	–	(3)	1	10	1	7
Financial income	147	149	–	–	147	149
Financial expense	–	–	(142)	(142)	(142)	(142)
Actuarial gain/(loss)	147	4	(246)	5	(99)	9
Effect of movements in foreign exchange	(22)	9	27	(14)	6	(5)
Asset/(liability) at end of year	3,003	2,788	(3,090)	(2,824)	(87)	(36)

History of experience gains and losses

	2012	2011	2010	2009	2008
Difference between the expected and actual return on scheme assets					
– amount (£m)	147	4	236	(203)	(170)
– percentage of scheme assets	4.9%	0.1%	8.8%	8.6%	7.0%
Experience gains and losses on scheme liabilities					
– amount (£m)	204	67	(15)	5	61
– percentage of scheme liabilities	6.6%	2.4%	0.5%	0.2%	2.6%
Total amount included in other comprehensive income					
– amount (£m)	(99)	9	(37)	(231)	(253)
– percentage of scheme liabilities	3.2%	0.3%	1.3%	9.4%	10.9%

NOTES FORMING PART OF THE FINANCIAL STATEMENTS CONTINUED

for the 52 weeks ended 15 September 2012

13. Deferred tax assets and liabilities

	Property, plant and 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 18 September 2010	198	123	(27)	–	28	(84)	238
Amount charged/(credited) to the income statement	31	(8)	10	–	18	(14)	37
Amount charged/(credited) to other comprehensive income	–	–	4	1	1	–	6
Amount charged/(credited) directly to equity	–	–	(2)	–	–	–	(2)
Effect of change in tax rate on income statement	(24)	–	–	–	1	7	(16)
Effect of movements in foreign exchange	(1)	–	–	–	(4)	(4)	(9)
At 17 September 2011	204	115	(15)	1	44	(95)	254
Amount charged/(credited) to the income statement	(13)	(15)	8	(1)	2	(4)	(23)
Amount charged/(credited) to other comprehensive income	–	–	(21)	(4)	(3)	–	(28)
Effect of change in tax rate on income statement	(3)	(1)	–	–	–	(5)	(9)
Effect of movements in foreign exchange	(9)	(4)	2	–	(10)	4	(17)
At 15 September 2012	179	95	(26)	(4)	33	(100)	177

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:

	2012 £m	2011 £m
Deferred tax assets	(189)	(150)
Deferred tax liabilities	366	404
	177	254

The recoverability of deferred tax assets is supported by the expected level of future profits in the countries concerned. Other deferred tax assets totalling £45m (2011 – £29m) have not been recognised on the basis that their future economic benefit is uncertain.

In addition, there are temporary differences of £2,098m (2011 – £2,095m) 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

	2012 £m	2011 £m
Non-current – other receivables		
Loans and receivables	147	187
Other non-current investments	4	16
	151	203
Current – trade and other receivables		
Trade receivables	980	939
Other receivables	138	136
Accrued income	19	19
	1,137	1,094
Prepayments and other non-financial receivables	99	165
	1,236	1,259

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 24.

Trade and other receivables include £16m (2011 – £19m) in respect of finance lease receivables, with £13m in non-current loans and receivables and £3m in current other receivables (2011 – £16m in non-current loans and receivables and £3m in current other receivables). Minimum lease payments receivable are £3m within one year and £13m between one and five years (2011 – £3m within one year, £14m between one and five years, and £3m after five years).

The finance lease receivables relate to property, plant and equipment leased to a joint venture of the group (see note 27).

15. Inventories

	2012 £m	2011 £m
Raw materials and consumables	378	362
Work in progress	38	35
Finished goods and goods held for resale	1,084	1,028
	1,500	1,425
Write down of inventories	(66)	(89)

16. Cash and cash equivalents

	Note	2012 £m	2011 £m
Cash			
Cash at bank and in hand		233	331
Cash equivalents		158	10
Cash and cash equivalents	24	391	341
Reconciliation to the cash flow statement			
Bank overdrafts	17	(146)	(50)
Cash and cash equivalents in the cash flow statement		245	291

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 a 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.

17. Loans and overdrafts

	Note	2012 £m	2011 £m
Current loans and overdrafts			
Secured redeemable debenture stock 2013		150	–
Secured loans		23	37
Unsecured loans and overdrafts		365	692
		538	729
Non-current loans			
Secured redeemable debenture stock 2013		–	150
Secured loans		69	189
Unsecured loans		833	546
Finance leases	25	12	12
		914	897
	24	1,452	1,626

NOTES FORMING PART OF THE FINANCIAL STATEMENTS CONTINUED

for the 52 weeks ended 15 September 2012

17. Loans and overdrafts continued

	Note	2012 £m	2011 £m
10 ^{3/4} % secured redeemable debenture stock 2013 (GBP)		150	150
Secured loans			
– USD floating rate		–	10
– ZAR floating rate		–	79
– RMB floating rate		11	53
– Other floating rate		81	81
– Other fixed rate		–	3
Unsecured loans and overdrafts			
– Bank overdrafts	16	146	50
– GBP floating rate		122	514
– GBP fixed rate		160	81
– USD floating rate		1	28
– USD fixed rate		597	295
– EUR floating rate		32	146
– EUR fixed rate		17	19
– RMB floating rate		111	96
– RMB fixed rate		6	2
– Other floating rate		5	5
– Other fixed rate		1	2
Finance leases (fixed rate)		12	12
		1,452	1,626

Secured 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.

18. Trade and other payables

	2012 £m	2011 £m
Trade payables	824	788
Accruals	681	622
	1,505	1,410
Deferred income and other non-financial payables	247	217
	1,752	1,627

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

19. Provisions

	Restructuring £m	Deferred consideration £m	Other £m	Total £m
At 17 September 2011	24	69	43	136
Created	6	9	13	28
Unwinding of discount	–	3	–	3
Utilised	(9)	(1)	(2)	(12)
Released	(1)	–	(14)	(15)
Effect of movements in foreign exchange	–	–	(4)	(4)
At 15 September 2012	20	80	36	136
Current	12	70	16	98
Non-current	8	10	20	38
	20	80	36	136

Provisions include financial liabilities of £136m (2011 – £136m) (see note 24).

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 2012/13.

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.

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.

20. Share capital and reserves**Share capital**

	Ordinary shares of 5 ¹⁵ / ₂₂ p each 000	Nominal value £m
Issued and fully paid		
At 17 September 2011 and 15 September 2012	791,674	45

At 15 September 2012, the Company's issued share capital comprised 791,674,183 ordinary shares of 5¹⁵/₂₂p 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 2010 as a transfer to capital redemption reserve following redemption of 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.

Hedging reserve

The hedging reserve comprises all changes in the value of derivatives to the extent that they are effective cash flow hedges, net of amounts recycled from the hedging reserve on occurrence of the hedged transaction or when the hedged transaction is no longer expected to occur.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS CONTINUED

for the 52 weeks ended 15 September 2012

21. Acquisitions and disposals

2012

During 2012, the group acquired Elephant Atta, the UK's leading ethnic flour brand, for a consideration of £34m. Additionally, a number of smaller acquisitions were made with a total cash consideration of £3m and deferred consideration payable on prior year acquisitions was increased by £9m. Total consideration therefore amounted to £46m. Net identifiable assets and liabilities acquired were £38m, comprising non-operating intangibles of £36m, inventory of £3m, cash of £1m, trade payables of £1m and short-term borrowings of £1m. Goodwill arising was £8m.

Cash flow on purchase of subsidiaries, joint ventures and associates of £45m comprises £37m cash consideration, less £1m cash acquired, and a £9m investment in joint ventures.

Loss on sale and closure of businesses of £9m comprised a £15m non-cash charge for the write-off of Illovo's investment in pre-project expenditure in Mali (Sugar and Europe & Africa segments), offset by a £9m credit for recognition of deferred profit on the disposal of the group's Polish sugar operations in November 2009 (Sugar and Europe & Africa segments) together with other small charges totalling £3m. Cash flow on sale of subsidiaries, joint ventures and associates of £2m in the cash flow statement comprises receipts of deferred consideration in respect of previous business disposals.

2011

During 2011, the group completed no new business combinations or business disposals. Cash flow on purchase of subsidiaries, joint ventures and associates of £24m comprised £15m in respect of previous acquisitions and £9m investment in a joint venture. Cash flow on sale of subsidiaries, joint ventures and associates of £3m in the cash flow statement comprises receipts of deferred consideration in respect of previous business disposals.

22. Share-based payments

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

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 53 and 54 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
2012	the Share Incentive Plan	5,373,360	1,944,957	–	(1,046,375)	(1,096,003)	5,175,939
2011	the 2000 Scheme	75,000	–	(55,000)	–	(20,000)	–
	the Share Incentive Plan	5,791,563	1,962,219	–	(1,132,093)	(1,248,329)	5,373,360

	Outstanding at the beginning of the year pence	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
		Granted pence	Exercised pence	Forfeited pence	Expired/lapsed pence	Outstanding at the end of the year pence		
2011	the 2000 Scheme	484.00	–	484.00	–	484.00	–	n/a

No share options were exercised during the year. The weighted average market price for share options exercised during 2011 was 1,106 pence.

22. Share-based payments continued

Ordinary shares already issued and subject to option under 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 15 September 2012 the Trust held 2,769,023 (2011 – 3,815,490) ordinary shares of the Company. The market value of these shares at the year end was £35m (2011 – £43m). The trust has waived its right to dividends. Movements in the year were releases under the Share Incentive Plan of 1,046,375 (2011 – releases under the Share Incentive Plan of 1,132,093, share option exercises of 55,000 and purchases of 1,500,000).

Fair values

The weighted average fair value for the 2000 Scheme was determined using a binomial lattice model and for the Share Incentive Plan 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. The weighted average fair value of the shares awarded under the Share Incentive Plan during the year was 1,022 pence (2011 – 999 pence) and the weighted average share price was 1,099 pence (2011 – 1,074 pence). The dividend yield used was 2.5%. No options were granted under the 2000 Scheme in either 2011 or 2012.

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 £8m (2011 – £8m).

23. Analysis of net debt

	At 17 September 2011 £m	Cash flow £m	Acquisitions £m	Exchange adjustments £m	At 15 September 2012 £m
Cash at bank and in hand, cash equivalents and overdrafts	291	(28)	–	(18)	245
Short-term borrowings	(679)	279	(1)	9	(392)
Loans over one year	(897)	(44)	–	27	(914)
	(1,285)	207	(1)	18	(1,061)

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 are included as a component of cash and cash equivalents for the purpose of the cash flow statement.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS CONTINUED

for the 52 weeks ended 15 September 2012

24. Financial instruments

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

	2012 £m	2011 £m
Financial assets		
Cash and cash equivalents	391	341
Loans and receivables:		
Trade and other receivables	1,137	1,094
Other non-current receivables (fair value 2012 – £147m; fair value 2011 – £186m)	151	203
At fair value through profit or loss:		
Derivative assets not designated in a cash flow hedging relationship:		
– currency derivatives	2	4
– commodity derivatives	8	1
Designated cash flow hedging relationships:		
Derivative assets designated and effective as cash flow hedging instruments:		
– currency derivatives	17	17
– commodity derivatives	6	4
Total financial assets	1,712	1,664
Financial liabilities		
Financial liabilities at amortised cost:		
Trade and other payables	(1,505)	(1,410)
Secured redeemable debenture stock (fair value 2012 – £163m; fair value 2011 – £174m)	(150)	(150)
Secured loans (fair value 2012 – £92m; fair value 2011 – £227m)	(92)	(226)
Unsecured loans and overdrafts (fair value 2012 – £1,332m; fair value 2011 – £1,312m)	(1,198)	(1,238)
Finance leases (fair value 2012 – £10m; fair value 2011 – £10m)	(12)	(12)
Provisions	(136)	(136)
At fair value through profit or loss:		
Derivative liabilities not designated in a cash flow hedging relationship:		
– currency derivatives	(4)	(2)
– commodity derivatives	(8)	(1)
Designated cash flow hedging relationships:		
Derivative liabilities designated and effective as cash flow hedging instruments:		
– currency derivatives	(35)	(12)
– commodity derivatives	(3)	(7)
Total financial liabilities	(3,143)	(3,194)
Net financial liabilities	(1,431)	(1,530)

Except where stated, carrying amount is equal to fair value.

24. Financial instruments continued

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

Financial asset/liability	Fair value determination
Cash and cash equivalents	Fair values have been stated at book values due to short maturities or otherwise immediate or short-term access and realisability.
Trade receivables, other receivables and accrued income	
Trade payables, other payables and accruals	
Other non-current investments (recorded within other non-current receivables)	These 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.
Other long-term receivables	Fair values have been estimated by discounting expected future cash flows.
Loans, overdrafts and debenture stock	
Finance leases	
Derivatives	Fair values are typically 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 almost always available to assist with the valuation of derivatives.
Provisions	These 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, fair value is equivalent to 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 and derivatives. 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). 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.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS CONTINUED

for the 52 weeks ended 15 September 2012

24. Financial instruments continued

b) Derivatives

All derivatives are classified as current on the face of the balance sheet. The table below analyses the carrying amount of derivatives and their contractual/notional amounts, together with an analysis of derivatives by the level in the fair value hierarchy into which their fair value measurement method is categorised.

	2012				2011			
	Contractual/ notional amounts £m	Level 1 £m	Level 2 £m	Total £m	Contractual/ notional amounts £m	Level 1 £m	Level 2 £m	Total £m
Financial assets								
Currency derivatives	536	–	19	19	927	–	21	21
Commodity derivatives	110	10	4	14	79	2	3	5
	646	10	23	33	1,006	2	24	26
Financial liabilities								
Currency derivatives	1,396	–	(39)	(39)	682	–	(15)	(15)
Commodity derivatives	70	(8)	(3)	(11)	74	(4)	(3)	(7)
	1,466	(8)	(42)	(50)	756	(4)	(18)	(22)

c) Cash flow hedging reserve

The following table identifies the movements in the cash flow hedging reserve during the year, 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.

	2012			2011		
	Currency derivatives £m	Commodity derivatives £m	Total £m	Currency derivatives £m	Commodity derivatives £m	Total £m
Opening balance	(4)	1	(3)	6	(4)	2
Losses/(gains) recognised in the hedging reserve	(38)	19	(19)	1	6	7
Amount removed from the hedging reserve and included in the income statement due to settlement of contracts:						
– revenue	22	–	22	3	(13)	(10)
– cost of sales	–	(15)	(15)	(2)	3	1
Amount removed from the hedging reserve and included in a non-financial asset due to settlement of contracts:						
– property, plant and equipment	(1)	–	(1)	–	–	–
– inventory	39	(5)	34	(10)	6	(4)
Deferred tax	(4)	–	(4)	(2)	3	1
Closing balance	14	–	14	(4)	1	(3)
Cash flows are expected to occur:						
– within six months	10	–	10	(5)	1	(4)
– between six months and one year	4	–	4	1	–	1
	14	–	14	(4)	1	(3)

Of the closing balance of £14m, £17m is attributable to equity shareholders and £(3)m to non-controlling interests (2011 – £(3)m attributable entirely to non-controlling interests). Movements in the year (net) of £17m (2011 – £(5)m) comprise £17m attributable to equity shareholders and £nil to non-controlling interests (2011 – £(4)m to equity shareholders and £(1)m to non-controlling interests).

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.

24. Financial instruments continued

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 may be 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:

	2012 £m	2011 £m
Euro	17	52
US dollar	597	296
	614	348

The foreign exchange gain of £11m (2011 – gain of £2m) on retranslation of these loans has been taken to the translation reserve on consolidation. Of this balance a gain of £12m was attributable to equity shareholders and a loss of £1m to non-controlling interests (2011 – £1m to equity shareholders and £1m to non-controlling interests).

NOTES FORMING PART OF THE FINANCIAL STATEMENTS CONTINUED

for the 52 weeks ended 15 September 2012

24. 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, since they are both entered into, and continue to be held, for the purposes of the group's ordinary operations, and 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, but some are not eligible for treatment as 'own use' contracts and are not contracts for which the strict requirements of hedge accounting can be satisfied. This occurs typically where the group does not take physical delivery of the commodity concerned. Such commodity derivatives are used only where the business believes they provide an economic hedge of an underlying exposure. These 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.

The group does not have significant sensitivities in respect of the accounting for its on-balance sheet commodity contracts.

(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.

At 15 September 2012, £943m (65%) (2011 – £564m and 35%) of total debt was subject to fixed rates of interest. The group's fixed rate debt includes the US Private Placement loans of £774m (2011 – £394m) and the £150m 10^{3/4}% secured redeemable debenture stock 2013 (2011 – £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).

The group does not have significant sensitivities to the impact of interest rates on derivative valuations, nor to the impact of interest rates on floating rate borrowings.

(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.

24. Financial instruments continued

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 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.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS CONTINUED

for the 52 weeks ended 15 September 2012

24. Financial instruments continued

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

	2012				
	Sterling £m	US dollar £m	Euro £m	Other £m	Total £m
Financial assets					
Cash and cash equivalents	3	20	3	8	34
Trade and other receivables	–	27	50	11	88
	3	47	53	19	122
Financial liabilities					
Trade and other payables	(3)	(142)	(22)	(10)	(177)
Secured loans	–	–	–	–	–
Unsecured loans and overdrafts	(4)	(598)	(19)	–	(621)
	(7)	(740)	(41)	(10)	(798)
Currency derivatives					
Gross amounts receivable	50	882	38	68	1,038
Gross amounts payable	(66)	(151)	(686)	(28)	(931)
	(16)	731	(648)	40	107
	(20)	38	(636)	49	(569)

	2011				
	Sterling £m	US dollar £m	Euro £m	Other £m	Total £m
Financial assets					
Cash and cash equivalents	7	59	31	7	104
Trade and other receivables	–	21	40	11	72
	7	80	71	18	176
Financial liabilities					
Trade and other payables	(3)	(169)	(13)	(8)	(193)
Secured loans	–	(10)	–	(3)	(13)
Unsecured loans and overdrafts	–	(327)	(58)	–	(385)
	(3)	(506)	(71)	(11)	(591)
Currency derivatives					
Gross amounts receivable	24	742	59	83	908
Gross amounts payable	(8)	(62)	(614)	(61)	(745)
	16	680	(555)	22	163
	20	254	(555)	29	(252)

The following significant exchange rates applied during the year:

	Average rate		Closing rate	
	2012	2011	2012	2011
US dollar	1.57	1.60	1.62	1.58
Euro	1.21	1.15	1.23	1.15
Rand	12.67	11.09	13.35	11.72
Renminbi	9.98	10.51	10.26	10.08
Australian dollar	1.53	1.57	1.54	1.53

24. Financial instruments continued

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 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). This sensitivity is presented before taxation and non-controlling interests.

10% strengthening against other currencies of	2012 impact on profit for the year +/- £m	2012 impact on total equity +/- £m	2011 impact on profit for the year +/- £m	2011 impact on total equity +/- £m
Sterling	–	(2)	–	2
US dollar	3	21	17	41
Euro	2	(71)	4	(63)
Other	1	3	1	5

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

10% strengthening of sterling against	2012 impact on profit for the year +/- £m	2011 impact on profit for the year +/- £m
US dollar	(4)	(6)
Euro	(13)	(7)
Rand	1	3
Renminbi	3	(2)
Australian dollar	13	–

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 15 September 2012. The group considers its maximum exposure to credit risk to be:

	2012 £m	2011 £m
Cash and cash equivalents	391	341
Loans and receivables (see note 24a)	1,288	1,297
Financial assets at fair value through profit and loss		
– derivative assets	10	5
Designated cash flow hedging relationships	23	21
– derivative assets		
	1,712	1,664

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

As at 15 September 2012, there were no significant financial guarantees or third-party obligations that increased the credit risk of the financial assets set out above.

The group uses market knowledge, changes in credit ratings and other techniques to identify significant changes to the financial profile of its counterparties.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS CONTINUED

for the 52 weeks ended 15 September 2012

24. Financial instruments continued

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 an established 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.

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

	2012 £m	2011 £m
UK	405	379
Europe & Africa	241	209
The Americas	141	132
Asia Pacific	350	374
	1,137	1,094

Trade receivables can be analysed as follows:

	2012 gross £m	2011 gross £m
Not overdue	850	821
Up to 1 month past due	107	92
Between 1 and 2 months past due	22	21
Between 2 and 3 months past due	6	9
More than 3 months past due	32	34
Provision for doubtful debts	(37)	(38)
At 15 September 2012	980	939

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:

	2012 £m	2011 £m
Opening balance	38	38
Amounts provided for during the year	9	10
Amounts released during the year	(3)	(5)
Amounts utilised during the year	(6)	(5)
Effect of movements in foreign exchange	(1)	–
Closing balance	37	38

No trade and other receivables (2011 – 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 and cash equivalents

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 or cash equivalents, nor have any recoverability issues been identified with such balances. Such items are typically recoverable on demand or in line with normal banking arrangements.

24. Financial instruments continued

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.

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:

Note	2012						
	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	18	(1,494)	(11)	–	–	–	(1,505) (1,505)
Secured redeemable debenture stock	17	(5)	(158)	–	–	–	(163) (150)
Secured loans	17	(6)	(17)	(27)	(42)	–	(92) (92)
Unsecured loans and overdrafts	17	(353)	(43)	(161)	(289)	(558)	(1,404) (1,198)
Finance leases	25	(1)	–	(1)	(2)	(38)	(42) (12)
Provisions	19	(86)	(2)	(27)	(19)	(2)	(136) (136)
Derivative financial liabilities							
– Currency derivatives (net payments)		(29)	(10)	–	–	–	(39) (39)
– Commodity derivatives (net payments)		(22)	(6)	(1)	–	–	(29) (11)
Total financial liabilities		(1,996)	(247)	(217)	(352)	(598)	(3,410) (3,143)
Note	2011						
	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	18	(1,383)	(27)	–	–	–	(1,410) (1,410)
Secured redeemable debenture stock	17	(5)	(8)	(166)	–	–	(179) (150)
Secured loans	17	(11)	(26)	(68)	(85)	(36)	(226) (226)
Unsecured loans and overdrafts	17	(625)	(92)	(119)	(377)	(151)	(1,364) (1,238)
Finance leases	25	(1)	–	(1)	(2)	(39)	(43) (12)
Provisions	19	(26)	(5)	(103)	(7)	–	(141) (136)
Derivative financial liabilities							
– Currency derivatives (net payments)		(11)	(5)	–	–	–	(16) (14)
– Commodity derivatives (net payments)		(17)	(7)	–	–	–	(24) (8)
Total financial liabilities		(2,079)	(170)	(457)	(471)	(226)	(3,403) (3,194)

The above tables do not include forecast data for liabilities which may be incurred in the future but which were not contracted at 15 September 2012.

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 52 weeks ended 15 September 2012

24. Financial instruments continued

i) Borrowing facilities

The group has substantial borrowing facilities available to it. The undrawn committed facilities available at 15 September 2012 in respect of which all conditions precedent have been met amounted to £1,384m (2011 – £911m):

	2012			2011		
	Facility £m	Drawn £m	Undrawn £m	Facility £m	Drawn £m	Undrawn £m
£1.15bn syndicated facility	1,150	–	1,150	1,150	438	712
US private placement	774	774	–	394	394	–
British Sugar secured redeemable debenture stock	150	150	–	150	150	–
European Investment Bank	120	120	–	120	120	–
Illovo	202	97	105	255	183	72
Azucarera	156	32	124	227	111	116
Other	7	2	5	28	17	11
	2,559	1,175	1,384	2,324	1,413	911

Uncommitted facilities available at 15 September 2012 were:

	2012			2011		
	Facility £m	Drawn £m	Undrawn £m	Facility £m	Drawn £m	Undrawn £m
Money market lines	100	–	100	100	21	79
Illovo	112	72	40	130	37	93
China banking	528	158	370	419	115	304
Other	134	35	99	121	28	93
	874	265	609	770	201	569

In addition to the above facilities there are also £253m (2011 – £75m) 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 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 17.

The £1.15bn syndicated facility matures in July 2015. In addition to the bank debt, the Company has £774m of private placement notes in issue to institutional investors in the US and Europe. At 15 September 2012, these had an average remaining duration of 6.1 years and an average fixed coupon of 5.4%. The other significant core committed debt facilities comprise a £150m debenture loan (maturing 2013), £120m EIB loan (maturing 2015), as well as local committed facilities in Illovo and Azucarera.

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 26 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 31.

24. 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 17 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.

25. Lease commitments

Operating leases

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

Sublease receipts of £1m (2011 – £3m) were recognised in the income statement in the period, the majority relating to operating leases. The total of future minimum sublease receipts expected to be received is £43m (2011 – £53m).

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

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

	2012 £m	2011 £m
Within one year	166	136
Between one and five years	608	539
After five years	1,959	1,843
	2,733	2,518

Finance leases

Finance lease liabilities are payable as follows:

	2012 minimum lease payments £m	2012 interest £m	2012 principal £m	2011 minimum lease payments £m	2011 interest £m	2011 principal £m
Within one year	1	1	–	1	1	–
Between one and five years	3	2	1	3	2	1
After five years	38	27	11	39	28	11
	42	30	12	43	31	12

NOTES FORMING PART OF THE FINANCIAL STATEMENTS CONTINUED

for the 52 weeks ended 15 September 2012

26. 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 15 September 2012, group companies have provided guarantees in the ordinary course of business amounting to £833m (2011 – £645m).

27. Related parties

The group has a controlling related party relationship with its parent company, which is also its ultimate parent company (see note 28). The group also has a related party relationship with its associates and joint ventures (see note 28) 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	2012 £'000	2011 £'000
Charges to Witton Investments Limited in respect of services provided by the Company and its subsidiary undertakings		330	249
Dividends paid by Associated British Foods and received in a beneficial capacity by:			
(i) trustees of the Garfield Weston Foundation	1	7,143	6,960
(ii) directors of Witton Investments Limited who are not trustees of the Foundation		1,120	952
(iii) directors of the Company who are not trustees of the Foundation and are not directors of Witton Investments Limited	2	21	18
(iv) a member of the Weston family employed within the Associated British Foods group	3	746	706
Sales to fellow subsidiary undertakings on normal trading terms	4	135	2,802
Sales to companies with common key management personnel on normal trading terms	5	14,710	14,870
Commissions paid to companies with common key management personnel on normal trading terms	5	300	–
Amounts due from fellow subsidiary undertakings	4	–	23
Amounts due from a company with common key management personnel	5	1,531	1,530
Sales to joint ventures on normal trading terms	6	18,177	36,421
Sales to associates on normal trading terms	6	17,598	15,116
Purchases from joint ventures on normal trading terms	6	292,687	273,533
Purchases from associates on normal trading terms	6	21,898	23,149
Amounts due from joint ventures	6	152,136	196,288
Amounts due from associates	6	898	1,509
Amounts due to joint ventures	6	24,808	11,859
Amounts due to associates	6	2,398	804

1. The Garfield Weston Foundation ('the Foundation') is an English charitable trust, established in 1958 by the late W Garfield Weston. The Foundation has no direct interest in the Company, but as at 15 September 2012 was the beneficial owner of 683,073 shares (2011 – 683,073 shares) in Witton Investments Limited representing 79.2% (2011 – 79.2%) of that company's issued share capital and is, therefore, the Company's ultimate controlling party. At 15 September 2012 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 36 and 37. Their interests, including family interests, in the Company and its subsidiary undertakings are given on page 57. Key management personnel are considered to be the directors, and their remuneration is disclosed within the Remuneration report on page 58.
3. A member of the Weston family who is employed by the group and is not a director of the Company or Witton Investments Limited and is not a trustee of the Foundation.
4. The fellow subsidiary undertakings are Fortnum and Mason plc and Heal & Son Limited.
5. The companies with common key management personnel are the George Weston Limited group, in Canada, and Selfridges & Co Ltd.
6. Details of the group's principal joint ventures and associates are set out in note 28.

Amounts due from joint ventures comprise £16m (2011 – £19m) of finance lease receivables (see note 14) and £126m (2011 – £150m) of loan receivables. The remainder of the balance is trading balances. The loan receivables are all non-current (2011 – all non-current), and all but £3m (2011 – £3m) of the finance lease receivables are non-current.

28. Group entities

Control of the group

The largest group in which the results of the Company are consolidated is that headed by Witton 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 15 September 2012 Witton Investments Limited together with its subsidiary, Howard Investments Limited, held 431,515,108 ordinary shares (2011 – 431,515,108) representing in aggregate 54.5% (2011 – 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.

	Country of incorporation		Country of incorporation
Manufacturing activities		Manufacturing activities	
AB Agri Limited	UK	Illovo Sugar Limited (51%)	South Africa
AB Azucarera Iberia, S.L. Sociedad Unipersonal	Spain	Illovo Sugar (Malawi) Limited (39%)	Malawi
AB Brasil Industria e comercio de Alimentos LTDA	Brazil	Jacksons of Piccadilly Limited	UK
AB Calsa SA de C.V.	Mexico	Kilombero Sugar Company Limited (28%)	Tanzania
AB Enzymes GmbH	Germany	Maragra Acucar SARL (46%)	Mozambique
AB Enzymes Oy	Finland	Mauri Fermentos II, SA (96%)	Portugal
ABF Grain Products Limited	UK	Mauri Maya Sanayi A.S.	Turkey
AB Food & Beverages Australia Pty Ltd	Australia	Mauri Products Limited	UK
AB Food & Beverages Philippines, Inc.	Philippines	Patak's Foods Limited	UK
AB Food & Beverages (Thailand) Limited	Thailand	PGP International, Inc.	US
AB (Harbin) Food Ingredients Company Limited	China	Premier Nutrition Products Limited	UK
AB Mauri (Canada) Limited	Canada	R. T. Twining and Company Limited	UK
AB Mauri Food Inc.	US	Shanghai AB Food & Beverages Co., Ltd	China
AB Mauri Food, S.A.	Spain	SPI Pharma Inc.	US
AB Mauri India (Private) Limited	India	The Billington Food Group Limited	UK
AB Mauri Malaysia Sdn. Bhd.	Malaysia	The Jordans & Ryvita Company Limited (73%)	UK
AB Mauri Vietnam Ltd (66%)	Vietnam	Twinings North America Inc.	US
Abitec Corporation	US	Ubombo Sugar Limited (31%)	Swaziland
ABNA Feed (Liaoning) Co., Ltd	China	Wander AG	Switzerland
ABNA (Shanghai) Feed Co., Ltd	China	Yeast Products Company	Republic of Ireland
AB World Foods Limited	UK	Zambia Sugar plc (42%)	Zambia
ACH Food Companies, Inc.	US		
Alimentos Capullo, S.de R.L.de C.V.	Mexico		
Anzchem Pty Limited	Australia	Retailing activities	
Bo Tian Sugar Industry Company Limited	China	Lojas Primark Portugal-Exploracao, Gestao e Administracao de Espacos Comerciais S.A.	Portugal
British Sugar (Overseas) Limited	UK	Primark	Republic of Ireland
British Sugar plc	UK	Primark Austria Ltd & Co.KG	Austria
Casteggio Lieviti S.r.l.	Italy	Primark Deutschland GmbH	Germany
Cereform Limited	UK	Primark Mode Ltd & Co.KG	Germany
Compania Argentina de Levaduras S.A.I.C	Argentina	Primark Netherlands BV	Netherlands
Food Investments Limited	UK	Primark NV	Belgium
Foods International S.A.S.	France	Primark Stores Limited	UK
G. Costa and Company Limited	UK	Primark Tiendas S.L.U.	Spain
George Weston Foods Limited	Australia		
George Weston Foods (NZ) Limited	New Zealand	Investment and other activities	
Germain's (UK) Limited	UK	AB Exploration Limited	UK
Guangxi Bo Hua Food Co., Ltd (71%)	China	ABF European Holdings & Co SNC	Luxembourg
Guangxi Boqing Food Co., Ltd (60%)	China	A.B.F. Holdings Limited	UK
Guangxi Boxuan Food Co., Ltd (70%)	China	ABF Investments plc	UK
Harbin Mauri Yeast Co., Ltd (85%)	China	ABF Overseas Limited	UK
Hebei Mauri Food Co., Ltd	China	ABF (UK) Limited	UK
		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 52 weeks ended 15 September 2012

28. 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	Group %
Joint ventures			
Levaduras Collico S.A.	Chile	CLP1,834,390,000	50
Roal Oy	Finland	€3,196,000	50
Qingdao Xinghua Cereal Oil & Foodstuff Co., Ltd	China	CNY24,844,000	25
Frontier Agriculture Limited	UK	£36,000,104	50
Vivergo Fuels Limited	UK	£92,946,000	45
Stratas Foods LLC	US	US\$2	50
Uniform & Co. KG GmbH	Germany	€2	50
Associates			
C. Czarnikow Limited	UK	£1,000,000	43
Harper-Love Adhesives Corporation	US	US\$13,200	50
New Food Coatings Pty Ltd	Australia	A\$150,000	50
Murray Bridge Bacon Pty Ltd	Australia	A\$11,040,000	20
Gledhow Sugar Company Limited	South Africa	ZAR10,000	15

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.

COMPANY BALANCE SHEET

at 15 September 2012

	Note	2012 £m	2011 £m
Fixed assets			
Intangible assets	1	24	29
Investments in subsidiaries	2	640	633
		664	662
Current assets			
Debtors			
– due within one year	3	3,232	3,268
– due after one year	3	1,113	1,208
Cash at bank and in hand		162	3
		4,507	4,479
Creditors: amounts falling due within one year			
Bank loans and overdrafts – unsecured		(81)	(471)
Other creditors	4	(2,666)	(1,765)
		(2,747)	(2,236)
Net current assets		1,760	2,243
Total assets less current liabilities		2,424	2,905
Creditors: amounts falling due after one year			
Bank loans – unsecured		(817)	(510)
Amounts owed to subsidiaries	4	(1,228)	(2,034)
		(2,045)	(2,544)
Net assets excluding pension liability		379	361
Net pension liability		(15)	(13)
Net assets		364	348
Capital and reserves			
Issued share capital	5	45	45
Capital redemption reserve	5	2	2
Profit and loss reserve including pension reserve	5	317	301
Equity shareholders' funds		364	348

The financial statements on pages 111 to 115 were approved by the board of directors on 6 November 2012 and were signed on its behalf by:

Charles Sinclair
Chairman

John Bason
Director

RECONCILIATION OF MOVEMENTS IN EQUITY SHAREHOLDERS' FUNDS

for the 52 weeks ended 15 September 2012

	2012 £m	2011 £m
Profit for the financial year	209	435
Net movement in own shares held	8	(8)
Actuarial loss on defined benefit pension scheme	(1)	–
Dividends	(200)	(190)
Net increase in equity shareholders' funds	16	237
Opening equity shareholders' funds	348	111
Closing equity shareholders' funds	364	348

ACCOUNTING POLICIES

for the 52 weeks ended 15 September 2012

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 Executive Share Option Scheme (2000) allows 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 52 weeks ended 15 September 2012

1. Intangible assets – goodwill

	£m
Cost	
At 17 September 2011 and 15 September 2012	71
Amortisation	
At 17 September 2011	42
Provided during the year	5
At 15 September 2012	47
Net book value	
Net book value at 17 September 2011	29
Net book value at 15 September 2012	24

2. Investments in subsidiaries

	£m
At 17 September 2011	633
Additions	7
At 15 September 2012	640

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

	2012 £m	2011 £m
Amounts falling due within one year		
Amounts owed by subsidiaries	3,213	3,228
Other debtors	6	12
Corporation tax recoverable	13	28
	3,232	3,268
Amounts falling due after one year		
Amounts owed by subsidiaries	1,113	1,208

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

4. Other creditors

	2012 £m	2011 £m
Amounts falling due within one year		
Other taxation and social security	1	1
Accruals and deferred income	35	16
Amounts owed to subsidiaries	2,630	1,748
	2,666	1,765
Amounts falling due after one year		
Amounts owed to subsidiaries	1,228	2,034

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

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

for the 52 weeks ended 15 September 2012

5. Capital and reserves

	Ordinary shares of 5 ¹⁵ / ₂₂ p each 000	Nominal value £m
Issued and fully paid		

At 17 September 2011 and 15 September 2012	791,674	45
--	---------	----

At 15 September 2012, the Company's issued share capital comprised 791,674,183 ordinary shares at 5¹⁵/₂₂p each, carrying one vote per share.

	Share capital £m	Capital redemption reserve £m	Profit and loss reserve £m	Total £m
At 17 September 2011	45	2	301	348
Profit for the year	–	–	209	209
Net movement in own shares held	–	–	8	8
Actuarial loss on defined benefit pension scheme	–	–	(1)	(1)
Dividends	–	–	(200)	(200)
At 15 September 2012	45	2	317	364

Capital redemption reserve

The capital redemption reserve arose following redemption of two million £1 deferred shares at par in 2010.

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 Executive Share Option Scheme 2000, or subject to allocation under the Associated British Foods 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 15 September 2012, the Trust held 2,769,023 (2011 – 3,815,490) ordinary shares of the Company. The market value of these shares at the year end was £35m (2011 – £43m). The Trust has waived its right to dividends. Refer to note 22 of the consolidated financial statements for further information on the group and Company's share-based payment plans.

6. 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 £107m of guarantees in the ordinary course of business as at 15 September 2012 (2011 – £57m).

7. Related parties

The Company has a controlling related party relationship with its parent company, Witton 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	2012 £000	2011 £000
Charges to Witton Investments Limited in respect of services provided by the Company		330	249
Charges to a fellow subsidiary	1	48	—
Dividends paid by the Company and received in a beneficial capacity by:			
(i) trustees of the Garfield Weston Foundation	1	7,143	6,960
(ii) directors of Witton Investments Limited who are not trustees of the Foundation	1	1,120	952
(iii) directors of the Company who are not trustees of the Foundation and are not directors of Witton Investments Limited	1	21	18
(iv) a member of the Weston family employed within the Associated British Foods group	1	746	706
Charges to non-wholly owned subsidiaries	2	929	844
Interest income earned from non-wholly owned subsidiaries	2	568	50
Interest paid to non-wholly owned subsidiaries	2	330	—
Amounts due from non-wholly owned subsidiaries	2	58,475	973
Amounts due to non-wholly owned subsidiaries	2	33,700	9

1. Details of the nature of the relationships with these bodies are set out in note 27 of the consolidated financial statements.
2. Details of the Company's subsidiaries, joint ventures and associates are set out in note 28 of the consolidated financial statements.

8. Other information

Emoluments of directors

The remuneration of the directors of the Company is shown in the Remuneration report for the group on page 58.

Employees

The Company had an average of 116 employees in 2012 (2011 – 109).

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 2011. At the valuation date the total market value of the assets of the scheme was £2,559m and represented 101% of the benefits that had accrued to members after allowing for expected future increases in earnings. By agreement with the trustees the Company agreed to eliminate the deficit identified at the time of the triennial actuarial valuation of the Scheme in 2008 with five annual payments of £30m. The fourth of these payments was made in March 2012, and although the fund was in surplus at the time of the most recent valuation, the Company has agreed to make the final payment in March 2013.

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

	2008 £m	2009 £m	2010 £m	2011 £m	2012 £m
Revenue	8,235	9,255	10,167	11,065	12,252
Adjusted operating profit	664	720	909	920	1,077
Exceptional items	(46)	–	–	–	(98)
Amortisation of non-operating intangibles	(74)	(82)	(81)	(83)	(100)
Profits less losses on disposal of non-current assets	10	(1)	(9)	5	(6)
Inventory fair value adjustment	–	(12)	–	–	–
Profits less losses on sale and closure of businesses	5	(65)	28	–	(9)
Finance income	21	17	12	9	9
Finance expense	(74)	(95)	(88)	(101)	(114)
Other financial income/(expense)	21	13	(8)	7	2
Profit before taxation	527	495	763	757	761
Taxation	(136)	(112)	(194)	(180)	(178)
Profit for the period	391	383	569	577	583
Basic and diluted earnings per ordinary share (pence)	45.2	45.5	69.3	68.7	70.3
Adjusted earnings per share (pence)	54.9	57.7	72.2	74.0	87.2
Dividends per share (pence)	20.25	21.0	23.8	24.75	28.50

COMPANY DIRECTORY

Associated British Foods plc

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Weston Centre
10 Grosvenor Street
London W1K 4QY

Company registered in England, number 293262

Company Secretary

Paul Lister

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Lancing BN99 6DA

Auditors

KPMG Audit Plc Chartered Accountants

Bankers

Barclays Bank plc
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
One New Change
London EC4M 9AF

Timetable

Interim dividend paid
6 July 2012

Final dividend to be paid
11 January 2013

Annual general meeting
7 December 2012

Interim results to be announced
23 April 2013

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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