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ABF Investments plc

ANNUAL REPORT AND ACCOUNTS 2003



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Annual Report and Accounts 2003

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Directors' report

The directors present their annual report and the audited financial statements for the 52 weeks ended 13 September 2003.

Profit and dividends

The group profit and loss account is on page 5. Profit for the financial period amounted to £333m and the dividends to £108m. Dividends are detailed in note 9.

Review of activities

The activities of the group principally concern the processing and manufacture of food in Europe, Australia, New Zealand, Asia and the US, and textile retailing in the UK and the Republic of Ireland. Comments on the development of the business during the period under review and on the future outlook are given below.

Tangible fixed assets

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

Development and future outlook

The profit on ordinary activities before tax was £451m, up by £53m compared with the previous year.

The results include a full year contribution from Mazola, the bottled corn oils business acquired in July 2002, and nine months from Ovaltine which was acquired at the end of November 2002. The results also reflect two significant disposals, Allied Glass Containers in December 2002 and our British third party flour milling business in February this year.

In grocery we have successfully completed the integration of both Mazola in the US and the more geographically diverse Ovaltine business. Twinings, which is now managed together with Ovaltine as an international beverage business, has had another year of improved sales and profits. Following the sale of our third party flour mills, the UK bakery business is now supported by dedicated mills in an integrated operation. Further steps have been taken to develop our branded product range and to increase operational efficiency. Our Australian bakery business gave a strong performance and is also well advanced in the development of the new Sydney bakery which will further improve operations when it opens towards the end of 2004.

In primary food & agriculture, British Sugar had excellent results. The campaign progressed with a good crop and further operational efficiency, the latter due to the continuing investment over the years in plant and improved working practices. Our animal feed business built on the success of the previous year.

The ingredients business showed good progress overall. The US polyols business traded strongly, continuing the progress of the previous year and taking advantage both of recent demand for low calorie food products and of the increased opportunities amongst pharmaceutical customers.

The results from our clothing retailing business were excellent. Strong growth in like-for-like sales, extra space and improvement in operating margins have all contributed to an operating profit 21% ahead of the previous year. The management teams continuing ability to offer our customers a combination of attractive goods and keen prices has been responsible for this success. We continue our investment in store refits and to search for good sites which will enable us to penetrate the market more fully. We believe there is further scope for developing the business.

Following the acquisition of the minority shareholding in our Australian business in September 2002, management has been restructured, overhead savings have been made and good improvements in operating results were apparent as the year progressed. In addition, the loss-making biscuit business has been sold. In spite of non-recurring costs relating to the management action taken, there has been a substantial improvement in profit.

Investment income less interest payable fell by £4m compared to a year ago. This was primarily due to lower interest rates on our cash and other short-term investments.

Directors and directors' interests

The directors who held office during the period were as follows:

HW Bailey (resigned 5 December 2002)

PJ Jackson

JG Bason

PA Russell

Notification of interests by PJ Jackson and JG Bason is not required because at the end of the period they were directors of a company of which this company is a wholly owned subsidiary undertaking. PA Russell had no interest in shares of the company, its holding company and its subsidiary and fellow subsidiary undertakings.

At 13 September 2003, the following directors had outstanding options to acquire ordinary shares of Associated British Foods plc.

	At 14.9.02 Number	Granted	At 13.9.03 Number	Exercise price	Date from which exercisable	Expiry date
PA Russell	15,000	-	15,000	484.00p	17.1.2004	16.1.2011

Directors' report continued

Employees

Our employees are our most crucial resource, and therefore we abide by the following principles:

Equal opportunities

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

Health and safety

We consider health and safety as equal in importance to that of any other function of the company and its business objectives. The chief executive/managing director of each operating company has responsibility for health and safety. We seek to provide a safe and healthy workplace and system of work in line with local regulations, to protect all employees, visitors and the public, insofar as they come into contact with foreseeable work hazards. Our employees are expected to adopt a proactive attitude towards this end. We will continue to develop safety awareness amongst all employees, and we will measure and manage health and safety performance.

Harassment

We will not tolerate sexual, mental or physical harassment in the workplace. We expect incidents of harassment to be reported to the appropriate human resources director.

Human rights

Managers must take account of the core International labour organisation labour conventions and strive to observe the UN Declaration on Human Rights, by respecting the dignity and human rights of our employees and in particular as stated below:-

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

We remunerate fairly with respect to skills, performance, our peers and local conditions.

Communication

We will brief employees and their representatives on all relevant matters on a regular basis.

Payments to suppliers

The group does not have a formal code that it follows with regard to payment to suppliers. It agrees payment terms with its suppliers when it enters into binding purchase contracts for the supply of goods and services. Its suppliers are, in that way made aware of these terms. The group seeks to abide by these payment terms whenever it is satisfied that the supplier has provided the goods or services in accordance with the agreed terms and conditions.

ABF Investments plc has no trade creditors.

Political and charitable contributions

Contributions to charitable organisations by the group during the year totalled £0.2m (2002 - £0.2m). Political donations were made during the year by Food Investments Pty in Australia to the Liberal Party of Australia of £59,623 (2002 - £54,900) and to the Australian Labour Party of £6,792 (2002 - £4,766).

Auditors

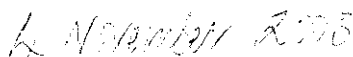
In accordance with section 384 of the Companies Act 1985, a resolution for the reappointment of KPMG Audit Plc as auditors of the company is to be proposed at the forthcoming annual general meeting.

Going concern

After making due enquiries, the directors have a reasonable expectation that the group has adequate resources to continue in operation for the foreseeable future. For this reason they continue to adopt the going concern basis for preparing the financial statements on pages 5 to 25.

By order of the board


RS Mendelsohn
Secretary



Directors' responsibilities

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business.

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

Independent auditors' report to the members of ABF Investments plc

We have audited the financial statements on pages 5 to 25.

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

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 3, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

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


Basis of audit opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 13 September 2003 and of its profit for the 52 week period then ended and have been properly prepared in accordance with the Companies Act 1985.



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

4 November 2003

Consolidated profit and loss account

for the year ended 13 September 2003

	Note	2003 £m	2002 £m
Turnover of the group including its share of joint ventures		4,931	4,567
Less share of turnover of joint ventures		(22)	(22)
Group turnover	1	4,909	4,545
Operating costs	2	(4,509)	(4,184)
Group operating profit		400	361
Share of operating results of - joint ventures		4	3
- associates		3	4
Total operating profit	1	407	368
Operating profit before amortisation of goodwill		445	386
Amortisation of goodwill		(38)	(18)
Profit less losses on sale of fixed assets		12	8
Profit less losses on sale of businesses		14	-
Investment income	6	50	56
Profit on ordinary activities before interest		483	432
Interest payable	7	(32)	(34)
Profit on ordinary activities before taxation		451	398
Adjusted profit before taxation		463	408
Profits less losses on sale of fixed assets		12	8
Profit less losses on sale of businesses		14	-
Amortisation of goodwill		(38)	(18)
Tax on profit on ordinary activities	8	(121)	(89)
Profit on ordinary activities after taxation		330	309
Minority interests - equity		3	(3)
Profit for the financial year		333	306
Dividends - interim	9	(108)	(94)
Transfer to reserves		225	212

The group has made no material acquisitions nor discontinued any operations within the meaning of the Financial Reporting Standards during either 2003 or 2002.


Consolidated balance sheet

at 13 September 2003

	Note	2003 £m	2002 £m
Fixed assets			
Intangible assets - goodwill	10	441	383
Tangible assets	11	1,406	1,421
		1,847	1,804
Interest in net assets of - joint ventures	13	9	9
- associates	13	12	12
Other investments	13	1	1
Total fixed asset investments		22	22
		1,869	1,826
Current assets			
Stocks	14	516	498
Debtors	15	652	549
Investments	16	1,150	1,039
Cash at bank and in hand		152	115
		2,470	2,201
Creditors amounts falling due within one year			
Short-term borrowings	17	(92)	(64)
Other creditors	18	(712)	(684)
		(804)	(748)
Net current assets		1,666	1,453
Total assets less current liabilities		3,535	3,279
Creditors amounts falling due after one year			
Loans	17	(157)	(156)
Other creditors	18	(7)	(8)
		(164)	(164)
Provision for liabilities and charges	19	(143)	(126)
		3,228	2,989
Capital and reserves			
Called up share capital	20	22	22
Share premium account	21	192	192
Revaluation reserve	21	3	3
Other reserves	21	1	1
Profit and loss account	21	2,986	2,696
Equity shareholders' funds		3,204	2,914
Minority interests in subsidiary undertakings - equity		24	75
		3,228	2,989

These financial statements were approved by the board of directors on 4 November 2003 and were signed on its behalf by:


John Bason Director


Peter Russell Director

Consolidated cash flow statement

for the year ended 13 September 2003

	Note	2003 £m	2002 £m
Cash flow from operating activities	25	493	657
Dividends from joint ventures		4	3
Dividends from associates		2	1
Return on investments and servicing of finance			
Investment income		49	59
Interest paid		(29)	(34)
Dividends paid to minorities		(16)	(4)
		4	21
Taxation		(114)	(92)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(180)	(186)
Sale of tangible fixed assets		40	40
Sale of equity investments		-	4
		(140)	(142)
Acquisitions and disposals			
Purchase of subsidiary undertakings	26	(142)	(267)
Purchase of joint ventures and associates		-	(1)
Sale of subsidiary undertakings	26	124	34
		(18)	(234)
Equity dividends paid		(108)	(94)
Net cash inflow before use of liquid funds and financing		123	120
Management of liquid resources	28	(104)	(68)
Financing			
Borrowings due within one year - repayment of loans		(224)	(102)
- increase in loans		220	103
Borrowings due after one year - repayment of loans		(3)	(7)
- increase in loans		4	7
Increase/(decrease) in bank borrowings		16	(11)
		13	(10)
Increase in cash	27	32	42

Consolidated statement of total recognised gains and losses

for the year ended 13 September 2003

	2003	2002
	£m	£m
Profit for the financial year	333	306
Currency translation differences on foreign currency net assets	54	(5)
Total recognised gains and losses relating to the period	387	301

Consolidated statement of historical cost profits

for the year ended 13 September 2003

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

Reconciliation of movements in shareholders' funds

for the year ended 13 September 2003

	Company		Group	
	2003	2002	2003	2002
	£m	£m	£m	£m
Opening shareholders' funds	1,822	1,783	2,914	2,707
Profit for the financial year	138	133	333	306
Dividends	(108)	(94)	(108)	(94)
Goodwill written back	-	-	11	-
Other recognised gains and losses relating to the year	-	-	54	(5)
Closing shareholders' funds	1,852	1,822	3,204	2,914

Company balance sheet

at 13 September 2003

	Note	2003 £m	2002 £m
Fixed assets			
Shares in subsidiary undertakings	24	1,224	1,025
Current assets			
Debtors	15	838	810
Creditors amounts falling due within one year			
Other creditors	18	(210)	(13)
		(210)	(13)
Net current assets		628	797
		1,852	1,822
Capital and reserves			
Called up share capital	20	22	22
Share premium account	21	192	192
Profit and loss account	21	1,638	1,608
Equity shareholders' funds		1,852	1,822

These financial statements were approved by the board of directors on 4 November 2003 and were signed on its behalf by:


John Bason Director


Peter Russell Director

Accounting policies

Basis of preparation

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

Basis of consolidation

The group accounts comprise a consolidation of the accounts of the company and its subsidiary undertakings, together with the group's share of the results and net assets of its joint ventures and associates. The financial statements of the company and its subsidiary undertakings are made up for the 52 weeks ended 13 September 2003, except that, to avoid delay in the preparation of the consolidated financial statements, those of the Australian and New Zealand group, China, Poland and the North American subsidiary undertakings are made up to 31 August 2003.

Acquisitions

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

Disposals

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

Intangible fixed assets

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

Tangible fixed assets

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

Depreciation

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

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

Fixed asset investments

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

Accounting policies continued

Stocks

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

Current asset investments

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

Foreign currencies

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

Group turnover

Turnover represents the net invoiced value of goods and services delivered to customers excluding sales taxes.

Pensions

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

Research and development

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

Leases

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

Financial instruments

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

Deferred tax

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

Notes forming part of the financial statements

for the year ended 13 September 2003

1. Segmental analysis

	Group turnover		Operating Profit		Capital Employed	
	2003	2002	2003	2002	2003	2002
	£m	£m	£m	£m	£m	£m
Analysis by business						
Grocery	2,346	2,027	148	108	709	702
Primary food & agriculture	1,611	1,543	176	168	710	692
Ingredients	314	291	32	30	134	131
Retail	752	654	87	72	293	298
Inter company sales	(185)	(169)	-	-	-	-
Central costs/capital employed	-	-	(21)	(24)	89	(53)
Pension credit	-	-	18	22	-	-
	4,838	4,346	440	376	1,935	1,770
Businesses disposed:						
Grocery	51	117	3	4	-	55
Primary food & agriculture	2	2	-	-	-	-
Ingredients	-	22	-	(2)	-	-
Packaging	18	58	1	5	-	46
Pension credit	-	-	1	3	-	-
	4,909	4,545	445	386	1,935	1,871
Amortisation of goodwill	-	-	(38)	(18)	-	-
	4,909	4,545	407	368	1,935	1,871
Analysis by geography (by origin and destination)						
European Union (mainly UK and Ireland)	3,002	2,851	306	283	1,341	1,218
Australia & New Zealand	672	580	26	12	239	207
North America	862	709	77	42	210	219
Elsewhere	325	233	13	17	145	126
Inter company sales	(23)	(27)	-	-	-	-
Pension credit	-	-	18	22	-	-
	4,838	4,346	440	376	1,935	1,770
Businesses disposed:						
European Union	60	151	3	9	-	89
Australia & New Zealand	-	22	-	(2)	-	-
North America	11	26	1	-	-	12
Pension credit	-	-	1	3	-	-
	4,909	4,545	445	386	1,935	1,871
Amortisation of goodwill	-	-	(38)	(18)	-	-
	4,909	4,545	407	368	1,935	1,871

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

The amortisation of goodwill arises in primary food and agriculture £6m (2002 - £2m), ingredients £7m (2002 - £6m), and grocery £25m (2002 - £10m). By geography, the charge arises in the European Union £4m (2002 - £3m), North America £23m (2002 - £13m), Australia & New Zealand £1m (2002 - £nil) and elsewhere £10m (2002 - £2m).

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

Notes forming part of the financial statements *continued*

2. Operating costs

	2003 £m	2002 £m
Cost of sales (including amortisation of goodwill)	3,668	3,420
Distribution costs	618	553
Administration expenses	223	211
Operating costs	4,509	4,184

Operating costs are stated after charging:

Staff costs	623	598
Amortisation of goodwill	38	18
Depreciation of tangible fixed assets	142	149
Hire of plant and machinery	7	7
Rentals payable under property leases	28	24
Research and development	7	6

The remuneration of the auditors in respect of audit services provided to the group during the year was £2.2m (2002 - £2.1m).

The remuneration of the auditors and their associates in respect of non-audit services to the company and its UK subsidiaries was £1.5m (2002 - £0.7m).

3. Employees

	2003	2002
Average number of employees:		
European Union, mainly UK and Ireland	20,921	20,881
Australia and New Zealand	6,395	6,913
North America	2,027	2,033
Elsewhere	5,998	5,059
	35,341	34,886

	£m	£m
Staff costs - wages and salaries	551	544
- social security costs	42	37
- other pension costs	30	17
	623	598

4. Pension costs

The group has continued to account for pensions in accordance with SSAP 24 and the disclosure given in (a) are those required by that standard. FRS 17 "Retirement Benefits" was issued in November 2000 but will not be mandatory for the group until the year ended 16 September 2006. Prior to this, phased transitional disclosures are required and are set out in (b).

(a) Associated British Foods pension schemes

The group operates pension schemes, the majority of which are of the defined benefit type. On 30 September 2002, the group's principal UK defined benefit schemes were closed to new members, with defined contribution arrangements introduced for these members. The pension costs in the UK are assessed in accordance with the advice of independent qualified actuaries using the projected unit method. For the defined contribution schemes, the pension costs are the contributions paid. The total pension charge for the year was £30m (2002 - £17m).

The last actuarial valuations of the British Sugar Pension Scheme and the Associated British Foods Pension Scheme were carried out as at 1 October 2001 and 5 April 2002 respectively. Both valuations used a market related approach under which the actuarial values of the assets were taken as their market value at the valuation date. The valuation assumptions also reflected market conditions at the respective valuation date. For the British Sugar Pension Scheme, it was assumed that the investment return would exceed price inflation by 3.25% per annum. For the Associated British Foods Pension Scheme, the investment return assumption prior to retirement exceeded the price inflation assumption by 3.25% per annum and post retirement by 2.5% per annum. In both valuations salary increases were assumed to exceed price inflation by 2% per annum.

At the valuation dates the total market value of the two major schemes' assets was £1,722m and the value of these assets for actuarial valuation purposes represented 112% of the benefits that had accrued to members after allowing for expected future increases in earnings.

Following an informal review of the schemes' funding levels conducted by the schemes' actuaries in January 2003, the company decided to recommence contributions to the Associated British Foods Pension Scheme and to increase contributions to the British Sugar Pension Scheme. These contributions were backdated to 15 September 2002.

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

Notes forming part of the financial statements continued

4. Pension costs continued

(b) FRS 17 "Retirement Benefits"

For the purposes of FRS 17 disclosures, the most recent actuarial valuations referred to above have been updated to 13 September 2003 by an independent qualified actuary.

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

	2003 UK %	2002 UK %	2001 UK %
Rate of general increase in salaries	4.50	4.25	4.50
Rate of increase in pensions in payment	2.50	2.25	2.50
Rate of increase of deferred pensions	2.50	2.25	2.50
Discount rate of scheme liabilities	5.25	5.50	6.00
Inflation	2.50	2.25	2.50

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

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

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

UK Schemes

	At year end 13 September 2003 %	At year end 13 September 2003 £m	At year end 14 September 2002 %	At year end 14 September 2002 £m	At year end 15 September 2001 %	At year end 15 September 2001 £m
Equities	7.00	631	6.75	504	7.25	1,150
Government bonds	4.75	589	4.50	564	5.00	66
Non-government bonds	5.25	407	5.50	496	6.00	343
Property	6.25	57	6.00	62	6.50	105
Other	3.50	77	4.00	35	5.00	18
Total market value of assets		1,761		1,661		1,682
Present value of scheme liabilities		(1,708)		(1,520)		(1,326)
Surplus in the scheme		53		141		356
Deferred tax		(16)		(42)		(107)
Net pension assets		37		99		249

Overseas schemes

	At year end 13 September 2003 %	At year end 13 September 2003 £m	At year end 14 September 2002 %	At year end 14 September 2002 £m	At year end 15 September 2001 %	At year end 15 September 2001 £m
Equities	7.00	48	6.75	41	7.25	35
Government bonds	4.75	30	4.50	11	5.00	10
Non-government bonds	5.25	1	5.50	-	6.00	-
Property	6.25	4	6.00	2	6.50	4
Other	3.50	4	4.00	1	5.00	-
Total market value of assets		87		55		49
Present value of scheme liabilities		(95)		(52)		(40)
(Deficit)/surplus in the scheme		(8)		3		9
Deferred tax		2		(1)		(2)
Net pension assets/(liabilities)		(6)		2		7

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

	2003 £m	2002 £m
Net assets excluding pension assets	3,228	2,989
Pension assets	31	101
Net assets including pension assets	3,259	3,090
Profit and loss reserve excluding pension assets	2,986	2,696
Pension reserve	31	101
Profit and loss including pension assets	3,017	2,797

Notes forming part of the financial statements continued

4. Pension costs continued

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

	2003	2002
	£m	£m
Current service cost of defined benefit schemes	(40)	(34)
Past service cost	(1)	(1)
Total operating charge	(41)	(35)

An additional current service cost of £13m (2002 - £10m) arose in connection with the group's defined contribution pension schemes.

	2003	2002
	£m	£m
Past service cost	(1)	-
Gain on curtailment	7	-
Net credit in relation to the sale of businesses	6	-

Expected return on pension scheme assets	95	111
Interest on pension scheme liabilities	(87)	(80)
Net return included in other financial income	8	31

Actual return less expected return on pension scheme assets	45	(39)
Experience gains and losses arising on the scheme liabilities	(3)	(53)
Changes in assumptions underlying the present value of the scheme liabilities	(137)	(130)
Actuarial loss included in the statement of total recognised gains and losses	(95)	(222)

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

	UK 2003 £m	Overseas 2003 £m	UK 2002 £m	Overseas 2002 £m
Surplus at start of year	141	3	356	9
Current service cost	(35)	(5)	(30)	(4)
Acquisition deficit	-	(4)	-	-
Contributions	22	5	3	2
Past service costs	(2)	-	(1)	-
Gain/(loss) on curtailments	7	-	-	-
Other financial income	8	-	30	1
Actuarial loss	(88)	(7)	(217)	(5)
Surplus/(deficit) at end of year	53	(8)	141	3

The experience gains and losses were as follows:

	2003	2002
Difference between the expected and actual return on scheme assets		
- amount (£m)	45	(39)
- percentage of scheme assets	2.4%	2.3%
Experience gains and losses on scheme liabilities		
- amount (£m)	(3)	(53)
- percentage of the present value of scheme liabilities	0.1%	3.4%
Total amount included in statement of total recognised gains and losses		
- amount (£m)	(95)	(222)
- percentage of the present value of scheme liabilities	5.3%	14.1%

Notes forming part of the financial statements continued

5. Remuneration of directors

	2003 £m	2002 £m
Directors emoluments	1,453	1,390

The aggregate of emoluments paid to the highest paid director was £707,000

	Number of directors	
	2003	2002
Retirement benefits are accruing to the following number of directors under:-		
Defined benefit schemes	3	3

6. Investment income

	2003 £m	2002 £m
Interest from other current asset investments	50	53
Profit on sale of current asset equity investments	-	3
	50	56

7. Interest payable

	2003 £m	2002 £m
Parent company loans	7	13
Bank loans	9	5
Other loans	16	16
	32	34

8. Tax on profit on ordinary activities

	2003 £m	2002 £m
The charge for the year comprises:		
UK - corporation tax at 30% (2002: 30%)	75	75
Overseas - income and corporation tax	35	24
Joint ventures and associates	2	2
Current tax charge	112	101
UK deferred taxation	2	10
Overseas deferred taxation	7	(22)
Total tax charge	121	89
Add back:		
Tax credit on goodwill amortisation	9	4
Exceptional credit on US deferred tax	-	23
Underlying tax charge	130	116
Tax reconciliation		
Profit on ordinary activities before taxation	451	398
Nominal tax charge at UK corporation tax rate 30% (2002: 30%)	135	119
Lower tax rates on overseas earnings	(4)	(7)
Expenses not deductible for tax purposes (primarily goodwill)	6	3
Utilisation of losses	(8)	(2)
Timing differences	(7)	(11)
Adjustments to tax charge in respect of previous periods	(10)	(1)
Current tax charge	112	101

In the absence of any unforeseen circumstances the underlying tax rate is expected to be close to 30%, although this may be affected by changes in the proportion of profit earned in different tax jurisdictions.

Notes forming part of the financial statements continued

9. Dividends

	2003 £m	2002 £m
Interim dividend	108	94

10. Intangible fixed assets - goodwill

	£m
Cost at 14 September 2002	484
Effect of currency changes	(9)
Goodwill arising on acquisitions	100
Disposals	-
Cost at 13 September 2003	575
Amortisation at 14 September 2002	101
Effect of currency changes	(5)
Provided during year	38
Amortisation at 13 September 2003	134
Net book value at 13 September 2003	441
Net book value at 14 September 2002	383

11. Tangible fixed assets

	Land and buildings £m	Plant and machinery £m	Fixtures and fittings £m	Payments on account £m	Total £m
Cost at 14 September 2002	726	1,573	275	22	2,596
Effect of currency changes	19	38	5	2	64
Businesses acquired	10	16	-	-	26
Businesses disposed	(28)	(135)	(5)	-	(168)
Additions	26	87	34	23	170
Disposals	(19)	(67)	(21)	-	(107)
Cost at 13 September 2003	734	1,512	288	47	2,581
Depreciation at 14 September 2002	176	873	126	-	1,175
Effect of currency changes	4	30	2	-	36
Provided during year	16	103	23	-	142
Businesses disposed	(7)	(96)	(3)	-	(106)
On disposals	(8)	(43)	(21)	-	(72)
Depreciation at 13 September 2003	181	867	127	-	1,175
Net book value at 13 September 2003	553	645	161	47	1,406
Net book value at 14 September 2002	550	700	149	22	1,421

	2003 £m	2002 £m
Analysis of land and buildings at net book value		
Freehold	465	458
Long leasehold	54	56
Short leasehold	34	36
	553	550

The book value of land not amortised in the financial statements was £62m (2002 - £54m).

12. Capital commitments

There are commitments for capital expenditure by the group of approximately £74m (2002 - £28m) for which no provision has been made in these financial statements.

Notes forming part of the financial statements continued

13. Fixed asset investments

	Joint ventures £m	Associates £m	Other investments £m	Total £m
At 13 September 2003 and 14 September 2002	9	12	1	22

Details of the principal joint ventures, associates and other investments are given on page 25. Interests in the net assets of joint ventures include the group's share of their gross assets of £17m (2002 - £17m) and the group's share of their gross liabilities of £8m (2002 - £8m).

Other investments are stated at cost.

14. Stocks

	2003 £m	2002 £m
Raw materials and consumables	210	185
Finished goods and goods for resale	306	313
	516	498

15. Debtors

	Company		Group	
	2003 £m	2002 £m	2003 £m	2002 £m
Trade debtors	-	-	430	426
Amounts owed by subsidiary undertakings	80	80	-	-
Amounts owed by holding company	758	730	112	-
Other debtors	-	-	50	57
Prepayments and accrued income	-	-	46	45
Deferred tax	-	-	14	21
	838	810	652	549

Other debtors of the group at 13 September 2003 include £3m (2002 - £6m) receivable after more than one year.

16. Current asset investments

	Company		Group	
	2003 £m	2002 £m	2003 £m	2002 £m
Investments listed on a recognised stock exchange	-	-	43	23
Unlisted investments	-	-	1,107	1,016
	-	-	1,150	1,039

Current asset investments comprise interest bearing instruments and deposits. Listed investments include £20m (2002 - £15m) quoted on overseas stock exchanges.

Notes forming part of the financial statements continued

17. Loans and short term borrowings

	Company		Group	
	2003	2002	2003	2002
	£m	£m	£m	£m
Amounts falling due within one year				
Bank loans and overdrafts				
- unsecured	-	-	51	29
- secured	-	-	41	35
	-	-	92	64
Amounts falling due after one year				
Bank loans and overdrafts				
- unsecured	-	-	7	6
Other loans				
- 10 ¾% redeemable debenture stock 2013 (secured)	-	-	150	150
	-	-	157	156
	-	-	249	220
Creditor analysis				
Repayable:				
- less than one year	-	-	92	64
- between one and two years	-	-	1	4
- between two and five years	-	-	2	2
- after five years	-	-	154	150
	-	-	249	220

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

18. Other creditors

	Company		Group	
	2003	2002	2003	2002
	£m	£m	£m	£m
Amounts falling due within one year				
Trade creditors	-	-	319	271
Taxation on profits	5	7	110	112
Other taxation and social security	-	-	20	21
Accruals and deferred income	-	1	263	255
Amounts owed to subsidiary undertakings	205	5	-	-
Amounts owed to holding company	-	-	-	25
	210	13	712	684
Amounts falling due after one year				
Taxation on profits	-	-	7	8

Notes forming part of the financial statements continued

19. Provisions for liabilities and charges

	Deferred tax £m	Restructuring £m	Other £m	Total £m
At 14 September 2002	100	8	18	126
Profit and loss account - charged or released	2	7	16	25
Utilised	-	(6)	(4)	(10)
Acquisitions	-	-	5	5
Disposals	(4)	-	-	(4)
Effect of currency changes	-	-	1	1
At 13 September 2003	98	9	36	143

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

	2003 £m	2002 £m
Fixed asset timing differences	119	119
Other timing differences	(35)	(40)
	84	79
Included in:		
Provisions	(98)	(100)
Debtors	14	21
	(84)	(79)

The recoverability of deferred tax assets is supported by the expected level of future profits in the countries concerned. There are other deferred tax assets totalling £7m (2002 - £8m) that have not been recognised on the basis that their future economic benefit is uncertain.

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

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

20. Share capital

	Ordinary shares of 5p each £'000	Nominal value £m
Authorised		
At 13 September 2003 and 14 September 2002	600,000	30
Issued and fully paid		
At 13 September 2003 and 14 September 2002	449,815	22

Notes forming part of the financial statements continued

21. Reserves

	Share premium account £m	Revaluation reserve £m	Other reserves £m	Profit and loss account £m
Group				
At 14 September 2002	192	3	1	2,696
Effect of currency changes	-	-	-	54
Goodwill written back on disposal of businesses	-	-	-	11
Profit for the year	-	-	-	225
At 13 September 2003	192	3	1	2,986
Company				
At 14 September 2002	192	-	-	1,608
Profit for the year	-	-	-	30
At 13 September 2003	192	-	-	1,638

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

The cumulative amount of goodwill written off directly to reserves as a result of acquisitions made in earlier financial periods is £446m (2002 - £457m).

22. Contingent liabilities

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

Group companies have provided guarantees in the ordinary course of business amounting to £6m (2002 - £5m).

23. Leases

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

Operating leases which expire:	Within one year £m	Two to five years £m	Over five years £m	Total £m
Land and buildings	6	3	21	30
Other	1	4	1	6
At 13 September 2003	7	7	22	36
Land and buildings	5	3	20	28
Other	1	4	-	5
At 14 September 2002	6	7	20	33

24. Shares in subsidiary undertakings

	£m
At 14 September 2002	1,025
Additions	199
At 13 September 2003	1,224

Investments in subsidiary undertakings are shown at cost less amounts written off. A list of the principal trading subsidiary undertakings is given on page 24. Except where noted, none of the companies shown is a direct subsidiary undertaking of ABF Investments plc.

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

Notes forming part of the financial statements continued

25. Reconciliation of operating profit to cash flow from operating activities

	2003 £m	2002 £m
Operating profit	400	361
Amortisation of goodwill	38	18
Depreciation	142	149
Movement with holding company	(129)	158
(Increase)/decrease in working capital		
- stocks	(11)	(18)
- debtors	20	(21)
- creditors	27	20
Other provisions	6	(10)
Net cash from operating activities	493	657

26. Acquisitions and disposals

	Acquisitions		Disposals	
	2003 £m	2002 £m	2003 £m	2002 £m
Net assets				
Tangible fixed assets	26	28	62	9
Investments	-	5	-	-
Stocks	13	16	22	2
Debtors	20	1	16	-
Cash at bank and in hand	13	-	-	-
Creditors	(31)	(12)	(5)	-
Loans and finance leases	(13)	(5)	-	-
Provisions	(5)	-	(4)	-
Minority interests	32	(2)	-	-
Net assets acquired/disposed	55	31	91	11
Goodwill on acquisitions/written back	100	236	11	-
Provisions made	-	-	6	5
Profit on sale	-	-	14	-
Total consideration	155	267	122	16
Satisfied by				
Cash consideration	155	267	122	16
Deferred consideration brought forward received in the year	-	-	2	18
Cash acquired	(13)	-	-	-
	142	267	124	34

The principal acquisitions in the year were Ovaltine - £105m and the minority shareholdings in George Weston Foods - £43m.

Fair value adjustments were made on the acquisition of Ovaltine to reduce the book value of tangible assets acquired by £8m and to increase liabilities by £9m. No material fair value adjustments were made on the other acquisitions during the year.

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

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

	2003 £m	2002 £m
Increase in cash	32	42
Management of liquid resources	104	68
Net decrease in borrowings	(13)	10
Change in net funds resulting from cash flows	123	120
Effect of currency changes	9	4
On acquisition of subsidiary undertakings	(13)	-
Movement in net funds	119	124
Opening net funds	934	810
Closing net funds	1,053	934

Notes forming part of the financial statements continued

28. Analysis of net funds

	At 14 September 2002 £m	Cash flow £m	Acquisition of subsidiary undertakings £m	Exchange adjustments £m	At 13 September 2003 £m
Cash at bank and in hand	115	32	-	5	152
Short-term borrowings	(64)	(12)	(13)	(3)	(92)
Investments	1,039	104	-	7	1,150
Loans over one year	(156)	(1)	-	-	(157)
	934	123	(13)	9	1,053

29. Holding company information

The ultimate parent undertaking is Wittington Investments Limited which is incorporated in Great Britain and registered in England. The company is a wholly owned subsidiary of Associated British Foods plc. The largest group in which the results of the company are consolidated is that headed by Wittington Investments Limited. The smallest group in which they are consolidated is that headed by Associated British Foods plc which is incorporated in Great Britain and registered in England. The consolidated financial statements of Associated British Foods plc are available at Companies House, Crown Way, Cardiff, CF14 3UZ.

30. Related party transactions

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

	Sub note	2003 £m	2002 £m
Sales to fellow subsidiary undertakings on normal trading terms	1	7	5
Amounts due from fellow subsidiary undertakings	1	-	-
Sales to joint ventures and associates on normal trading terms	2	52	33
Purchases from joint ventures and associates on normal trading terms	2	1	1
Amounts due from joint ventures and associates	2	4	2
Amounts due to joint ventures and associates	2	2	1

Sub notes

- 1 The fellow subsidiary undertaking is Fortnum & Mason PLC.
- 2 Details of the group's principal joint ventures and associates are set out on page 25.

Principal subsidiary undertakings

Manufacturing activities

AB Enzymes GmbH
 AB Enzymes Oy
 AB Food & Beverages Australia Pty Ltd
 AB Food & Beverages Philippines
 AB Food & Beverages Shanghai Ltd
 AB Food & Beverages Singapore Pte Ltd
 AB Food & Beverages (Thailand) Ltd
 ABF Grain Products Limited
 Abitec Corporation
 ABNA Limited
 AB Technology Limited
 ACH Food Companies Inc
 Allied Foods Co Limited
 Allied Grain Limited
 Allied Technical Centre Limited
 Anzchem Pty Ltd
 British Sugar (Overseas) Limited
 British Sugar plc *

Cereform Limited
 Cukrownia Gliniojeck SA (53%)
 Fishers Agricultural Holdings Limited
 Food Investments Limited *
 Foods International SA
 George Weston Foods Limited
 Germains (Ireland) Limited
 Germains (Poland) Sp zoo (65%)
 Grosvenor Marketing Limited
 Guangxi Bo hua Food Company (71%)
 Guangxi Boqing Food Co. Limited (60%)
 Haugen Gruppen Denmark AS
 Henan Lianhua - BSO Pharmaceutical Co. Limited (57%)
 Jacksons of Piccadilly Limited
 Jordan Bros (NI) Limited
 Liaoning Liaohe Aimin Feed Company Limited (55%)
 Liaoning Liaohe Yingpeng Feed Company Limited (55%)
 Nambarrie Tea Company Limited
 R Twining & Co. Limited
 R Twining & Company Limited
 Seed Systems Incorporated
 Shanghai ABN Huinong Feed Company Limited (60%)
 SPCA Barcroft SA
 SPI Pharma Inc
 SPI Polyols Incorporated
 SugarPol (Torun) Sp. zoo (72%)
 The Ryvita Company Limited
 Wander AG

Country of incorporation

Germany
 Finland
 Australia
 Philippines
 China
 Singapore
 Thailand
 UK
 US
 UK
 UK
 US
 New Zealand
 UK
 UK
 Australia
 UK
 UK
 UK
 Poland
 UK
 UK
 France
 Australia
 Republic of Ireland
 Poland
 US
 China
 China
 Denmark
 China
 UK
 UK
 China
 China
 UK
 US
 UK
 UK
 US
 China
 France
 US
 US
 Poland
 UK
 Switzerland

Retailing activities

Primark
 Primark Stores Limited *

Country of incorporation

Republic of Ireland
 UK

Investment and other activities

Beauvallet Investments Limited
 Eastbow Securities Limited *
 Soublier Investments Limited
 Talisman (Guernsey) Limited

Country of incorporation

Jersey, Channel Islands
 UK
 Jersey, Channel Islands
 Guernsey, Channel Islands

Group interest is 100% except where indicated.

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

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

* - Direct subsidiary of ABF Investments plc.

Investments

	Country of incorporation	Issued ordinary share capital Total	Group %
Principal joint ventures and associates			
C Czarnikow Sugar Limited	UK	£1,000,000	42
Chiltern Bakeries Limited	UK	£100	44
Getec Guanabara Quimica Industrial SA	Brazil	BRR 14,254,370	20
Harper-Love Adhesives Corporation	US	US\$912,200	50
Mauri Products Limited	UK	£1,375,001	50
Murray Bridge Bacon Pty Limited	Australia	A\$11,040,210	20
New Food Coatings Pty Limited	Australia	A\$150,000	50
Roal Oy	Finland	€3,195,572	50
Yeast Products Company Limited	Republic of Ireland	€1,015,796	30

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